



ROCHESTER
PUBLIC UTILITIES
WE PLEDGE, WE DELIVER™

2023 ANNUAL REPORT



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Independent Auditors' Report

To the Public Utilities Board of
Rochester Public Utilities

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2023, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rochester Public Utilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Rochester Public Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Rochester, Minnesota, as of December 31, 2023, and the changes in financial position or cash flows 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.

As discussed in Note 1, Rochester Public Utilities adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective January 1, 2023. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rochester Public Utilities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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 is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the Operating and Financial Statistics, but does not include the financial statements and our auditors' report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2024 on our consideration of the 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 the 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 the Rochester Public Utilities' internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
April 26, 2024

MANAGEMENT'S DISCUSSION & ANALYSIS

(unaudited)

The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or Utilities) provides an overview of the Utilities' financial activities for the year ended December 31, 2023, with a comparative analysis to the year ended December 31, 2022. This Management's Discussion & Analysis (MD&A) presentation is designed, and is intended to be used, in conjunction with the financial statements and notes which follow this section.

RPU adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements effective January 1, 2023. As the financial statements only present one year, the prior year was not restated. Therefore, the prior year financial data presented in the MD&A does not reflect the effect of adopting GASB 96.

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

- Electric retail revenues increased \$15.1 million (10.1%) from 2022. Kilowatt-hour sales increased 20.8 million kWh (1.9%). An increase to the general rate of 2.5% effective January 1, 2023, combined with the kilowatt-hour sales increase, was a contributing factor to the revenue improvement. Wholesale power cost increases or decreases are also passed through to customers through the Power Cost Adjustment (PCA). A 10% rate increase in wholesale power rates occurred in November 2022, and the increased power costs were included in the PCA in 2023. This was another contributing factor to the increase in revenue, as well as expense. The annual system peak demand of 294.8 megawatts was set in August and is a large increase over the peak demand of 267 megawatts in 2022. This also represents a new all-time system peak demand, overtaking the previous record of 292 set in 2011.
- Water retail revenues of \$12.5 million reflect a 13.0% increase from 2022. Sales volume of 6.3 million ccf (hundred cubic feet) for 2023 represents an increase of 727,000 ccf (13.0%) from 2022. The increase in sales volume was combined with a general rate increase of 5.0% effective January 1, 2023.
- In 2022, the Utilities' management recommended, and the Utilities' Board and Rochester City Council approved, general rate increases of 2.5% for the Electric Utility and 5.0% for the Water Utility for 2023. A cost-of-service study was completed in 2023 for the Electric Utility, with recommended rate adjustments proposed for the next five years. In October and December 2023, the Utilities' Board and Rochester City Council approved a two-year budget for 2024 and 2025, as well as general rate increases for both years. For 2024, an increase of 3.2%, plus a \$1.94 customer charge increase was approved for the Electric Utility, with an increase of 5.5%, plus a \$1.32 customer charge increase approved for the Water Utility. The customer charge increases for both utilities are due to an Advanced Metering Infrastructure (AMI) implementation.
- Rates for purchased power from Southern Minnesota Municipal Power Association (SMMPA), the Electric Utility's primary wholesale electricity provider, did not change in 2023. However, effective February 1, 2023, SMMPA implemented an energy cost adjustment (ECA). The ECA results in an increase or decrease in the wholesale energy cost being passed through to the Utility. The impact of the ECA to the 2023 purchased power was an increase of 1.0%. Purchased power costs from SMMPA and the Midcontinent Independent System Operator (MISO) market represented 63.8% of electric operating expenses for 2023.
- As the water system continues to age and deteriorate, one of RPU's primary goals is to maintain its level of service in a cost-effective way. To accomplish this, RPU has adopted a risk-based approach to assess and manage water main assets and prioritize their replacement. In 2023, the Water Utility identified a total of 8,680 feet of water main in need of replacement, with a total of 7,191 feet of water main replaced. This replacement length goal is planned to increase 5% per year and is funded through increases to water rates as required.

See accompanying *Independent Auditors' Report*.

- In 2016, the Rochester City Council adopted an Energy Action Plan, built around sustainability goals for the City's energy, transportation, heating, and cooling sectors. In September 2022, the Rochester City Council updated the Plan's greenhouse gas emissions goals to a 50% reduction from a 2007 baseline by the year 2030, and a 100% reduction (or Net-Zero) by the year 2050. Meanwhile, in 2019 RPU updated its generation infrastructure plan to assess how to meet long-term energy and capacity requirements, while achieving environmental goals. In July 2019, the RPU Board voted unanimously to pursue two scenarios that would provide 100% of the City's energy needs from renewable sources by 2030. Both scenarios call for the procurement of enough wind and solar energy to equal Rochester's annual energy consumption; the key variable distinguishing the two scenarios is how to meet RPU's capacity requirements. In the most recent resource plan update provided to the RPU Board in August 2023, RPU's management working with consultants from 1898 & Co. (a subsidiary of Burns & McDonnell) recommended combining the original two scenarios to provide capacity through a combination of a firm dispatchable resource and batteries. RPU continues 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, achieving an average demand reduction of 13.4 MW per year from 2002 through 2023 and 6.8 million gallons of water saved from 2010 through 2023. RPU launched several new programs in 2023 which include a new electric vehicle time-of-use (TOU) enrollment rebate and a demand response (DR) direct load control smart thermostat program, as well as expanding efforts in the commercial space with energy design modeling assistance and retro-commissioning.
- In 2020, the Utilities acquired the land and design work started on a new substation located in southeast Rochester. This project, referred to as the Marion Road 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. This project will include an approximately two-mile multiple conduit manhole and duct system installed from this new substation to terminal points in the downtown area. Initial construction on the substation began in late 2021, and construction on the manhole and duct system began in 2022. Preliminary estimates indicate a summer 2024 completion date for this project.
- In May 2021, the Board communicated interest in moving forward with the next steps of an AMI business case which included retaining professional services from a firm that could assess RPU's needs and requirements, assist with writing the Request for Proposal, vendor selection, procurement, and contract support on RPU's electric and water systems. In June 2023, the Board approved the AMI project as a two-phased approach. The first phase, which focuses on the meter-to-cash application, includes the implementation of AMI and Meter Data Management (MDM) systems, meters, meter installation services, and business system integration. Following completion of the first phase, the RPU team will return to the Board to seek approval and additional funding for the second phase, which would consist of additional use cases and application integrations for the AMI solution. These would include integration into RPU applications such as outage management, Geographic Information System (GIS), and SCADA, as well as developing advanced data use cases for transformer and system analytics.

See accompanying *Independent Auditors' Report*.

- In August 2023, RPU's General Manager Mark Kotschevar retired after 42 years with the Utilities in various positions. In November 2022, the RPU Board, along with City leadership, conducted a national search for his replacement. From this search they selected Tim McCollough, who took over the role in August 2023. Tim has extensive experience with utilities, including positions with MidAmerican Energy Company, City of Ames Electric in Ames, IA, City of Fort Collins, CO and most recently as President and CEO of Iowa Lakes Electric Cooperative in Estherville, IA.
- RPU surpassed the aggressive DSM goal for 2023 of 17,622 megawatt-hours in energy savings. Actual energy savings of 18,079 megawatt-hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represented an estimated 18,079 tons of carbon reduction and amounted to 1.6% 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 3.3 million gallons of water. This was an increase of 0.3 million gallons from 2022, and approximately 66.7% of the goal of 5.0 million gallons.
- RPU is required to develop and submit a Water Supply Plan to the Minnesota Department of Natural Resources (DNR) every ten years. RPU's most recent plan was submitted in October 2018. The DNR issued a letter approving the plan on June 26, 2023. As a condition of this approval, the DNR directed RPU (and by extension the City of Rochester) to adopt a Critical Water Deficiency Ordinance to impose restrictions on nonessential water uses, in the event the governor declares a critical water deficiency pursuant to Minnesota Statute § 103G.291. A draft ordinance was presented to the Rochester City Council on March 4, 2024 and is currently in the adoption process.
- The Lake Zumbro Hydroelectric Plant (Hydro) is a 2.8 megawatt generating facility on the Zumbro River owned and operated by RPU. The Hydro operates on a run-of-the-river basis and consists of a powerhouse, a gravity dam spillway, and various electrical generating components. RPU solicited proposals in 2023 to upgrade the electrical generation, protection and control equipment, which have been in service since 1984 or longer. The project was approved by the Board in October 2023 and is scheduled to be completed by March 2025. The new system will improve remote monitoring, simplify startup and shutdown, and enhance load control based on DNR-required water flows or RPU-desired power output.

See accompanying *Independent Auditors' Report*.

