



ROCHESTER
PUBLIC UTILITIES
WE PLEDGE, WE DELIVER™



2024 ANNUAL REPORT



TABLE OF CONTENTS

Independent Auditors’ Report..... 3

Required Supplementary Information

 Management’s Discussion & Analysis (unaudited) 6

Financial Statements

 Electric Utility Statement of Net Position 24

 Electric Utility Statement of Revenues, Expenses, and Changes in Net Position..... 25

 Electric Utility Statement of Cash Flows 26

 Water Utility Statement of Net Position..... 27

 Water Utility Statement of Revenues, Expenses, and Changes in Net Position 28

 Water Utility Statement of Cash Flows 29

 Notes to Financial Statements..... 30

Required Supplementary Information - Public Employees Retirement Association of Minnesota

 Schedules of Employer Contributions (unaudited)..... 53

 Schedules of Proportionate Share of Net Pension Liability (unaudited)..... 54

 Notes to the Required Supplementary Information (unaudited) 55

Operating and Financial Statistics (unaudited)..... 59

RPU Leadership & Contact Information..... 60

Cover Photos (left to right; top to bottom):

- RPU’s Todd Osweiler talks to visitors inside a wellhouse at the 2024 Drinking Water Week Apache Water Tower and Wellhouse Open House
- RPU linemen working on a powerline
- Marion Substation project
- RPU’s Marketing & Energy Services team after being awarded the Smart Energy Provider designation from the American Public Power Association

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 accompanying financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Rochester Public Utilities as of December 31, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 (*Government Auditing Standards*). 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 Matter

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, 2024, and the changes in financial position, or, where applicable, 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.

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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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 4, 2025 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 4, 2025

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, 2024, with a comparative analysis to the year ended December 31, 2023. 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.

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 \$7.7 million (4.7%) from 2023. Kilowatt-hour sales decreased 14.4 million kWh (1.3%). An increase to the general rate of 3.2%, plus a \$1.94 customer charge increase, effective January 1, 2024 was a contributing factor to the improvement of revenue. Wholesale power cost increases or decreases are also passed through to customers through the Power Cost Adjustment (PCA). Wholesale power costs increased \$1.6 million (1.6%) in 2024, contributing to the increase in revenue, as well as expense. The annual system peak demand of 290.5 megawatts was set in August which is lower than the peak demand of 294.8 megawatts in 2023. The all-time system peak demand of 294.8 megawatts occurred in 2023.
- Water retail revenues of \$12.9 million reflect a 3.3% increase from 2023. Sales volume of 5.8 million ccf (hundred cubic feet) for 2024 represents a decrease of 549,000 ccf (8.7%) from 2023. The decrease in sales volume was combined with a general rate increase of 5.5%, plus a \$1.32 customer charge increase, effective January 1, 2024.
- 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 2025, an increase of 4.0% was approved for the Electric Utility, and an increase of 5.5%, plus a \$1.32 customer charge increase approved for the Water Utility. The customer charge increase for the Water Utility is the second year of a two-year increase 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 2024. However, effective in 2024, SMMPA decreased the base rate of power used in the calculation of their energy cost adjustment (ECA). This, along with other market factors, resulted in an increase to purchased power expense of \$3.8M. This increase was partially offset by a decrease in the amount of power purchased from SMMPA due to a decrease in retail kWh sales. Purchased power costs from SMMPA and the Midcontinent Independent System Operator (MISO) market represented 64.1% of electric operating expenses for 2024.
- The water distribution system consists of 625 miles of water main infrastructure. As the water system continues to age, one of RPU's primary goals is to maintain its level of service in a cost-effective way through strategic water main replacement projects. In 2024, RPU completed important infrastructure rehabilitation projects in conjunction with the Rochester Public Works Department, replacing 4,300 feet of water main within nine project segments. A total of 15,600 feet of new water main was added to the water distribution system in 2024. Capital improvement planning work is underway to increase the water main replacement rate based on a developing asset management program. To accomplish this, RPU has adopted a risk-based approach to assess and manage water main assets and prioritize their replacement.

See accompanying *Independent Auditors' Report*.

- In July 2019, the RPU Board voted unanimously to pursue meeting 100% of the City's energy needs from renewable sources by 2030. The resource plan includes the procurement of enough wind and solar energy to equal Rochester's annual energy consumption. In the most recent resource plan update provided to the RPU Board in August 2024, RPU's management working with consultants from 1898 & Co. (a subsidiary of Burns & McDonnell) recommended providing capacity through a combination of a firm dispatchable resource and batteries.
- 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. The substation and RPU feeders were energized in 2024. The duct system will be completed in 2025.
- 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 Meter Data Management (MDM) systems, meters, meter installation services, business system integration, and data lake implementation. 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.
- RPU surpassed the aggressive DSM goal for 2024 of 17,384 megawatt-hours in energy savings. Actual energy savings of 17,726 megawatt-hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represented an estimated 17,726 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 4.0 million gallons of water. This was an increase of 0.6 million gallons from 2023, and approximately 114.2% of the 2024 goal of 3.5 million gallons.

See accompanying *Independent Auditors' Report*.

- 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, approved by the Board in October 2023, was substantially completed in 2024, with some commissioning work scheduled to be completed by March 2025. The new system improves remote monitoring, simplifies startup and shutdown, and enhances load control based on Minnesota Department of Natural Resources required water flows or RPU-desired power output.
- In December 2024, RPU and a large customer executed an addendum to the existing steam supply agreement from the Silver Lake Plant. Since 2015, when the Silver Lake Plant ceased electrical generation capability, the facility has used natural gas to supply steam to the customer through a long-term steam supply agreement. The addendum to the steam supply agreement terminates the agreement on December 31, 2027, unless the customer asks to extend the agreement by either 6 or 12 months before December 31, 2026. The execution of the amendment led to a write down of assets at the Silver Lake Plant in 2024 to reflect the termination of steam supply.

See accompanying *Independent Auditors' Report*.