FINANCIAL ANALYSIS – ELECTRIC UTILITY

Condensed Financial Information – Electric Utility

December 31, 2023 and 2022

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2023	2022	Change 2023 vs. 2022
Operating Revenues	\$188.0	\$175.2	\$12.8
Operating Expenses	155.9	150.4	5.5
<i>Operating Income</i>	32.1	24.8	7.3
Other Income & Expense	6.2	(3.1)	9.3
Interest Charges	(5.3)	(5.3)	-
Nonoperating Income (Expense)	0.9	(8.4)	9.3
<i>Income Before Transfers and Capital Contributions</i>	33.0	16.4	16.6
Transfers Out (In Lieu of Tax Payments)	(9.6)	(8.8)	(0.8)
Capital Transfer to Water	(0.2)	-	(0.2)
Capital Contributions	7.3	8.8	(1.5)
<i>Change in Net Position</i>	30.5	16.4	14.1
Net Position - Beginning of Year	244.8	228.4	16.4
Net Position - End of Year	\$275.3	\$244.8	\$30.5

Statements of Net Position

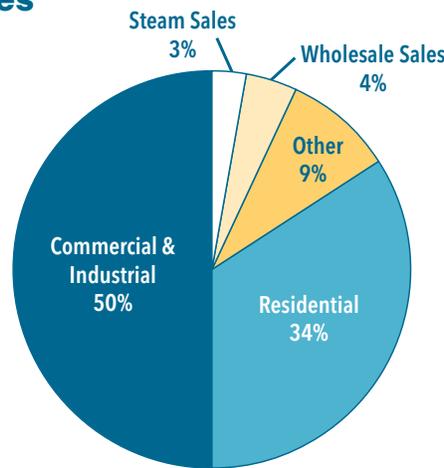
	2023	2022	Change 2023 vs. 2022
Cash and Investments – Unrestricted	\$117.1	\$103.9	\$13.2
Cash and Investments – Restricted	1.1	1.1	-
Other Current Assets	46.3	46.2	0.1
Capital Assets, Net	296.0	285.4	10.6
Other Noncurrent Assets	23.6	23.8	(0.2)
<i>Total Assets</i>	484.1	460.4	23.7
Deferred Outflows of Resources	4.8	7.3	(2.5)
<i>Total Assets and Deferred Outflows of Resources</i>	\$488.9	\$467.7	\$21.2
Current Liabilities	\$33.3	\$30.0	\$3.3
Long-Term Debt	149.7	158.7	(9.0)
Other Noncurrent Liabilities	16.3	22.1	(5.8)
<i>Total Liabilities</i>	199.3	210.8	(11.5)
Deferred Inflows of Resources	14.3	12.1	2.2
Investment in Capital Assets	152.4	133.0	19.4
Restricted – Debt Service	0.6	0.6	-
Unrestricted	122.3	111.2	11.1
<i>Net Position</i>	275.3	244.8	30.5
<i>Total Liabilities, Deferred Inflows of Resources and Net Position</i>	\$488.9	\$467.7	\$21.2

See accompanying *Independent Auditors' Report*.

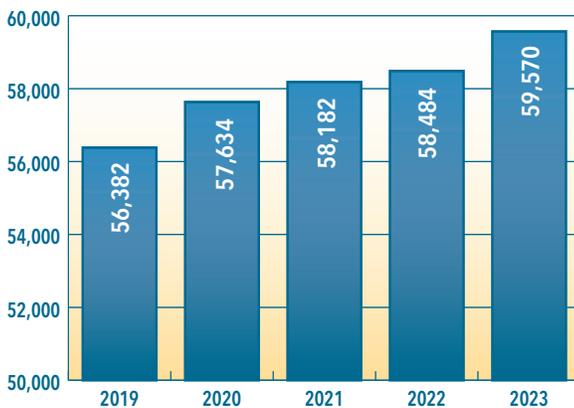
OPERATING REVENUES

Operating revenues increased by \$12.8 million (7.3%) in 2023. Retail revenues increased \$15.1 million (10.1%) due partially to a 2.5% rate increase effective January 1, 2023, combined with an increase in kilowatt-hour sales of 1.9% over 2022 sales. Also contributing to the higher revenues was an increase in the PCA due to higher wholesale power costs. Wholesale and steam revenues decreased \$3.8 million (22.6%). Generation from Cascade Creek and Westside Energy Station was offered into the wholesale energy markets. Westside generation for 2023 was down slightly from 2022, while Cascade Creek generation was up significantly driven by unit availability. Despite the overall decrease in wholesale revenue, margin was up from 2022 due to favorable market conditions. Steam revenues are directly correlated with fuel costs, which averaged 42.7% lower than 2022. Other operating revenues increased \$1.6 million in 2023 over 2022. In 2022, revenue was reduced by \$2.5 million due to the cancellation of a planned cash distribution from SMMPA. There was no corresponding reduction in 2023, effectively increasing revenue by that amount. This increase was offset by a decrease in transmission revenue of \$0.9 million.

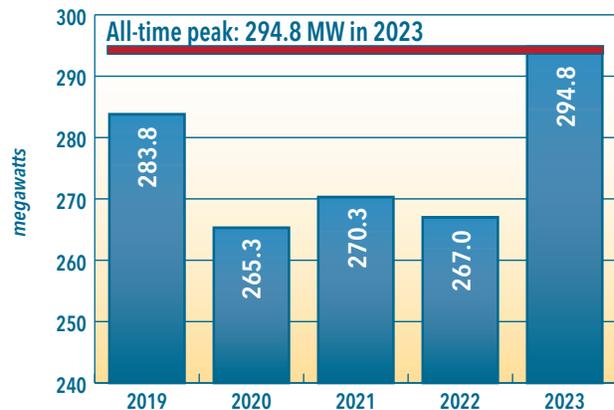
Electric Operating Revenues



Number of Electric Customers

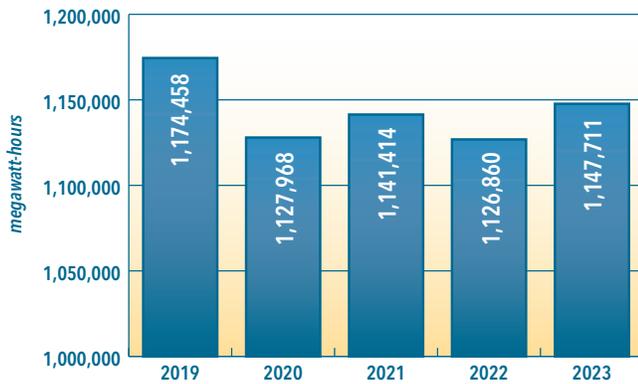


Electric System Peaks

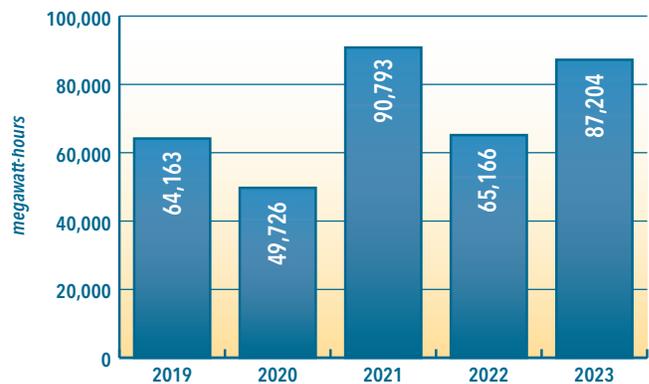


See accompanying *Independent Auditors' Report*.

Electric Retail Sales



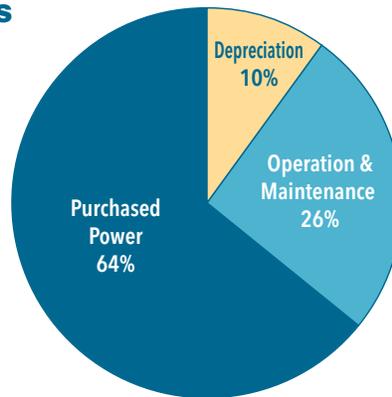
Electric Wholesale Sales



OPERATING EXPENSES

Operating expenses increased \$5.5 million (3.7%) in 2023, due in large part to an increase in purchased power of \$10.8 million along with increases of \$1.1 million in depreciation and \$0.4 million in salaries and benefits, offset by reductions in generation fuel of \$4.2 million and materials and supplies of \$2.5 million. The primary driver of operating expenses for the Electric Utility continues to be power purchased from SMMPA and the MISO market, which comprised 63.8% 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 \$9.6 million and \$8.8 million in 2023 and 2022, respectively. The increase in the in lieu of tax amount was due to an increase in the in lieu of tax rate in addition to an increase in kilowatt-hour sales.

An additional transfer out of \$0.2 million is attributable to the Electric Utility paying the Water Utility for the cost of water main infrastructure replaced as part of the Marion Road Duct Project.

CAPITAL CONTRIBUTIONS

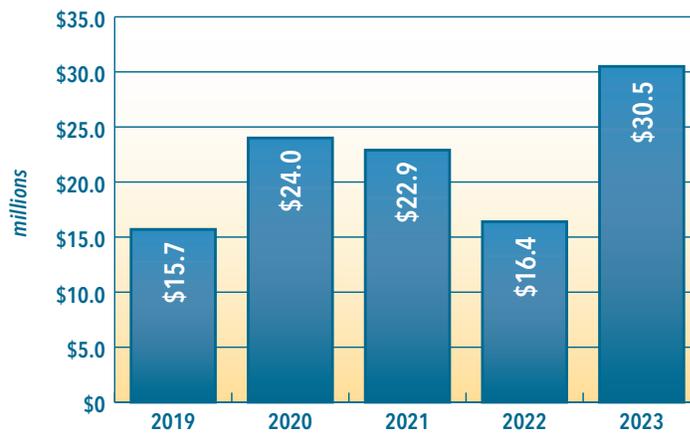
Capital contributions decreased by \$1.5 million in 2023 when compared to 2022. One large project, started in 2020, continued in 2023 that included reimbursement from other parties.

See accompanying *Independent Auditors’ Report*.