FINANCIAL ANALYSIS – ELECTRIC UTILITY

Condensed Financial Information – Electric Utility

December 31, 2024 and 2023

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2024	2023	Change 2024 vs. 2023
Operating Revenues	\$192.8	\$188.0	\$4.8
Operating Expenses	157.5	155.9	1.6
Operating Income	35.3	32.1	3.2
Other Income & Expense	6.1	6.2	(0.1)
Interest Charges	(5.2)	(5.3)	0.1
Nonoperating Income (Expense)	0.9	0.9	(0.0)
Income Before Transfers and Capital Contributions	36.2	33.0	3.2
Transfers Out (In Lieu of Tax Payments)	(10.9)	(9.6)	(1.3)
Capital Transfer to Water	-	(0.2)	0.2
Capital Contributions	11.6	7.3	4.3
Income Before Special Item	36.9	30.5	6.4
Special Item	(1.3)	-	(1.3)
Change in Net Position	35.6	30.5	5.1
Net Position - Beginning of Year	275.3	244.8	30.5
Net Position - End of Year	\$310.9	\$275.3	\$35.6

Statements of Net Position

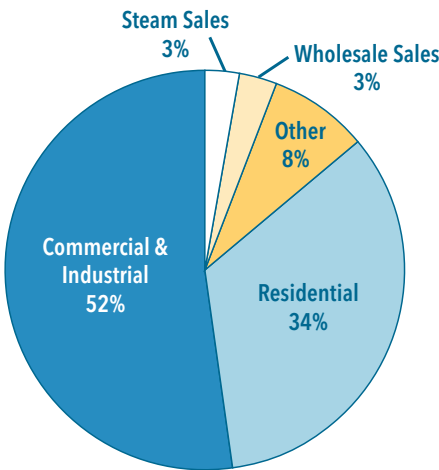
	2024	2023	Change 2024 vs. 2023
Cash and Investments – Unrestricted	\$130.4	\$117.1	\$13.3
Cash and Investments – Restricted	1.1	1.1	-
Other Current Assets	35.2	46.3	(11.1)
Capital Assets, Net	310.9	296.0	14.9
Other Noncurrent Assets	30.2	23.6	6.6
Total Assets	507.8	484.1	23.7
Deferred Outflows of Resources	3.0	4.8	(1.8)
Total Assets and Deferred Outflows of Resources	\$510.8	\$488.9	\$21.9
Current Liabilities	\$32.1	\$33.3	\$(1.2)
Long-Term Debt	140.5	149.7	(9.2)
Other Noncurrent Liabilities	12.5	16.3	(3.8)
Total Liabilities	185.1	199.3	(14.2)
Deferred Inflows of Resources	14.8	14.3	0.5
Investment in Capital Assets	174.7	152.4	22.3
Restricted – Debt Service	0.7	0.6	0.1
Unrestricted	135.5	122.3	13.2
Net Position	310.9	275.3	35.6
Total Liabilities, Deferred Inflows of Resources and Net Position	\$510.8	\$488.9	\$21.9

See accompanying Independent Auditors' Report.

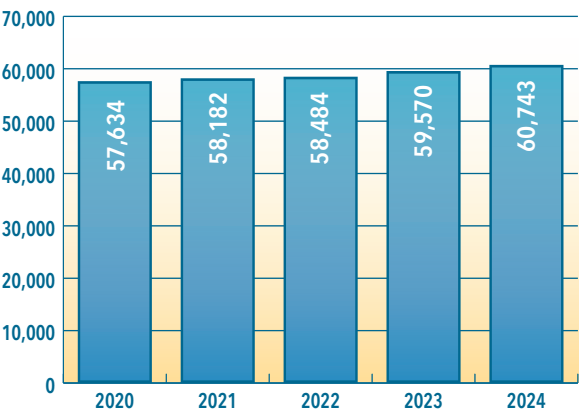
OPERATING REVENUES

Operating revenues increased by \$4.8 million (2.6%) in 2024. Retail revenues increased \$7.7 million (4.7%) due to a 3.2% rate increase, plus a \$1.94 customer charge increase, effective January 1, 2024. Also contributing to the higher revenues was an increase in the PCA due to higher wholesale power costs. Wholesale and steam revenues decreased \$2.4 million (18.3%). Generation from Cascade Creek and Westside Energy Station was offered into the wholesale energy markets. Westside generation for 2024 was down 23.3% from 2023, while Cascade Creek generation was down 25.1% from 2023. Despite the larger overall decrease in wholesale revenue, margin was only down 9.5% from 2023 due to favorable market conditions. Steam revenues are directly correlated with fuel costs, which averaged 29.6% lower than 2023. Other operating revenues decreased \$0.6 million from 2023.

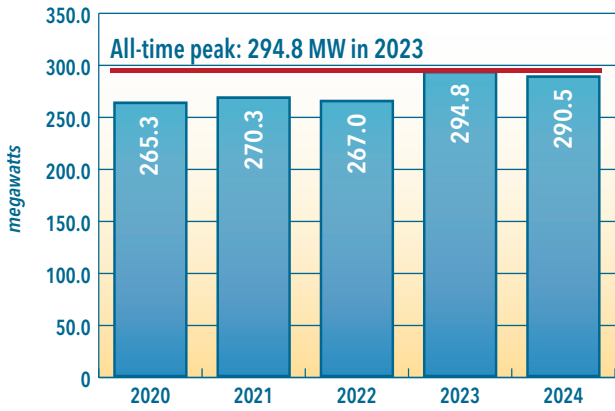
Electric Operating Revenues



Number of Electric Customers

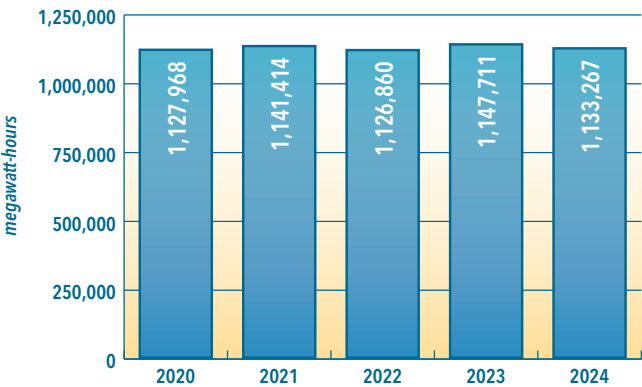


Electric System Peaks

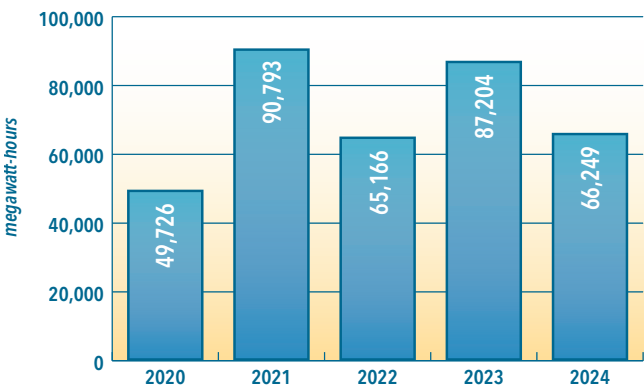


See accompanying *Independent Auditors' Report*.