CHANGE IN NET POSITION

The Change in Net Position for 2023 was \$30.5 million. This represents an increase of \$14.1 million from 2022, which posted a Change in Net Position of \$16.4 million. Several factors contributed to this increase. Retail revenues increased \$15.1 million from 2022, offset by a \$10.8 million increase in purchased power. Wholesale and steam revenues decreased by \$3.8 million, while generation fuel realized a decrease of \$4.2 million in annual expense from 2022. Salaries and benefits experienced an increase of \$0.4 million and depreciation increased \$1.1 million over 2022, while materials and supplies decreased by \$2.5 million. Other operating revenues increased by \$1.6 million, along with an increase in interest revenue of \$9.2 million. These increases were offset by a decrease in capital contributions of \$1.5 million and an increase in the in lieu of tax expense of \$0.8 million.

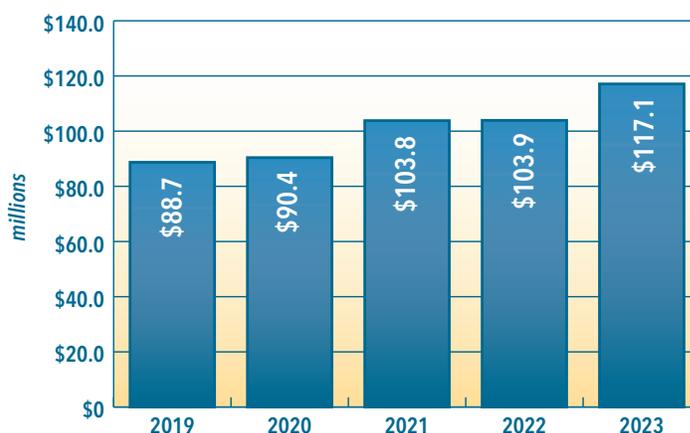
Electric Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending current unrestricted cash and investments balance for 2023 was \$117.1 million, which represents an increase of \$13.2 million over 2022. The ending current restricted cash and investments balance remained unchanged from 2022 with a balance of \$1.1 million at year end. This amount represents funds restricted for debt service payments. Other current assets for 2023 were \$46.3 million, which is largely unchanged from 2022. Other noncurrent assets for 2023 were \$23.6 million, a decrease of \$0.2 million from 2022.

Electric Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report*.

LIABILITIES

Current liabilities for 2023 finished the year at \$33.3 million, an increase of \$3.3 million over 2022. Items representing significant changes from the prior year include accounts payable with an increase of \$1.9 million over 2022, and amounts due to the City, increasing \$0.7 million over 2022.

Noncurrent liabilities posted a decrease of \$5.8 million in 2023. This change was driven primarily by a \$5.9 million decrease in the Utility's proportionate share of the liability from the Public Employees Retirement Association of Minnesota (PERA).

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 2023, net position invested in capital assets increased \$19.4 million compared to 2022.

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

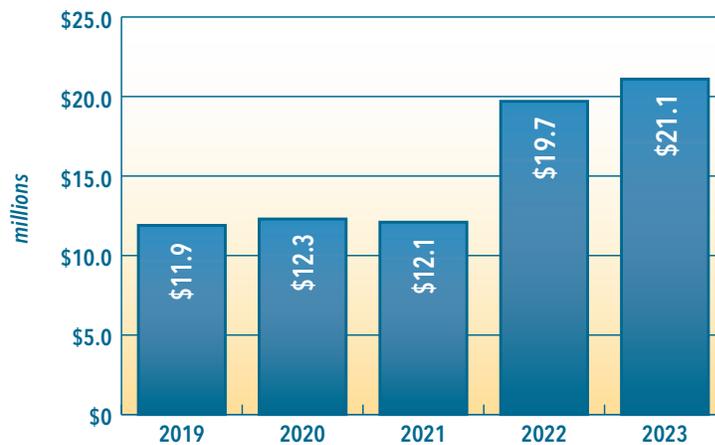
Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2023, unrestricted net position increased \$11.1 million due to the results of operations.

See accompanying *Independent Auditors' Report*.

CAPITAL ASSETS

As of December 31, 2023, the Electric Utility has \$296.0 million invested in a broad range of utility capital assets. This investment in capital assets includes 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 \$25.6 million in 2023, reflecting investments in general facilities and the distribution and transmission systems. The increase in capital assets was offset by a \$15.0 million increase in accumulated depreciation and amortization. Additional details regarding the Utilities' total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures increased by \$1.4 million in 2023.

Electric Capital Expenditures



LONG-TERM DEBT

As of December 31, 2023, the Electric Utility had \$147.4 million in revenue bonds outstanding, of which \$139.6 million is classified as long-term. In addition, the balance of bond premiums, net of discount at December 31, 2023 was \$10.0 million, resulting in a total long-term debt of \$149.6 million. No new debt was issued, and \$7.4 million was retired in 2023.

The Electric Utility maintained an AA bond rating from Fitch Ratings, Inc., and an Aa3 rating from Moody's. Additional details regarding the Utility's long-term debt can 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, 2023 and 2022

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2023	2022	Change 2023 vs. 2022
Operating Revenues	\$14.6	\$13.2	\$1.4
Operating Expenses	12.1	11.5	0.6
<i>Operating Income</i>	2.5	1.7	0.8
Other Income & Expense	0.7	0.6	0.1
Nonoperating Income	0.7	0.6	0.1
<i>Income Before Transfers and Capital Contributions</i>	3.2	2.3	0.9
Transfers Out (In Lieu Of Tax Payments)	(0.5)	(0.4)	(0.1)
Capital Transfers in from Electric	0.2	-	0.2
Capital Contributions	3.0	3.5	(0.5)
<i>Change in Net Position</i>	5.9	5.4	0.5
Net Position - Beginning of Year	120.0	114.6	5.4
Net Position - End of Year	\$125.9	\$120.0	\$5.9

Statements of Net Position

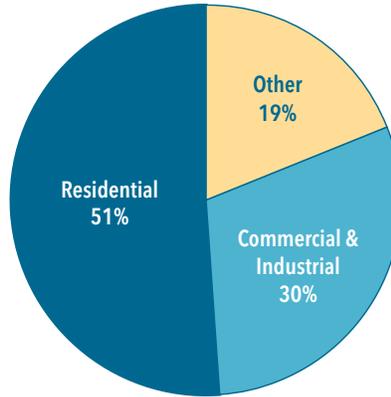
	2023	2022	Change 2023 vs. 2022
Cash and Investments	\$14.8	\$14.1	\$0.7
Other Current Assets	2.3	2.1	0.2
Capital Assets, Net	112.2	108.5	3.7
Lease Receivable Noncurrent	19.3	19.5	(0.2)
<i>Total Assets</i>	148.6	144.2	4.4
Deferred Outflows of Resources	0.4	0.7	(0.3)
Total Assets and Deferred Outflows of Resources	\$149.0	\$144.9	\$4.1
Current Liabilities	\$1.6	\$2.5	\$(0.9)
Noncurrent Liabilities	1.8	2.6	\$(0.8)
<i>Total Liabilities</i>	3.4	5.1	(1.7)
Deferred Inflows of Resources	19.7	19.8	(0.1)
Investment in Capital Assets	112.2	108.5	3.7
Unrestricted	13.7	11.5	2.2
<i>Net Position</i>	125.9	120.0	5.9
Total Liabilities, Deferred Inflows of Resources and Net Position	\$149.0	\$144.9	\$4.1

See accompanying *Independent Auditors' Report*.

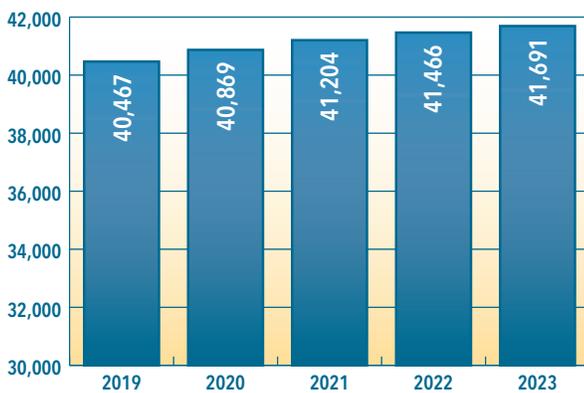
OPERATING REVENUES

Operating revenues increased by \$1.4 million (10.6%) in 2023. The main driver of this increase was total retail revenues, which increased \$1.4 million (13.0%) over 2022 due to an increase in sales volume of 13.0% combined with a general rate increase of 5.0%. Other operating revenues remained virtually unchanged from 2022.

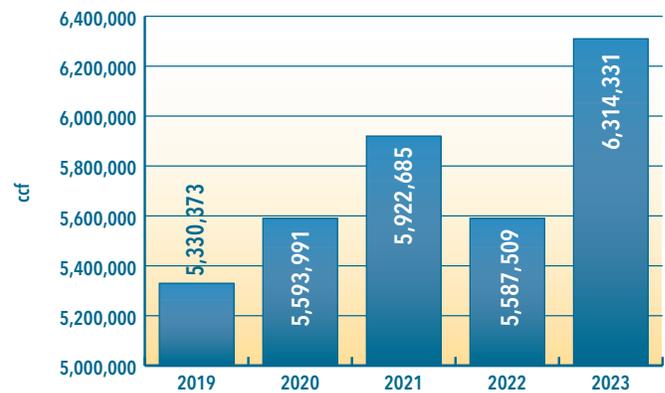
Water Operating Revenues



Number of Water Customers



Water Retail Sales

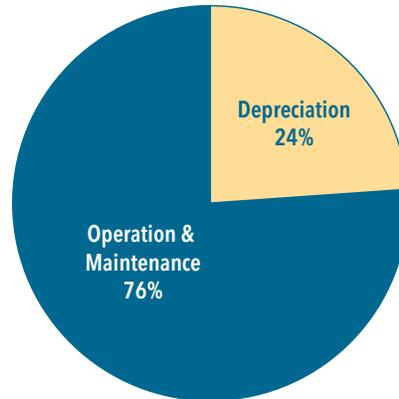


See accompanying *Independent Auditors' Report*.