Electric Retail Sales



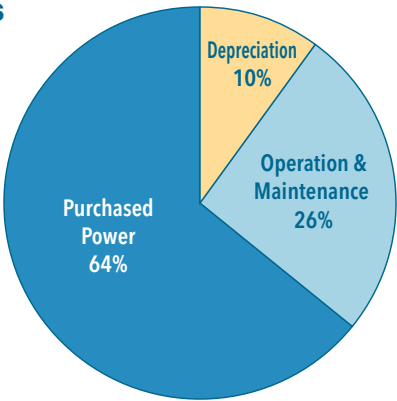
Electric Wholesale Sales



OPERATING EXPENSES

Operating expenses increased \$1.6 million (1.0%) in 2024, due in large part to an increase in purchased power of \$1.6 million along with increases of \$1.0 million in salaries and benefits and \$2.7 million in materials and supplies. These increases were offset by reductions in generation fuel of \$1.7 million and deferred costs associated with the employee pension plan of \$1.5 million. The primary driver of operating expenses for the Electric Utility continues to be power purchased from SMPA and the MISO market, which comprised 64.1% 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 \$10.9 million and \$9.6 million in 2024 and 2023, respectively. The increase in the in lieu of tax amount was due to an increase in the in lieu of tax rate, offset partially by a decrease in kilowatt-hour sales.

CAPITAL CONTRIBUTIONS

Capital contributions increased by \$4.3 million in 2024 when compared to 2023. One large project, started in 2020, continued in 2024 that included reimbursement from other parties.

See accompanying *Independent Auditors’ Report*.

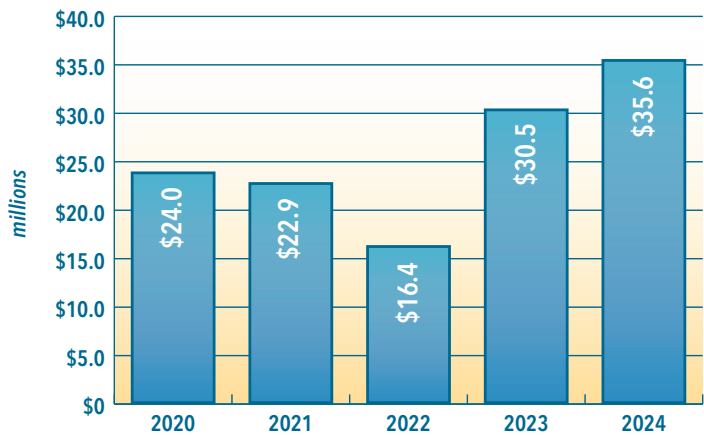
SPECIAL ITEMS

A special item of \$1.3 million was recorded in 2024 to reflect the asset impairment of steam-related assets resulting from a decision made to end a contract to provide steam to a large customer in 2027, three years earlier than the original agreement.

CHANGE IN NET POSITION

The Change in Net Position for 2024 was \$35.6 million. This represents an increase of \$5.1 million from 2023, which posted a Change in Net Position of \$30.5 million. Several factors contributed to this increase. Retail revenues increased \$7.7 million from 2023, offset by a \$1.6 million increase in purchased power. Wholesale and steam revenues decreased by \$2.4 million, while generation fuel realized a decrease of \$1.7 million in annual expense from 2023. Salaries and benefits experienced an increase of \$1.0 million, offset by a decrease in deferred costs associated with the employee pension plan of \$1.5 million. Materials and supplies increased by \$2.7 million and other operating revenues decreased by \$0.6 million, along with an increase in the in lieu of tax expense of \$1.3 million and an asset impairment expense of \$1.3 million. These were offset by an increase in capital contributions of \$4.3 million.

Electric Change in Net Position

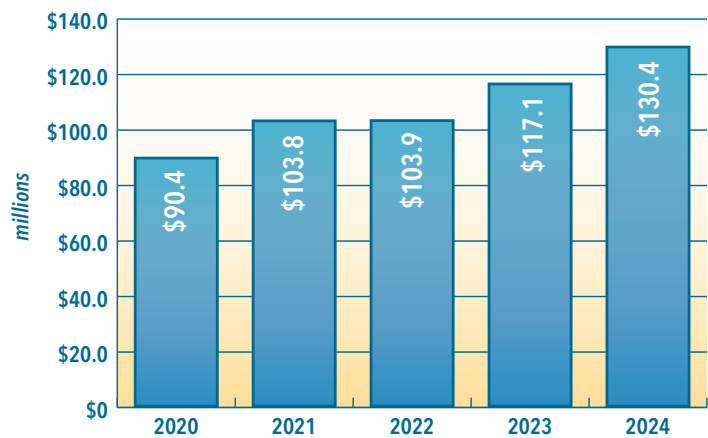


CASH, INVESTMENTS AND OTHER ASSETS

The ending current unrestricted cash and investments balance for 2024 was \$130.4 million, which represents an increase of \$13.3 million over 2023. The ending current restricted cash and investments balance remained unchanged from 2023 with a balance of \$1.1 million at year end. This amount represents funds restricted for debt service payments. Other current assets for 2024 were \$35.2 million, which reflects a reduction of \$11.1 million from 2023. The majority of this reduction was due to the recording of an inventory allowance of \$2.6 million to account for obsolete inventory, and the reclassification to noncurrent assets of a \$7.1 million receivable for a long-term capacity sale. Other noncurrent assets for 2024 were \$30.2 million, an increase of \$6.6 million from 2023.

See accompanying *Independent Auditors' Report*.

Electric Unrestricted Cash & Investments



LIABILITIES

Current liabilities for 2024 finished the year at \$32.1 million, a decrease of \$1.2 million from 2023. Amounts due to the City was the leading contributor to this change, decreasing \$2.2 million from 2023. Accounts payable and accrued compensation and absences reflected increases of \$0.2 million and \$0.4 million, respectively.

Noncurrent liabilities posted a decrease of \$3.8 million in 2024. This change was driven primarily by a \$4.5 million decrease in the Utility’s proportionate share of the liability from the Public Employees Retirement Association of Minnesota (PERA), offset by the recording of liabilities related to subscription-based information technology arrangements of \$1.1 million.

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 2024, net position invested in capital assets increased \$22.3 million compared to 2023.

Restricted net position increased by \$0.1 million. This represents funds restricted for payment of debt service.