OPERATING EXPENSES

Operating expenses increased by \$0.6 million (5.0%) in 2023 when compared to 2022.

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 2023, \$491,000 was transferred to the City. This was an increase of \$89,000 from 2022 due to an increase in ccf sales volume in addition to an increase in the in lieu of tax rate.

CAPITAL CONTRIBUTIONS

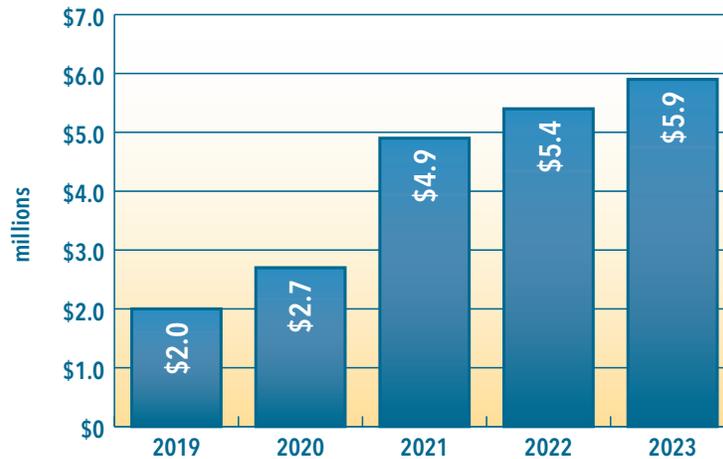
Capital Contributions decreased \$0.5 million in 2023. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from developers and are valued using a costing database that estimates their approximate construction costs. These also include amounts received from the City as part of a cost sharing agreement for certain water main replacement projects. Beginning in 2013, the Water 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 2023.

See accompanying *Independent Auditors' Report*.

CHANGE IN NET POSITION

The Change in Net Position for 2023 was \$5.9 million, an increase of \$0.5 million over the prior year. The primary driver of this positive change in net position was an increase in total retail revenue of \$1.4 million. This was offset by an increase in electric expense for pumping water of \$0.3 million, along with increases in salaries and benefits and in lieu of tax payments of \$0.1 million each, and a decrease in capital contributions of \$0.5 million.

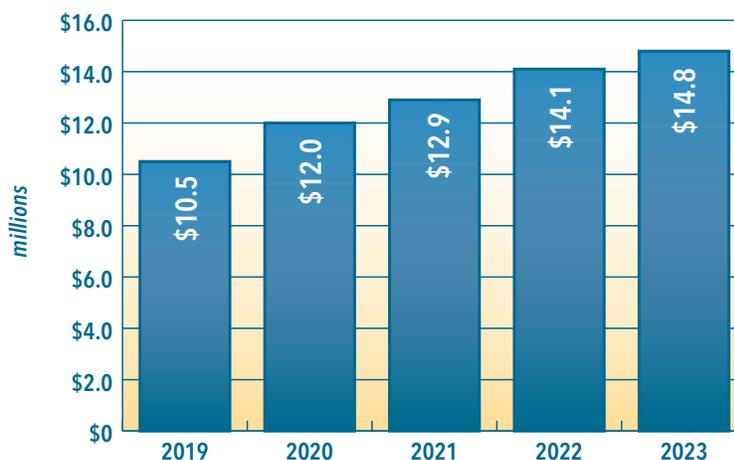
Water Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending unrestricted cash and investments balance for 2023 was \$14.8 million, an increase of \$0.7 million over 2022.

Water Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report*.

LIABILITIES

Current liabilities decreased \$0.9 million in 2023. The principal driver of this decrease was a reduction in the amount due to the City at the end of the year.

Noncurrent liabilities posted a decrease of \$0.8 million in 2023. This change was driven primarily by a decrease in the Utility's proportionate share of the liability from PERA.

NET POSITION

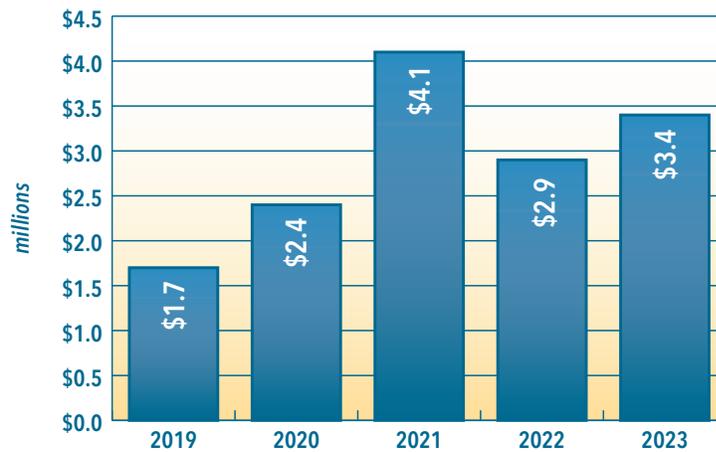
Net position invested in capital assets increased \$3.7 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers as well as contributed assets.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2023, unrestricted net position increased \$2.2 million due to the results of operations.

CAPITAL ASSETS

As of December 31, 2023, the Water Utility had \$112.2 million invested in a broad range of capital assets. The investment in capital assets includes 20 water storage facilities, 31 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$6.6 million in 2023, 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 \$2.9 million increase in accumulated depreciation. Additional details regarding the Utilities' total assets (Electric and Water) may be found in Note 5 to the financial statements. Capital expenditures increased \$0.5 million in 2023. Some of the major expenditure components in 2023 were Destination Medical Center (DMC) projects, new well construction, and water main replacements in conjunction with City street projects.

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 Utilities on a cost-of-service basis. In October 2022, the Utilities Board approved an increase in the rates for 2023 for both the Electric Utility and the Water Utility of 2.5% and 5.0%, respectively. The rate increases support 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>
2024	3.0%*	3.2%**	5.5%***
2023	4.1%	2.5%	5.0%
2022	8.0%	1.5%	2.5%
2021	4.7%	0.0%	0.0%
2020	1.2%	0.0%	3.5%
Annualized Average	4.8%	1.4%	3.3%

*Estimated Yearly Values

**Plus AMI Customer Charge of \$1.94 for 2024

***Plus AMI Customer Charge of \$1.32 for 2024

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 remained stable in 2023, with 240 building permits totaling \$90.3 million issued for single-family homes and townhomes. This compares to 231 permits totaling \$88.0 million in 2022. Commercial building permits for 2023 saw a substantial decrease, with 26 permits issued totaling \$65.8 million, compared to 51 permits totaling \$139.6 million in 2022. The 2023 commercial total includes two permits for business related construction projects totaling \$8.7 million, roughly 13% of the commercial total. In comparison, 2022 commercial totals included six permits for business related construction projects totaling \$76.1 million, roughly half of the 2022 commercial total.

According to the US Department of Labor Bureau of Labor Statistics, the December 2023 preliminary unemployment rate of 2.0% for the area remains below the state and national rates of 2.6% and 3.7%, respectively. The employment data shows that, on average, employment for the area was up approximately 1.9% from the previous year.

The DMC initiative continues development 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

See accompanying *Independent Auditors' Report*.

and execute the DMC 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 2023, private investments totaled more than \$146 million, bringing the total private investment in DMC to \$1.6 billion and releasing an additional \$135 million in state funding through 2023. Through December 31, 2023, the City of Rochester and Olmsted County have incurred actual costs of \$65 million and \$19.5 million, respectively. 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 Peace Plaza; and transportation. Several projects connected with these priorities are in process or have recently been approved by the DMC Corporation Board. These projects include:

- Soldiers Field Memorial Park Improvements – This culminates a comprehensive community engagement process to reconnect to the Zumbro River, create a signature public space along the river, and open underutilized city-owned properties to future private development.
- Rochester Rapid Transit System – Known as “Link”, a 2.6-mile bus rapid transit route, which will span the length of 2nd Street, connecting downtown Rochester, the Mayo Civic Center, Cascade Lake, Mayo Clinic campuses, and the Rochester-Olmsted Government Center with seven stations.
- West Transit Village – The future site of the West Transit Village, located along 2nd Street SW, will become the western end of the Link Bus Rapid Transit route. The West Transit Village is a crucial part of downtown Rochester’s mobility strategy and aligns with DMC’s vision of being a world-class destination.
- Discovery Walk – A four-block linear parkway along 2nd Avenue in downtown Rochester connecting Soldiers Field to Annenberg Plaza near Mayo Clinic.

See accompanying *Independent Auditors’ Report*.

In November 2023, Mayo Clinic’s Board of Trustees approved Bold. Forward. Unbound. in Rochester, a multiyear strategic initiative that advances Mayo Clinic’s organization-wide strategy to Cure, Connect and Transform healthcare for the benefit of patients everywhere. The Bold. Forward. Unbound. project includes the construction of two new buildings totaling approximately 2.4 million square feet of space infused with technology to improve care delivery. Structural and architectural components will allow for future expansion. Existing spaces will also be redesigned to support growing patient needs prior to the completion of new facilities. The total investment of the project is \$5 billion over six years.