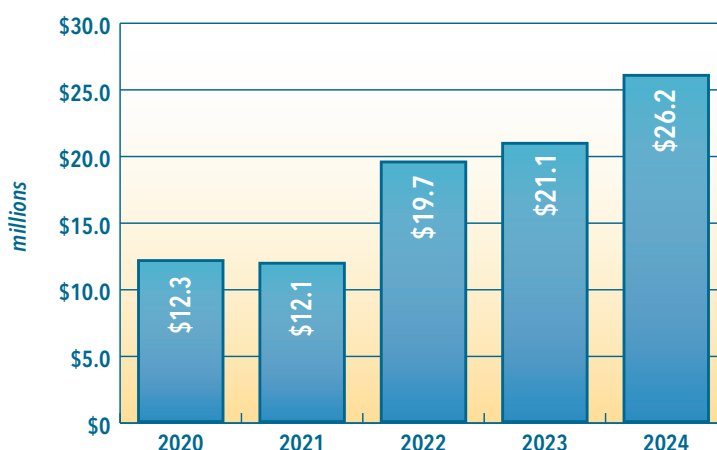
Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2024, unrestricted net position increased \$13.2 million due to the results of operations.

See accompanying Independent Auditors’ Report.

CAPITAL ASSETS

As of December 31, 2024, the Electric Utility has \$310.9 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 \$31.5 million in 2024, reflecting investments in general facilities and the distribution and transmission systems. The increase in capital assets was offset by a \$16.6 million increase in accumulated depreciation and amortization. Additional details regarding the Utilities' total assets (Electric and Water) may be found in Note 6 to the financial statements. Capital expenditures increased by \$5.1 million in 2024. Significant capital projects for 2024 included a substation and feeder buildout along with construction of a duct bank to the downtown area, Resource Plan development and information technology hardware replacement.

Electric Capital Expenditures



LONG-TERM DEBT

As of December 31, 2024, the Electric Utility had \$139.6 million in revenue bonds outstanding, of which \$131.6 million is classified as long-term. In addition, the balance of bond premiums, net of discount at December 31, 2024 was \$8.9 million, resulting in a total long-term debt of \$140.5 million. No new debt was issued, and \$7.7 million was retired in 2024.

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 7 to the financial statements.

See accompanying *Independent Auditors' Report*.

FINANCIAL ANALYSIS – WATER UTILITY

Condensed Financial Information – Water Utility

December 31, 2024 and 2023

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2024	2023	Change 2024 vs. 2023
Operating Revenues	\$15.0	\$14.6	\$0.4
Operating Expenses	11.8	12.1	(0.3)
<i>Operating Income</i>	3.2	2.5	0.7
Other Income & Expense	0.9	0.7	0.2
Nonoperating Income	0.9	0.7	0.2
<i>Income Before Transfers and Capital Contributions</i>	4.1	3.2	0.9
Transfers Out (In Lieu Of Tax Payments)	(0.5)	(0.5)	-
Capital Transfers in from Electric	-	0.2	(0.2)
Capital Contributions	2.5	3.0	(0.5)
<i>Change in Net Position</i>	6.1	5.9	0.2
Net Position - Beginning of Year	125.9	120.0	5.9
Net Position - End of Year	\$132.0	\$125.9	\$6.1

Statements of Net Position

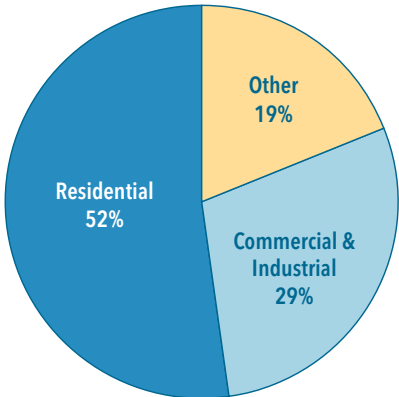
	2024	2023	Change 2024 vs. 2023
Cash and Investments	\$15.5	\$14.8	\$0.7
Other Current Assets	2.2	2.3	(0.1)
Capital Assets, Net	117.0	112.2	4.8
Lease Receivable Noncurrent	17.8	19.3	(1.5)
<i>Total Assets</i>	152.5	148.6	3.9
Deferred Outflows of Resources	0.2	0.4	(0.2)
<i>Total Assets and Deferred Outflows of Resources</i>	\$152.7	\$149.0	\$3.7
Current Liabilities	\$1.7	\$1.6	\$0.1
Noncurrent Liabilities	1.1	1.8	(0.7)
<i>Total Liabilities</i>	2.8	3.4	(0.6)
Deferred Inflows of Resources	17.9	19.7	(1.8)
Investment in Capital Assets	117.0	112.2	4.8
Unrestricted	15.0	13.7	1.3
<i>Net Position</i>	132.0	125.9	6.1
<i>Total Liabilities, Deferred Inflows of Resources and Net Position</i>	\$152.7	\$149.0	\$3.7

See accompanying *Independent Auditors' Report*.

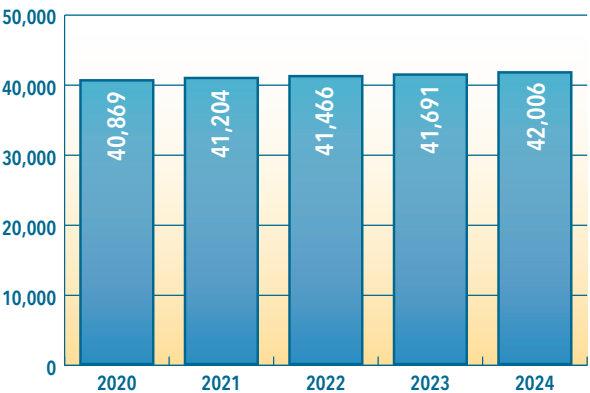
OPERATING REVENUES

Operating revenues increased by \$0.4 million (2.7%) in 2024. The main driver of this increase was total retail revenues, which increased \$0.4 million (3.3%) over 2023 due to a general rate increase of 5.5%, plus a \$1.32 customer charge increase, effective January 1, 2024. Other operating revenues remained virtually unchanged from 2023.

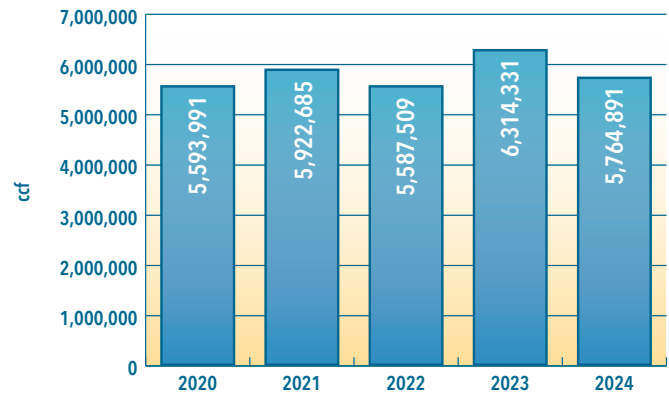
Water Operating Revenues



Number of Water Customers



Water Retail Sales

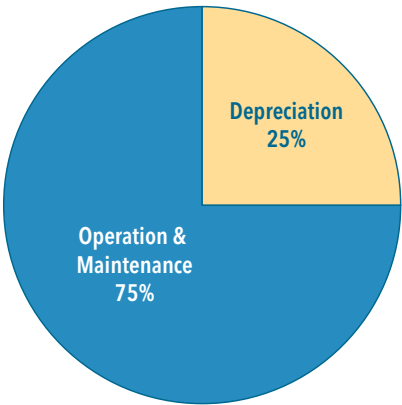


See accompanying *Independent Auditors' Report*.

OPERATING EXPENSES

Operating expenses decreased by \$0.3 million (2.5%) in 2024 when compared to 2023.

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 2024, \$469,000 was transferred to the City. This was a decrease of \$22,000 from 2023 due to a decrease in ccf sales volume, partially offset by an increase in the in lieu of tax rate.

CAPITAL CONTRIBUTIONS

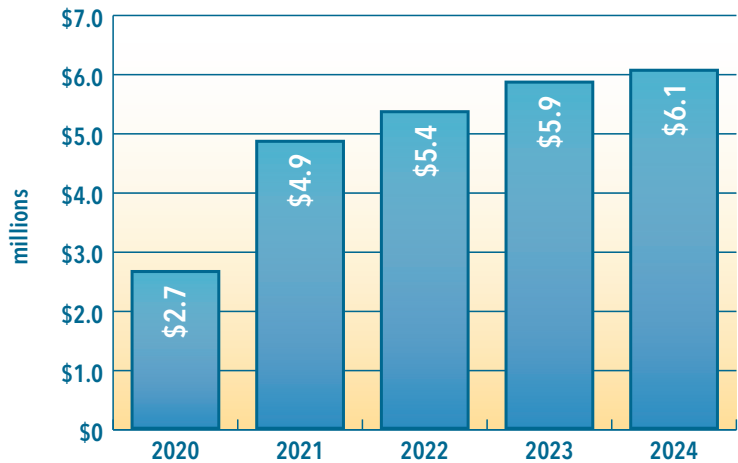
Capital Contributions decreased \$0.5 million in 2024. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from developers and are valued using a costing database that estimates their approximate construction costs. These also include amounts received 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 2024.

See accompanying *Independent Auditors’ Report*.

CHANGE IN NET POSITION

The Change in Net Position for 2024 was \$6.1 million, an increase of \$0.2 million over the prior year. The primary driver of this positive change in net position was an increase in total retail revenue of \$0.4 million, along with a decrease in salaries and benefits of \$0.5 million. This was offset by decreases in capital contributions of \$0.5 million and in capital transfers from the Electric Utility of \$0.2 million.

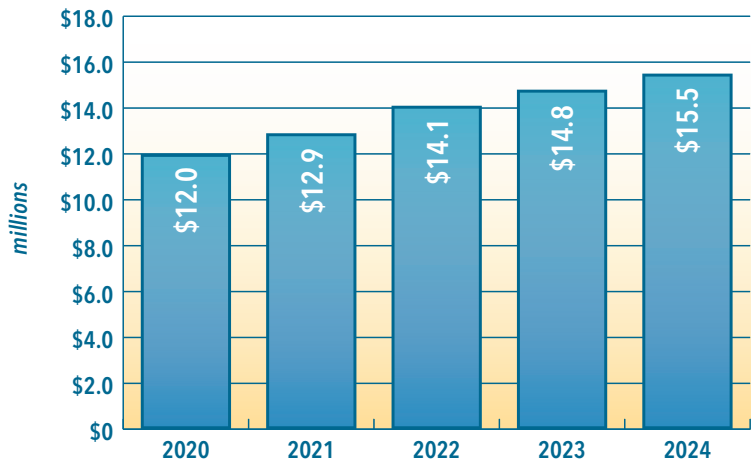
Water Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending unrestricted cash and investments balance for 2024 was \$15.5 million, an increase of \$0.7 million over 2023. Lease receivable noncurrent for 2024 was \$17.8 million, a decrease of \$1.5 million from 2023. This represents amounts receivable for future lease payments on cellular antenna space rentals on water towers. The reduction is due to the termination of a long-term lease in 2024. Additional details regarding the Utilities’ leases (Electric and Water) may be found in Note 12 to the financial statements.

Water Unrestricted Cash & Investments



See accompanying *Independent Auditors’ Report*.

LIABILITIES

Current liabilities increased \$0.1 million in 2024.

Noncurrent liabilities posted a decrease of \$0.7 million in 2024. This change was driven primarily by a decrease in the Utility’s proportionate share of the liability from PERA.

NET POSITION

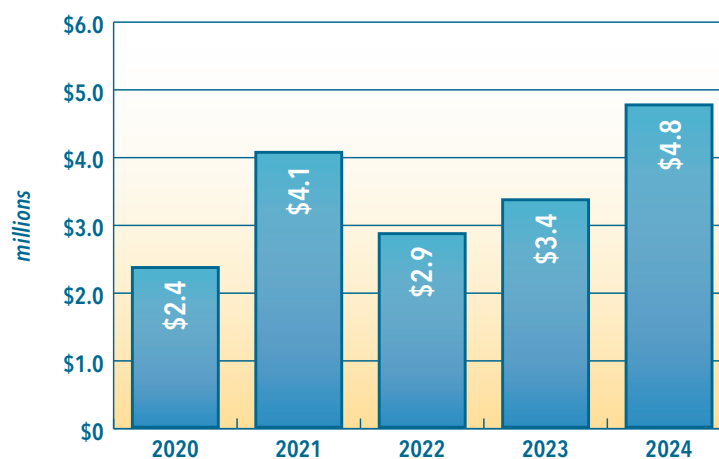
Net position invested in capital assets increased \$4.8 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers as well as contributed assets.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2024, unrestricted net position increased \$1.3 million due to the results of operations.