Based on the ongoing growth and stability of the service area, the impact to ratepayers, and the cost-of-service studies completed in 2022 for the Water Utility and 2023 for the Electric Utility, management recommended, and the RPU Board and Rochester City Council approved increases for 2024 of 3.2%, plus a \$1.94 customer charge increase, and 5.5%, plus a \$1.32 customer charge increase, for the Electric Utility and Water Utility, respectively.

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 East 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, 2023

	2023
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$15,550,092
Investments	101,598,966
Accounts Receivable, Net and Accrued Utility Revenues	32,728,113
Inventories	11,326,852
Other Current Assets	2,218,489
Restricted Assets:	
Cash and Cash Equivalents	1,141,339
Total Current Assets	164,563,851
Noncurrent Assets:	
Restricted Assets:	
Investments	12,584,101
Funds-Held in Trust	48
Capital Assets:	
Construction Work in Progress	39,897,803
Land and Land Rights	11,351,222
Depreciable Assets, Net	244,717,388
Net Capital Assets	295,966,413
Other Noncurrent Assets	11,042,454
Total Noncurrent Assets	319,593,016
Total Assets	484,156,867
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Bond Refunding	1,418,364
Pension Deferred Outflows of Resources	3,331,881
Total Deferred Outflows of Resources	4,750,245
Total Assets and Deferred Outflows of Resources	\$488,907,112
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$14,069,332
Due to the Municipality	5,275,306
Accrued Compensated Absences	2,215,247
Accrued Compensation	903,410
Customer Deposits	2,433,821
Current Liabilities Payable from Restricted Assets	
Interest Payable	497,172
Current Maturities of Long-Term Debt	7,730,000
Other Current Liabilities	191,155
Total Current Liabilities	33,315,443
Noncurrent Liabilities:	
Accrued Compensated Absences	1,593,832
Pre-1968 Pensions Liability	6,000
Net Pension Liability	13,142,567
Unearned Revenues	1,594,428
Long-Term Debt	149,648,005
Total Noncurrent Liabilities	165,984,832
Total Liabilities	199,300,275
DEFERRED INFLOWS OF RESOURCES:	
Deferred Revenue	9,454,967
Pension Related	4,214,744
Solar Choice	277,550
Lease Related	316,836
Total Deferred Inflows of Resources	14,264,097
NET POSITION:	
Net Investment in Capital Assets	152,401,183
Restricted	
Debt Service	644,167
Funds-Held in Trust	48
Unrestricted	122,297,342
Total Net Position	275,342,740
Total Liabilities, Deferred Inflows of Resources and Net Position	\$488,907,112

See accompanying Notes to Financial Statements.

Electric Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2023

	2023
Operating Revenues:	
Retail	\$164,507,660
Wholesale	7,561,999
Other	15,965,650
Total Operating Revenues	<u>188,035,309</u>
Operating Expenses:	
Purchased Power	99,424,449
Operations and Maintenance	40,310,976
Depreciation and Amortization	16,162,147
Total Operating Expenses	<u>155,897,572</u>
Operating Income	<u>32,137,737</u>
Nonoperating Income (Expenses):	
Investment Income (Loss)	6,547,475
Interest Expense	(5,273,450)
Amortization of Regulatory Assets	(99,609)
Miscellaneous, Net	(249,210)
Total Nonoperating Income	<u>925,206</u>
Income Before Transfers and Capital Contributions	<u>33,062,943</u>
Transfers Out	(9,629,298)
Capital Transfer to Water	(193,542)
Capital Contributions	7,262,150
Change in Net Position	<u>30,502,253</u>
Net Position, Beginning of Year	<u>244,840,487</u>
Net Position, End of Year	<u><u>\$275,342,740</u></u>

See accompanying *Notes to Financial Statements*.

Electric Utility Statement of Cash Flows

For the Year Ended December 31, 2023

	2023
Cash Flows From Operating Activities:	
Cash Received from Customers	\$184,944,492
Cash Paid to Suppliers	(124,827,200)
Cash Paid to Employees	(20,086,526)
Internal Activity - Payments From Other Funds	6,645,804
Service Territory Acquisition	(174,542)
Net Cash Provided By Operating Activities	<u>46,502,028</u>
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	(9,778,829)
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(21,933,277)
Capital Contributions Received	7,047,830
Principal Payments on Bonds and SBITAs	(8,268,300)
Interest Payments on Bonds and SBITAs	(6,310,523)
Net Cash Used In Capital and Related Financing Activities	<u>(29,464,270)</u>
Cash Flows From Investing Activities:	
Interest Received	3,599,275
Investment Purchases	(1,294,316)
Net Cash Provided By Investing Activities	<u>2,304,959</u>
Net Increase in Cash and Cash Equivalents	9,563,888
Cash and Cash Equivalents, Beginning of Year	<u>7,127,543</u>
Cash and Cash Equivalents, End of Year	<u>16,691,431</u>
Classified As:	
Current Nonrestricted Assets	15,550,092
Restricted Assets	1,141,339
Cash and Cash Equivalents, End of Year	<u>\$16,691,431</u>

	2023
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$32,137,737
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	16,162,147
Bad Debts	(71,478)
Service Territory Payments	(174,542)
Decrease (Increase) In:	
Accounts Receivable and Accrued Utility Revenues	1,885,328
Inventories	(2,238,545)
Other Current Assets	(31,310)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	(1,681,466)
Customer Deposits	108,018
Deferred Revenues	(39,332)
Unearned Revenues	89,236
Pension Deferred Outflow/Inflow	401,713
Solar Choice Deferred Inflow	(46,258)
Lease Deferred Inflow/Receivable	780
Net Cash Provided by Operating Activities	<u>\$46,502,028</u>
Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By Others	\$214,320
Amortization of Bond Premiums, Discounts, and Refunding	(\$1,076,359)
Amortization of Bond Issue Costs	\$99,609
Unrealized Gain on Investments	\$2,948,200
SBITA additions	\$821,556

See accompanying Notes to Financial Statements.

Water Utility Statement of Net Position

As of December 31, 2023

	2023
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$1,961,033
Investments	12,812,719
Accounts Receivable, Net and Accrued Utility Revenues	1,747,867
Inventories	338,962
Other Current Assets	185,143
Total Current Assets	<u>17,045,724</u>
Noncurrent Assets:	
Capital Assets:	
Construction Work in Progress	11,920,993
Land and Land Rights	742,667
Depreciable Assets, Net	99,577,254
Net Capital Assets	<u>112,240,914</u>
Lease Receivable Noncurrent	19,308,016
Total Noncurrent Assets	<u>131,548,930</u>
Total Assets	<u>148,594,654</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Deferred Outflows of Resources	431,294
Total Assets and Deferred Outflows of Resources	<u>\$149,025,948</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$508,260
Due to the Municipality	591,855
Accrued Compensated Absences	274,795
Accrued Compensation	119,612
Customer Deposits	108,677
Total Current Liabilities	<u>1,603,199</u>
Noncurrent Liabilities:	
Accrued Compensated Absences	155,801
Net Pension Liability	1,665,588
Total Noncurrent Liabilities	<u>1,821,389</u>
Total Liabilities	<u>3,424,588</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension Related	563,421
Lease Related	19,091,312
Total Deferred Inflows of Resources	<u>19,654,733</u>
NET POSITION:	
Net Investment in Capital Assets	112,240,914
Unrestricted	13,705,713
Total Net Position	<u>125,946,627</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$149,025,948</u>

See accompanying *Notes to Financial Statements*.

Water Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2023

	2023
Operating Revenues:	
Retail	\$12,460,278
Other	2,148,469
Total Operating Revenues	<u>14,608,747</u>
Operating Expenses:	
Operations and Maintenance	9,194,983
Depreciation	2,916,445
Total Operating Expenses	<u>12,111,428</u>
Operating Income	<u>2,497,319</u>
Nonoperating Income (Expenses):	
Investment Income	775,420
Interest Expense	(1,933)
Miscellaneous, Net	(64,582)
Total Nonoperating Income	<u>708,905</u>
Income Before Transfers and Capital Contributions	<u>3,206,224</u>
Transfers Out	(490,813)
Capital Transfer In from Electric	193,542
Capital Contributions	3,057,711
Change in Net Position	<u>5,966,664</u>
Net Position, Beginning of Year	119,979,963
Net Position, End of Year	<u><u>\$125,946,627</u></u>

See accompanying *Notes to Financial Statements*.