CAPITAL ASSETS

As of December 31, 2024, the Water Utility had \$117.0 million invested in a broad range of capital assets. The investment in capital assets includes 20 water storage facilities, 32 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$7.6 million in 2024, 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 \$2.8 million increase in accumulated depreciation. Additional details regarding the Utilities’ total assets (Electric and Water) may be found in Note 6 to the financial statements. Capital expenditures increased \$1.4 million in 2024. Some of the major expenditure components in 2024 were Destination Medical Center (DMC) projects, Advanced Metering Infrastructure (AMI), 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 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 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>
2025	3.0%*	4.0%	5.5%***
2024	2.9%	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%
Annualized Average	4.6%	2.2%	3.7%

*Estimated Yearly Values

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

***Plus AMI Customer Charge of \$1.32 for 2024 and 2025

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 experienced a decline in growth in 2024, with 199 building permits totaling \$75.2 million issued for single-family homes and townhomes. This compares to 240 permits totaling \$90.3 million in 2023. Commercial building permits for 2024 saw a substantial increase in construction valuations, with 26 permits issued totaling \$162.9 million, compared to the same number of permits (26) totaling \$65.8 million in 2023. The 2024 commercial total includes one permit for a factory/industrial construction project totaling \$74.1 million, roughly 45.5% of the commercial total.

According to the US Department of Labor Bureau of Labor Statistics, the December 2024 preliminary unemployment rate of 2.1% for the area remains below the state and national rates of 2.6% and 4.1%, respectively. The employment data shows that, on average, employment for the area was up approximately 3.6% from the previous year.

See accompanying *Independent Auditors' Report*.

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 (DMCC), an oversight body, and the DMC Economic Development Agency (EDA), a private nonprofit agency that contracts with the DMC Corporation Board to act as its staff, working with the City of Rochester and other stakeholders to develop and execute the DMC 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 \$186 million in state funding through 2023. Through December 31, 2024, the City of Rochester and Olmsted County have incurred actual costs of \$72.3 million and \$22.5 million, respectively. DMCC has highlighted the completion of several projects in 2024, including Discovery Walk - a four-block linear parkway along 2nd Avenue in downtown Rochester connecting Soldiers Field to Annenberg Plaza near Mayo Clinic; and Soldiers Field Memorial Park - this project 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. Additional projects are in process or have recently been approved by the DMC Corporation Board. These projects include:

- 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.

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 in October and December 2023 increases for 2025 of 4.0% for the Electric Utility, and 5.5%, plus a \$1.32 customer charge, for the Water Utility.

RPU 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, 2024

	2024
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$26,712,979
Investments	103,670,345
Accounts Receivable, Net and Accrued Utility Revenues	24,057,198
Inventories	8,794,682
Other Current Assets	2,314,957
Restricted Assets:	
Cash and Cash Equivalents	1,140,572
Total Current Assets	166,690,733
Noncurrent Assets:	
Restricted Assets:	
Investments	12,466,506
Funds-Held in Trust	48
Capital Assets:	
Construction Work in Progress	41,574,397
Land and Land Rights	12,373,693
Depreciable Assets, Net	256,989,347
Net Capital Assets	310,937,437
Other Noncurrent Assets	17,751,649
Total Noncurrent Assets	341,155,640
Total Assets	507,846,373
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Bond Refunding	1,229,611
Pension Deferred Outflows of Resources	1,722,431
Total Deferred Outflows of Resources	2,952,042
Total Assets and Deferred Outflows of Resources	\$510,798,415
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$14,317,153
Due to the Municipality	3,047,516
Accrued Compensated Absences	2,331,318
Accrued Compensation	1,154,041
Customer Deposits	2,480,283
Current Liabilities Payable from Restricted Assets	
Interest Payable	473,489
Current Maturities of Long-Term Debt	8,005,000
Other Current Liabilities	285,348
Total Current Liabilities	32,094,148
Noncurrent Liabilities:	
Accrued Compensated Absences	1,496,195
Pre-1968 Pensions Liability	6,000
Net Pension Liability	8,655,220
Unearned Revenues	1,268,569
Long-Term Debt	140,524,639
Other Noncurrent Liabilities	1,061,916
Total Noncurrent Liabilities	153,012,539
Total Liabilities	185,106,687
DEFERRED INFLOWS OF RESOURCES:	
Deferred Revenue	8,700,400
Pension Related	5,812,182
Solar Choice	231,292
Total Deferred Inflows of Resources	14,743,874
NET POSITION:	
Net Investment in Capital Assets	174,761,871
Restricted	
Debt Service	667,083
Funds-Held in Trust	48
Unrestricted	135,518,852
Total Net Position	310,947,854
Total Liabilities, Deferred Inflows of Resources and Net Position	\$510,798,415

See accompanying Notes to Financial Statements.

Electric Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2024

	2024
Operating Revenues:	
Retail	\$172,251,291
Wholesale	5,846,645
Other	14,710,913
Total Operating Revenues	192,808,849
Operating Expenses:	
Purchased Power	100,981,660
Operations and Maintenance	40,267,928
Depreciation and Amortization	16,285,096
Total Operating Expenses	157,534,684
Operating Income	35,274,165
Nonoperating Income (Expenses):	
Investment Income (Loss)	6,436,570
Interest Expense and Amortization	(5,186,567)
Amortization of Regulatory Assets	(93,825)
Miscellaneous, Net	(241,699)
Total Nonoperating Income	914,479
Income Before Transfers and Capital Contributions	36,188,644
Transfers Out	(10,868,028)
Capital Transfer to Water	(25,698)
Capital Contributions	11,587,435
Special Items	(1,277,239)
Change in Net Position	35,605,114
Net Position, Beginning of Year	275,342,740
Net Position, End of Year	\$310,947,854

See accompanying *Notes to Financial Statements*.

Electric Utility Statement of Cash Flows

For the Year Ended December 31, 2024

	2024
Cash Flows From Operating Activities:	
Cash Received from Customers	\$187,936,831
Cash Paid to Suppliers	(118,936,968)
Cash Paid to Employees	(22,717,120)
Internal Activity - Payments From Other Funds	6,924,934
Service Territory Acquisition	(165,562)
Net Cash Provided By Operating Activities	53,042,115
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	(10,764,283)
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(32,748,065)
Capital Contributions Received	11,357,634
Principal Payments on Bonds and SBITAs	(8,188,302)
Interest Payments on Bonds and SBITAs	(6,019,766)
Net Cash Used In Capital and Related Financing Activities	(35,598,499)
Cash Flows From Investing Activities:	
Interest Received	5,112,870
Investment Purchases	(630,083)
Net Cash Provided By Investing Activities	4,482,787
Net Increase in Cash and Cash Equivalents	11,162,120
Cash and Cash Equivalents, Beginning of Year	16,691,431
Cash and Cash Equivalents, End of Year	27,853,551
Classified As:	
Current Nonrestricted Assets	26,712,979
Restricted Assets	1,140,572
Cash and Cash Equivalents, End of Year	\$27,853,551

	2024
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$35,274,165
Adjustments to Reconcile Operating Income to	
Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	16,285,096
Bad Debts	256,714
Service Territory Payments	(165,562)
Miscellaneous Expense	
Decrease (Increase) In:	
Accounts Receivable and Accrued Utility Revenues	994,912
Inventories	2,532,170
Other Current Assets	(96,468)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	(284,491)
Customer Deposits	(73,635)
Deferred Revenues	(32,665)
Unearned Revenues	(325,857)
Pension Deferred Outflow/Inflow	(1,280,459)
Solar Choice Deferred Inflow	(46,258)
Lease Deferred Inflow/Receivable	4,453
Net Cash Provided by Operating Activities	\$53,042,115
Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By Others	\$229,800
Amortization of Bond Premiums, Discounts, and Refunding	(929,614)
Amortization of Bond Issue Costs	93,825
Unrealized Gain on Investments	1,323,700
Steam Capital Asset Impairment	1,277,239
SBITA additions	2,023,101

See accompanying *Notes to Financial Statements*.

Water Utility

Statement of Net Position

As of December 31, 2024

	2024
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$3,179,489
Investments	12,339,271
Accounts Receivable, Net and Accrued Utility Revenues	1,827,023
Inventories	250,825
Other Current Assets	161,336
Total Current Assets	17,757,944
Noncurrent Assets:	
Capital Assets:	
Construction Work in Progress	12,247,243
Land and Land Rights	742,667
Depreciable Assets, Net	103,972,231
Net Capital Assets	116,962,141
Lease Receivable Noncurrent	17,749,879
Total Noncurrent Assets	134,712,020
Total Assets	152,469,964
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Deferred Outflows of Resources	199,329
Total Assets and Deferred Outflows of Resources	\$152,669,293
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$569,477
Due to the Municipality	513,879
Accrued Compensated Absences	284,760
Accrued Compensation	145,054
Customer Deposits	160,893
Total Current Liabilities	1,674,063
Noncurrent Liabilities:	
Accrued Compensated Absences	112,390
Net Pension Liability	1,003,559
Total Noncurrent Liabilities	1,115,949
Total Liabilities	2,790,012
DEFERRED INFLOWS OF RESOURCES:	
Pension Related	713,244
Lease Related	17,153,004
Total Deferred Inflows of Resources	17,866,248
NET POSITION:	
Net Investment in Capital Assets	116,962,141
Unrestricted	15,050,892
Total Net Position	132,013,033
Total Liabilities, Deferred Inflows of Resources and Net Position	\$152,669,293

See accompanying *Notes to Financial Statements*.

Water Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2024

	2024
Operating Revenues:	
Retail	\$12,874,266
Other	2,121,874
Total Operating Revenues	14,996,140
Operating Expenses:	
Operations and Maintenance	8,824,767
Depreciation	2,975,543
Total Operating Expenses	11,800,310
Operating Income	3,195,830
Nonoperating Income (Expenses):	
Investment Income	863,506
Interest Expense	(3,693)
Miscellaneous, Net	(7,383)
Total Nonoperating Income	852,430
Income Before Transfers and Capital Contributions	4,048,260
Transfers Out	(468,801)
Capital Transfer In from Electric	25,698
Capital Contributions	2,461,249
Change in Net Position	6,066,406
Net Position, Beginning of Year	125,946,627
Net Position, End of Year	\$132,013,033

See accompanying *Notes to Financial Statements*.

Water Utility

Statement of Cash Flows

For the Year Ended December 31, 2024

	2024
Cash Flows From Operating Activities:	
Cash Received from Customers	\$14,241,712
Cash Paid to Suppliers	(5,482,500)
Cash Paid to Employees	(2,595,963)
Internal Activity - Payments From Other Funds	283,100
Net Cash Provided By Operating Activities	6,446,349
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	(466,047)
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(6,244,707)
Capital Contributions Received	149,599
Net Cash Used In Capital and Related Financing Activities	(6,095,108)
Cash Flows From Investing Activities:	
Interest Received	859,814
Investment Purchases	473,448
Net Cash Provided By Investing Activities	1,333,262
Net Increase in Cash and Cash Equivalents	1,218,456
Cash and Cash Equivalents, Beginning of Year	1,961,033
Cash and Cash Equivalents, End of Year	\$3,179,489

	2024
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$3,195,830
Adjustments to Reconcile Operating Income to	
Net Cash Provided by (Used in) Operating Activities:	
Depreciation	2,975,543
Bad Debts	12,000
Decrease (Increase) In:	
Accounts Receivable and Accrued Utility Revenues	(57,447)
Inventories	88,137
Prepaid and Other Current Assets	23,807
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	850,386
Customer Deposits	52,216
Pension Deferred Outflow/Inflow	(280,242)
Lease Deferred Inflow/Receivable	(413,881)
Net Cash Provided by Operating Activities	\$6,446,349

Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By:	
City's Governmental Funds	\$1,627
Developers	\$2,335,721

See accompanying *Notes to Financial Statements*.

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2024

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.

In June 2022, the GASB issued Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized in financial statements prepared using the economic resources measurement focus for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This standard was implemented January 1, 2024. The prior year impact of the standard was not considered material to the financial statements, therefore the beginning net position was not adjusted for the change.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2023 financial data contained in the Notes to conform to the 2024 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 2024 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 \$380,000 for the Electric Utility and \$30,000 for the Water Utility for December 31, 2024.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are \$3,930,317 for the Electric Utility and \$177,363 for the Water Utility for the year ended December 31, 2024.

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.

The Utilities provides an allowance for materials and supplies that may be obsolete. Inventories have been reduced by an Inventory Allowance of \$2,643,346 for the Electric Utility and \$53,845 for the Water Utility for December 31, 2024.

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 13 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, in addition to a Receivable related to a long-term capacity sale. Refer to Note 11 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 2024 follows:

	<u>Balance 01/01/24</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/24</u>
Other Accounts Receivable	\$ -	\$7,098,000	\$ -	\$7,098,000
Bond issue costs	2,723,710	-	-	2,723,710
Less: Amortization of bond issue costs	1,766,451	93,825	-	1,860,276
Nonoperating Other Assets	957,259			863,434
Regulatory asset-Service territory payments	17,999,244	162,452	-	18,161,696
Less: Amortization of Regulatory asset	7,914,049	457,432	-	8,371,481
Operating Other Assets	10,085,195			9,790,215
Net Other Assets	<u>\$11,042,454</u>			<u>\$17,751,649</u>

The Water Utility Other Assets – Noncurrent includes Lease Receivable. Refer to Note 12 for additional information on Leases.