Water Utility Statement of Cash Flows

For the Year Ended December 31, 2023

	2023
Cash Flows From Operating Activities:	
Cash Received from Customers	\$13,811,200
Cash Paid to Suppliers	(7,405,101)
Cash Paid to Employees	(2,683,616)
Internal Activity - Payments From Other Funds	277,518
Net Cash Provided By Operating Activities	<u>4,000,001</u>
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	<u>(489,099)</u>
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(3,851,427)
Capital Contributions Received	193,542
Net Cash Used In Capital and Related Financing Activities	<u>(3,657,885)</u>
Cash Flows From Investing Activities:	
Interest Received	773,487
Investment Purchases	519,020
Net Cash Provided By Investing Activities	<u>1,292,507</u>
Net Increase in Cash and Cash Equivalents	<u>1,145,524</u>
Cash and Cash Equivalents, Beginning of Year	<u>815,509</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,961,033</u></u>

	2023
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$2,497,319
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	2,916,445
Bad Debts	10,020
(Increase) In:	
Accounts Receivable and Accrued Utility Revenues	(11,411)
Inventories	(49,503)
Prepaid and Other Current Assets	(106,616)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	(777,552)
Customer Deposits	(26,335)
Deferred Revenue	(21,000)
Pension Deferred Outflow/Inflow	56,251
Lease Deferred Inflow/Receivable	(487,617)
Net Cash Provided by Operating Activities	<u><u>\$4,000,001</u></u>
Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By:	
City's Governmental Funds	\$111,823
Developers	\$2,945,888

See accompanying *Notes to Financial Statements*.

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2023

NOTE 1: Summary of Significant Accounting Policies

The financial statements of Rochester Public Utilities (RPU or Utilities) 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.

RPU adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ended December 31, 2023. The statement establishes new requirements for calculating and reporting RPU's subscription-based information technology arrangement (SBITA) activities. The adoption of GASB Statement No. 96 has been reflected as of January 1, 2023, with an increase in capital assets of \$652,198 and resulting in a December 31, 2023 balance of \$1,081,716 (including a reclassification of prepaid amounts related to the SBITAs of \$240,619) and an increase in SBITA obligation of \$841,097 for the Electric Utility. These balances were calculated using the facts and circumstances that existed as of January 1, 2023 as prescribed by GASB Statement No. 96. There was no impact to beginning net position as of January 1, 2023.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2022 financial data contained in the Notes to conform to the 2023 financial statement presentation.

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 basis of fair values are described in the notes to the City of Rochester's financial statements included in the City's 2023 Annual Comprehensive 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) 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 provides an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable has been reduced by an Allowance for Doubtful Accounts of \$330,000 for the Electric Utility and \$30,000 for the Water Utility for December 31, 2023.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are \$3,544,393 for the Electric Utility and \$155,356 for the Water Utility for the year ended December 31, 2023.

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 Utilities' 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.

Subscription-based information technology arrangements (SBITAs) are recorded at the present value of the subscription liability plus payments made at the commencement of the subscription term and implementation costs, less incentives received at the commencement of the subscription term. SBITAs are amortized systematically over the shorter of the subscription term or the useful life of the underlying information technology asset. Refer to Note 12 for additional information on SBITAs.

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
Intangible-SBITAs	1-5

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

The Electric Utility 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 electric other assets for 2023 follows:

	<u>Balance 01/01/23</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/23</u>
Bond issue costs	\$2,723,710	\$ -	\$ -	\$2,723,710
Less: Amortization of bond issue costs	1,666,842	99,609	-	1,766,451
Nonoperating Other Assets	1,056,868			957,259
Regulatory asset-Service territory payments	17,835,414	163,830	-	17,999,244
Less: Amortization of Regulatory asset	7,461,859	452,190	-	7,914,049
Lease Receivable Noncurrent	321,289	-	321,289	-
Operating Other Assets	10,694,844			10,085,195
Net Other Assets	<u>\$11,751,712</u>			<u>\$11,042,454</u>

The Water Utility Other Assets – Noncurrent includes Lease Receivable. Refer to Note 11 for additional information on Leases.

A summary of changes in water other assets for 2023 follows:

	<u>Balance 01/01/23</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/23</u>
Lease Receivable Noncurrent	<u>\$19,534,381</u>	\$773,868	\$1,000,233	<u>\$19,308,016</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, 2023 is \$1,418,364.

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 40% 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 2018 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 2023, \$214,320 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2023, \$1,015,680 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 CIAC if not met. The substation went in service in May 2017.

As of December 31, 2023, customers have paid the Electric Utility \$578,748 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 refunding 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 rents a portion of its transmission system, known as the North Loop, to SMMPA under a non-cancelable agreement 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 revenues of \$36,420 are being recognized ratably over the term of the agreement. The amount deferred as of December 31, 2023 was \$228,335.

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, 2018 through 2029. As of December 31, 2023, deferred remained at \$277,550.

At the end of 2023, the Electric Utility had advanced payments of \$9,226,632, which included the unamortized portion of capacity sales.

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

See Note 11 for additional information regarding lease deferred inflows.

REVENUES AND EXPENSES

The Utilities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 nonoperating 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, 2023.

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 341,854 megawatt-hours (mWh) of use, which is 29.8% of the total retail mWh sales in 2023. These users also represent \$47,099,259 or 25.0% of the total 2023 operating revenues. The top two users of RPU account for approximately 197,352 mWh of use, which is 17.2% of the total retail mWh sales in 2023 and represents \$28,480,856 or 15.1% of the total 2023 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 1,193,653 hundred cubic feet (ccf) of use, which is 18.9% of the total ccf sales in 2023. These users also represent \$1,447,325 or 9.9% of the total 2023 operating revenues. The top two users of RPU account for approximately 734,967 ccf of use, which is 11.6% of the total ccf sales in 2023 and represents \$913,941 or 6.3% of the total 2023 operating revenues.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statements No. 100 *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, No. 101, *Compensated Absences* and No. 102, *Certain Risk Disclosures*. 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 2023 Annual Comprehensive Financial Report.

NOTE 3: Due to the Municipality

The following is a schedule of balances as of December 31, 2023:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2023 Amount</u>
Municipality	Electric	General operating	\$139,401
Municipality	Electric	Marion Road Substation project	2,204,883
Municipality	Electric	Payments in lieu of tax	782,447
Municipality	Electric	Sewer and Stormwater revenue	3,436,924
Total Electric Due To Municipality			6,563,655
Electric	Municipality	Sewer and Stormwater billing fees	159,939
Electric	Municipality	Utility bills	440,878
Electric	Municipality	Utility bill collections	46,468
Electric	Municipality	General operating	2,929
Electric	Municipality	Interest on investments	638,135
Total Electric Due From Municipality			1,288,349
Electric Net Due to Municipality			\$5,275,306
Municipality	Water	General operating	\$3,436
Municipality	Water	Water construction projects	1,114,167
Municipality	Water	Watermain replacement	248,213
Municipality	Water	Payments in lieu of tax	30,181
Total Water Due To Municipality			1,395,997
Water	Municipality	Utility bills	15,108
Water	Municipality	Construction projects	786,153
Water	Municipality	General operating	2,881
Total Water Due From Municipality			804,142
Water Net Due to Municipality			\$591,855

The following is a schedule of transfer balances for the year ending December 31, 2023:

	<u>Transfer From</u>	<u>Transfer To</u>	<u>Principal Purpose</u>	<u>2023 Amount</u>
Electric:	Electric	Municipality	Tax Equivalents	\$9,629,298
	Electric	Water	Transfer Out-Capital Contributions	193,542
Water:	Water	Municipality	Tax Equivalents	\$490,813
	Electric	Water	Transfer In-Capital Contributions	193,542

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:

2023

Current Assets

Debt Service Account

\$1,141,339

Used to segregate resources accumulated for debt service payments over the next twelve months.

Noncurrent Assets

Reserve Account

\$12,584,101

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 2023 follows:

	<u>Balance 01/01/23</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/23</u>
Capital assets, not being depreciated:				
Construction in progress	\$27,889,755	\$20,547,440	\$8,539,392	\$39,897,803
Land and land rights	11,264,662	86,560	-	11,351,222
Total capital assets, not being depreciated	<u>39,154,417</u>	<u>20,634,000</u>	<u>8,539,392</u>	<u>51,249,025</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	70,057,018	648,134	-	70,705,152
Installations, equipment and fixtures	449,767,590	12,773,042	954,922	461,585,710
Intangible assets-SBITAs	652,198	429,518	-	1,081,716
Total capital assets, being depreciated	<u>520,476,806</u>	<u>13,850,694</u>	<u>954,922</u>	<u>533,372,578</u>
Less: Accumulated depreciation	273,600,164	15,268,726	654,931	288,213,959
Less: Amortization-SBITAs	-	441,231	-	441,231
Depreciable Assets, Net	<u>246,876,642</u>			<u>244,717,388</u>
Net Capital Assets	<u>\$286,031,059</u>			<u>\$295,966,413</u>

In 2023, noncash capital assets totaling \$214,320 were contributed to the Electric Utility by others. Cash contributions in aid of construction were \$7,047,830.

WATER

A summary of changes in water capital assets for 2023 follows:

	<u>Balance 01/01/23</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/23</u>
Capital assets, not being depreciated:				
Construction in progress	\$8,104,921	\$6,534,821	\$2,718,749	\$11,920,993
Land and land rights	742,667	-	-	742,667
Total capital assets, not being depreciated	<u>8,847,588</u>	<u>6,534,821</u>	<u>2,718,749</u>	<u>12,663,660</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	19,949,594	13,231	-	19,962,825
Installations, equipment and fixtures	141,863,474	2,938,464	130,166	144,671,772
Total capital assets, being depreciated	<u>161,813,068</u>	<u>2,951,695</u>	<u>130,166</u>	<u>164,634,597</u>
Less: Accumulated depreciation	62,206,745	2,916,445	65,847	65,057,343
Depreciable Assets, Net	<u>99,606,323</u>			<u>99,577,254</u>
Net Capital Assets	<u>\$108,453,911</u>			<u>\$112,240,914</u>

In 2023, noncash capital assets totaling \$111,823 were contributed to the Water Utility by other funds of the City of Rochester, and others contributed \$2,945,888 to the Utility. Cash contributions in aid of construction were \$193,542.

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

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/23
02/10/21	Revenue Bond Series 2021A-Advance refund the 2013B issue	12/1/43	1.375-2.30%	\$37,170,000	\$33,420,000
02/15/17	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	90,485,000
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	23,440,000

Revenue bond debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$7,730,000	\$5,966,068	\$13,696,068
2025	8,005,000	5,681,868	13,686,868
2026	8,305,000	5,386,367	13,691,367
2027	8,625,000	5,062,768	13,687,768
2028	8,980,000	4,708,967	13,688,967
2029-2033	31,680,000	18,764,388	50,444,388
2034-2038	24,380,000	14,025,147	38,405,147
2039-2043	29,645,000	8,762,365	38,407,365
2044-2047	19,995,000	2,560,250	22,555,250
	<u>\$147,345,000</u>	<u>\$70,918,188</u>	<u>\$218,263,188</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 2023 was \$13,698,868, which consisted of scheduled principal and interest payments. Total gross revenues as defined for the same period were \$194,582,784. Annual principal and interest payments are expected to require 4.7% of gross revenues on average.

On February 10, 2021, taxable bonds in the amount of \$37.17 million were issued with an average interest rate of 1.94% to advance refund \$33.995 million of outstanding bonds with an average interest rate of 4.74%. The cash flow requirements on the old bonds prior to the advance refunding were \$55,960,475 from 2021 through 2043. The cash flow requirements on the new bonds are \$46,632,758. The advance refunding resulted in an economic gain of \$6,641,823. The bonds are considered defeased and were called on December 1, 2023.

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, 2023 is as follows:

	<u>01/01/23 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/23 Balance</u>	<u>Due Within One Year</u>
Long-term debt	\$154,740,000	\$ -	\$7,395,000	\$147,345,000	\$7,730,000
Bond discount/premium	11,317,410	-	1,284,405	10,033,005	-
Accrued Compensated Absences	3,785,590	397,442	373,953	3,809,079	2,215,247
Pre-1968 Pension Liability	6,000	-	-	6,000	-
Net Pension Liability	19,014,462	-	5,871,895	13,142,567	-
Unearned Revenue	1,505,192	303,556	214,320	1,594,428	-
Totals	<u>\$190,368,654</u>	<u>\$700,998</u>	<u>\$15,139,573</u>	<u>\$175,930,079</u>	<u>\$9,945,247</u>

LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the year ended December 31, 2023 is as follows:

	<u>01/01/23 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/23 Balance</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$526,385	\$ -	\$95,789	\$430,596	\$274,795
Net Pension Liability	2,400,013	-	734,425	1,665,588	-
Totals	<u>\$2,926,398</u>	<u>\$ -</u>	<u>\$830,214</u>	<u>\$2,096,184</u>	<u>\$274,795</u>

INTEREST EXPENSE – ELECTRIC

	<u>2023</u>
Bond interest expense	\$6,267,467
Bond premium, discount & refunding amortization	(1,076,359)
Other interest expense	66,687
Interest expense Subscription-Based Information Technology Arrangements	15,655
Total	<u>\$5,273,450</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% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% 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. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

C. Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and 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, 2023, were \$1,457,187 and \$183,998 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, 2023, the Electric Utility reported a liability of \$13,142,567, and the Water Utility reported a liability of \$1,665,588 as each utility's allocated share of the City of Rochester's proportionate share of \$43,376,275 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 \$1,195,758.

The net pension liability was measured as of June 30, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2022, through June 30, 2023, relative to the total employer contributions received from all PERA's participating employers. The City's proportionate share was 0.7757% at the end of the measurement period and 0.7807% for the beginning of the period.

City of Rochester's proportionate share of the net pension liability	\$43,376,275
State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester	1,195,758
Total	<u>\$44,572,033</u>

For the year ended December 31, 2023, the Electric Utility and Water Utility recognized pension expense of \$1,864,314 and \$244,413, respectively, as allocated shares of the City of Rochester's General Employees Plan's pension expense. In addition, the City recognized an additional \$5,374 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2023, the 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	\$433,834	\$91,162
Changes in actuarial assumptions	2,143,518	3,602,266
Net collective difference between projected and actual investment earnings	-	410,973
Changes in proportion	9,051	110,343
Contributions paid to PERA subsequent to the measurement date	745,478	-
Total	<u>\$3,331,881</u>	<u>\$4,214,744</u>

The \$745,478 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2024	\$331,806
2025	(1,988,073)
2026	313,033
2027	(285,107)
Total	<u>\$(1,628,341)</u>

At December 31, 2023, 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	\$54,927	\$12,052
Changes in actuarial assumptions	282,848	456,523
Net collective difference between projected and actual investment earnings	-	80,873
Changes in proportion	1,196	13,973
Contributions paid to PERA subsequent to the measurement date	92,323	-
Total	<u>\$431,294</u>	<u>\$563,421</u>

The \$92,323 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2024	\$38,813
2025	(265,922)
2026	38,791
2027	(36,132)
Total	<u>\$(224,450)</u>

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Electric Utility’s allocated share of the General Employees Fund net pension liability:	\$23,250,257	\$13,142,567	\$4,828,608
Water Utility’s allocated share of the General Employees Fund net pension liability:	\$2,946,560	\$1,665,588	\$611,941

I. 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.

J. 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, 2023 was \$28,093.

K. 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 three deferred compensation plan vendors to offer retirement plan benefits. These vendors are Empower Retirement, Mission Square Retirement, and Minnesota State Retirement System.

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 deductibles up to \$1,000,000 depending on the covered asset. Settled claims have not exceeded the commercial liability in any of the past two 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. RPU participates in this self-insurance program. The group health program is limited to losses of \$335,000 per claim with a variable annual aggregate, and the 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 claims that have been 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 2023 Annual Comprehensive 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: Leases

As a lessor, the Electric Utility has entered into pole attachment agreements which provide for the leasing of space on its electric utility poles. These agreements generally include original terms of five years with an unspecified number of autorenewal options for the lessee to extend the term for a period of one year each. The Electric Utility has excluded from the lease term any potential autorenewal terms as provided for in the lease since the non-cancelable period of any autorenewal term would be less than one year. The payment terms generally include a variable annual payment per pole attachment paid in advance based on the number of pole attachments in existence at the beginning of each calendar year of the lease term. The Electric Utility determined that portions of the variable annual payments were considered fixed in substance and could be reliably measured. Therefore, these payment amounts were included in the measurement of the lease receivables. Incremental annual payments received or annual payments not received relative to the number of pole attachments factored into the measurement of the lease receivables are classified as variable payment amounts because they are not considered fixed in substance. During 2023, the Electric Utility recognized total lease-related revenues of \$422,433 related to the pole attachment agreements, of which \$417,817 and \$4,616 were classified as lease revenues and interest, respectively. During 2023, the Electric Utility recognized revenues of \$1,497 for variable lease payments that were not included in the measurement of the lease receivables.

As a lessor, the Water Utility has entered into antenna placement agreements which provide for the leasing of antenna space on its water towers. These agreements generally include original terms of five years with three autorenewal options for the lessee to extend the term for a period of five years each. The Water Utility has included in the lease term the remaining autorenewal terms as provided for in the lease under the assumption that these terms are reasonably certain of being exercised by the lessee. The payment terms generally include a fixed annual payment paid in advance that escalates by a fixed percentage each year of the term. During 2023, the Water Utility recognized total lease-related revenues of \$1,826,466 related to the antenna placement agreements, of which \$1,344,417 and \$482,049 were

classified as lease revenues and interest, respectively. During 2023, the Water Utility recognized revenues of \$1,233 for variable lease payments that were not included in the measurement of the lease receivables.

The lease contracts may include other payments, such as termination penalties, that are not included in the lease receivable. During 2023, the Water Utility did not recognize any revenues for other payments not included in the measurement of the lease receivables.

The Utilities use their own estimated incremental borrowing rate as the discount rate to measure lease receivables. The Utilities have established that the Electric Utility's Series 2021A bond issuance provided an appropriate base rate for the purpose of establishing the incremental borrowing rate used to measure leases at transition and leases commencing during the current report year. Certain required adjustments were then made to the bond rate to arrive at an estimated incremental borrowing rate.

The Utilities include the current and noncurrent portions of the lease receivables in accounts receivable, net and accrued utility revenues and other noncurrent assets, respectively. At December 31, 2023, the Electric Utility included \$321,289 and \$0 for the current and noncurrent portion of the lease receivables in accounts receivable, net and accrued utility revenues and other noncurrent assets, respectively. At December 31, 2023, the Water Utility included \$847,283 and \$19,308,016 for the current and noncurrent portions of the lease receivables in accounts receivable, net and accrued utility revenues and lease receivable, noncurrent, respectively.

NOTE 12: Subscription-Based Information Technology Arrangements

The Utilities have SBITAs that are used primarily for various software and related licenses which meet the capitalization criteria specified by generally accepted accounting principles. Therefore, RPU has recorded the SBITAs at the present value of the future minimum payments as of the inception date using its own estimated incremental borrowing rate (see Note 11). The SBITAs generally include original terms of one to five years. Certain SBITAs also include an unspecified number of autorenewal options for the Utilities to extend the term for a period of one year each. The Electric Utility has excluded from the lease term any potential autorenewal terms as provided for in the lease since the non-cancelable period of any autorenewal term would be less than one year.

During 2023, the Electric Utility recognized amortization expense and interest expense of \$441,231 and \$15,655, respectively, related to SBITA agreements. The cost and accumulated amortization of the assets under the Electric Utility's SBITAs included in capital assets totaled \$1,081,716 and \$441,231, respectively, as of December 31, 2023. The Electric Utility's SBITA obligation included in current liabilities totaled \$189,688 as of December 31, 2023.

NOTE 13: 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 (MISO) 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 16.00 mills (tenths of a cent) per kWh to 29.65 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 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 (CROD). This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a 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 1,171,204,860 kilowatt-hours totaling \$96,925,188 from SMMPA during the year ended December 31, 2023.

The Utility rents a portion of its electrical transmission system, known as the North Loop, to SMMPA under a non-cancelable agreement 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 revenues of \$36,420 are being recognized ratably over the term of the agreement.

THE ENERGY AUTHORITY

The Electric Utility has an agreement with The Energy Authority and Missouri Basin Municipal Power Agency for the purchase of capacity. The contract is for 26 MW per month for \$3,500 per MW for planning years 2022-2023 through 2031-2032. The total for the ten years of the contract is \$10,920,000.

OPEN CONSTRUCTION CONTRACTS AND OTHER SIGNIFICANT COMMITMENTS

The Utilities have several active projects and agreements as of December 31, 2023. At year end, the Utilities' significant commitments are as follows:

<u>Electric Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Substation Projects	\$7,748,534	\$673,837
Vendor Provided Services	579,924	488,053
<u>Water Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Stock Materials & Chemicals	\$8,145	\$128,471
Vendor Provided Services	59,219	58,782

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 14: Subsequent Events

In October 2023, the Utility Board approved and in December 2023, the City Council approved a 3.2% general retail revenue rate increase, plus an additional \$1.94 per month customer charge increase related to the AMI project in 2024 and a 4.0% general retail revenue increase in 2025 for the Electric Utility. The change is effective January 1, 2024.

In October 2023, the Utility Board approved and in December 2023, the City Council approved a 5.5% general retail revenue increase, plus an additional \$1.32 per month customer charge related to the AMI project in both 2024 and 2025 for the Water Utility. The change is effective January 1, 2024.

On January 30, 2024, the Utility Board approved an expenditure of up to \$902,094 in 2024 and \$1,215,970 in 2025 for budgeted fleet purchases to be purchased through the State of Minnesota cooperative contracts.

On February 20, 2024, the Utility Board approved renewal of the Microsoft Enterprise license for a three-year term through the re-seller, SHI International Corporation, in the amount of \$638,624, plus applicable tax, subject to review and approval of the agreement by the General Manager and City Attorney.

On February 20, 2024, the Utility Board approved the purchase of a 2024 IFB vertical rise truck lift from High Forest Bobcat Service, Inc., in the amount of \$189,813, and authorize the project manager to execute the services up to the approved budget amount.

On February 20, 2024, the Utility Board approved a resolution authorizing a master service agreement and statement of work with Itron, for professional services for the AMI project.

On March 27, 2024, the Utility Board approved a resolution to authorize an agreement with Nickelson Painting, Inc. in the amount of \$132,450 for the painting of GT-1 and approve a 10% contingency funding of \$13,245.

On March 27, 2024, the Utility Board approved a resolution to increase to the amount of the existing purchase order with Veit Construction for Marion Road Duct Bank from \$13,954,839 to \$14,318,133 and increase the approved contingency from \$2,796,890 to \$2,869,550.

On March 27, 2024, the Utility Board approved a resolution to authorize an agreement for a five-year contract for directional boring services with A&A Electric & Underground Const., Inc. The first year is \$997,700, years two to five are subject to the Consumer Price Index (CPI) with a maximum increase of 3% annually.

On March 27, 2024, the Utility Board approved a resolution to authorize the following agreements, subject to final review and approval of the General Manager and City Attorney: Anixter Inc.: Meter Installation Services Statement of Work (SOW), N. Harris Computer Corporation/Cayenta: AMI Integration Services SOW, N. Harris Computer Corporation/SmartWorks: Subscription Services Agreement and SOW, Util-Assist: Systems Integration Services SOW, and Whitlock Consulting Group: AMI and MDM Implementation Support SOW.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through April 26, 2024, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2023

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%
December 31, 2021	\$1,300,148	\$1,300,148	\$ -	\$17,335,302	7.5%
December 31, 2022	\$1,382,631	\$1,382,631	\$ -	\$18,435,086	7.5%
December 31, 2023	\$1,462,601	\$1,462,601	\$ -	\$19,501,353	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%
December 31, 2021	\$171,947	\$171,947	\$ -	\$2,292,624	7.5%
December 31, 2022	\$174,757	\$174,757	\$ -	\$2,330,089	7.5%
December 31, 2023	\$188,162	\$188,162	\$ -	\$2,508,822	7.5%

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

See accompanying *Independent Auditors' Report* and accompanying *Notes 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%
June 30, 2021	0.7838%	\$10,106,060	\$17,408,524	58.05%	87.00%
June 30, 2022	0.7807%	\$19,014,462	\$17,771,414	106.99%	76.67%
June 30, 2023	0.7757%	\$13,142,567	\$19,000,976	69.17%	83.10%

*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%
June 30, 2021	0.7838%	\$1,335,994	\$2,267,310	58.92%	87.00%
June 30, 2022	0.7807%	\$2,400,013	\$2,304,973	104.12%	76.67%
June 30, 2023	0.7757%	\$1,665,588	\$2,387,371	69.77%	83.10%

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2023

NOTE 1: General Employees Fund 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 years as are available until ten fiscal years are presented.

2023 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2022 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There were no changes since the prior valuation.

2021 CHANGES:

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes since the prior valuation.

See accompanying *Independent Auditors' Report*.

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.

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.

See accompanying *Independent Auditors' Report*.

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.

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.

See accompanying *Independent Auditors' Report*.

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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2013</u> <i>(ten years ago)</i>
RETAIL CUSTOMERS:						
Residential	54,402	53,353	53,058	52,531	51,344	45,651
Industrial / Commercial	5,164	5,127	5,120	5,099	5,034	4,727
Other	4	4	4	4	4	4
Total Retail Customers	59,570	58,484	58,182	57,634	56,382	50,382
RETAIL SALES: (mWh)						
Residential	376,656	376,838	381,177	373,658	353,018	348,952
Industrial / Commercial	757,822	738,087	747,692	740,236	807,006	866,292
Other	13,234	11,935	12,545	14,074	14,434	15,442
Total Retail Sales (mWh)	1,147,711	1,126,860	1,141,414	1,127,968	1,174,458	1,230,686
RETAIL REVENUE:						
Residential	\$63,527,467	\$58,727,873	\$56,798,847	\$55,698,487	\$53,611,935	\$42,344,833
Industrial / Commercial	95,386,143	86,789,758	84,814,704	83,472,364	91,871,263	80,904,989
Other	5,594,050	3,921,265	5,105,482	4,804,095	2,456,914	5,614,439
Total Retail Revenue	\$164,507,660	\$149,438,896	\$146,719,033	\$143,974,946	\$147,940,112	\$128,864,261
Steam Sales (MLBs)	406,032	446,334	457,284	498,039	362,699	451,945
Steam Revenues	\$5,383,049	\$7,870,967	\$6,840,976	\$4,811,514	\$3,809,740	\$4,849,550
Annual Peak (Megawatts)	294.8	267.0	270.3	265.3	283.8	278.6
Total mWh Generated	97,415	75,579	99,624	65,866	74,651	75,775
Total mWh Purchased	1,177,207	1,158,886	1,172,624	1,152,434	1,204,808	1,255,701
Year End Restricted/ Unrestricted Cash & Investment Balance	\$130,874,546	\$117,068,142	\$116,987,025	\$104,543,197	\$102,858,897	\$76,101,705

WATER

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2013</u> <i>(ten years ago)</i>
RETAIL CUSTOMERS:						
Residential	37,845	37,620	37,514	37,238	36,860	34,571
Industrial / Commercial	3,846	3,846	3,690	3,631	3,607	3,463
Total Retail Customers	41,691	41,466	41,204	40,869	40,467	38,034
RETAIL SALES: (ccf)						
Residential	3,162,145	2,716,996	3,050,632	2,921,681	2,521,799	2,863,062
Industrial / Commercial	3,152,187	2,870,513	2,872,053	2,672,310	2,808,574	2,797,590
Total Retail Sales (ccf)	6,314,332	5,587,509	5,922,685	5,593,991	5,330,373	5,660,652
RETAIL REVENUE:						
Residential	\$7,433,640	\$6,542,317	\$6,615,552	\$6,433,325	\$5,786,153	\$4,286,290
Industrial / Commercial	4,410,300	3,883,307	3,852,026	3,641,258	3,612,834	2,684,057
Public Fire Protection	616,337	600,677	596,318	590,779	560,258	558,113
Total Retail Revenue	\$12,460,278	\$11,026,301	\$11,063,896	\$10,665,362	\$9,959,245	\$7,528,460
Total Pumped (billion gallons)	5.0	4.4	4.6	4.4	4.3	4.5
Year End Restricted/ Unrestricted Cash & Investment Balance	\$14,773,752	\$14,147,248	\$12,902,983	\$11,975,432	\$10,529,197	\$6,569,559

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Core Services



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Corporate Services



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