A summary of changes in water other assets for 2024 follows:

	<u>Balance 01/01/24</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/24</u>
Lease Receivable Noncurrent	<u>\$19,308,016</u>	\$24,603	\$1,582,740	<u>\$17,749,879</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, 2024 is \$1,229,611.

See Note 9 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 2024, \$229,800 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2024, \$785,880 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, 2024, customers have paid the Electric Utility \$482,689 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, 2024 was \$191,915.

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, 2024, deferred remained at \$231,292.

At the end of 2024, the Electric Utility had additional deferred amounts of \$8,508,485, consisting of the unamortized portion of a long-term capacity sale, along with advanced payments which included the unamortized portion of short-term capacity sales.

See Note 9 for additional information regarding pension deferred outflows (inflows) of resources.

See Note 12 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, 2024.

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 342,025 megawatt-hours (mWh) of use, which is 30.2% of the total retail mWh sales in 2024. These users also represent \$49,072,117 or 25.5% of the total 2024 operating revenues. The top four users of RPU account for approximately 249,057 mWh of use, which is 22.0% of the total retail mWh sales in 2024 and represents \$37,966,882 or 19.7% of the total 2024 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 1,200,468 hundred cubic feet (ccf) of use, which is 20.8% of the total ccf sales in 2024. These users also represent \$1,506,576 or 10.0% of the total 2024 operating revenues. The top four users of RPU account for approximately 920,081 ccf of use, which is 16.0% of the total ccf sales in 2024 and represents \$1,189,368 or 7.9% of the total 2024 operating revenues.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statements No. 102, *Certain Risk Disclosures*, No. 103, *Financial Reporting Module Improvements* and No. 104, *Disclosure of Certain Capital Assets*. When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2: Special Item

In December 2024, the Public Utilities Board passed a resolution to execute Contract Amendment Number Two of the Steam Sales Agreement between the City of Rochester and a large customer. This amendment states that the term of the agreement will be modified to expire on December 31, 2027 and that this may be extended once by the customer to either June 30, 2028 or December 31, 2028, with notice on or before December 31, 2026. An impairment loss of \$1,277,239 has been reported as a special item in 2024 which represents the estimated undepreciated book value of impaired capital assets at the anticipated expiration date of December 31, 2027.

NOTE 3: 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 2024 Annual Comprehensive Financial Report.

NOTE 4: Due to the Municipality

The following is a schedule of balances as of December 31, 2024:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2024 Amount</u>
Municipality	Electric	General operating	\$179,851
Municipality	Electric	Payments in lieu of tax	911,891
Municipality	Electric	Sewer and Stormwater revenue	3,555,008
Total Electric Due To Municipality			4,646,750
Electric	Municipality	Sewer and Stormwater billing fees	153,593
Electric	Municipality	Utility bills	454,145
Electric	Municipality	Utility bill collections	19,427
Electric	Municipality	General operating	6,133
Electric	Municipality	Interest on investments	965,936
Total Electric Due From Municipality			1,599,234
Electric Net Due to Municipality			\$3,047,516
Municipality	Water	General operating	\$19,988
Municipality	Water	Water construction projects	343,940
Municipality	Water	Watermain replacement	135,417
Municipality	Water	Payments in lieu of tax	32,934
Total Water Due To Municipality			532,279
Water	Municipality	Utility bills	18,278
Water	Municipality	General operating	122
Total Water Due From Municipality			18,400
Water Net Due to Municipality			\$513,879

The following is a schedule of transfer balances for the year ending December 31, 2024:

	<u>Transfer From</u>	<u>Transfer To</u>	<u>Principal Purpose</u>	<u>2024 Amount</u>
Electric:	Electric	Municipality	Tax Equivalents	\$10,868,028
	Electric	Water	Transfer Out-Capital Contributions	25,698
Water:	Water	Municipality	Tax Equivalents	\$468,801
	Electric	Water	Transfer In-Capital Contributions	25,698

NOTE 5: 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:

2024

Current Assets

Debt Service Account

\$1,140,572

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

Noncurrent Assets

Reserve Account

\$12,466,506

Proceeds deposited to be used to pay principal and interest payments on long-term debt.

NOTE 6: Changes in Capital Assets

ELECTRIC

A summary of changes in electric capital assets for 2024 follows:

	<u>Balance 01/01/24</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/24</u>
Capital assets, not being depreciated:				
Construction in progress	\$39,897,803	\$23,484,048	\$21,807,454	\$41,574,397
Land and land rights	11,351,222	1,367,414	344,943	12,373,693
Total capital assets, not being depreciated	51,249,025	24,851,462	22,152,397	53,948,090
Capital assets, being depreciated:				
Buildings, structures and improvements	70,705,152	4,008,432	-	74,713,584
Installations, equipment and fixtures	461,585,710	23,643,641	593,838	484,635,513
Intangible assets-SBITAs	1,081,716	2,023,101	287,631	2,817,186
Total capital assets, being depreciated	533,372,578	29,675,174	881,469	562,166,283
Less: Accumulated depreciation	288,213,959	16,570,571	361,875	304,422,655
Less: Amortization-SBITAs	441,231	534,332	221,282	754,281
Depreciable Assets, Net	244,717,388			256,989,347
Net Capital Assets	\$295,966,413			\$310,937,437

In 2024, noncash capital assets totaling \$229,800 were contributed to the Electric Utility by others. Cash contributions in aid of construction were \$11,357,635. Accumulated depreciation as of December 31, 2024 includes an impairment loss reserve of \$1,277,239 as described in Note 2.

WATER

A summary of changes in water capital assets for 2024 follows:

	<u>Balance 01/01/24</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/24</u>
Capital assets, not being depreciated:				
Construction in progress	\$11,920,993	\$6,344,632	\$6,018,382	\$12,247,243
Land and land rights	742,667	-	-	742,667
Total capital assets, not being depreciated	12,663,660	6,344,632	6,018,382	12,989,910
Capital assets, being depreciated:				
Buildings, structures and improvements	19,962,825	772,969	-	20,735,794
Installations, equipment and fixtures	144,671,772	6,626,785	139,006	151,159,551
Total capital assets, being depreciated	164,634,597	7,399,754	139,006	171,895,345
Less: Accumulated depreciation	65,057,343	2,975,542	109,771	67,923,114
Depreciable Assets, Net	99,577,254			103,972,231
Net Capital Assets	\$112,240,914			\$116,962,141

In 2024, noncash capital assets totaling \$1,627 were contributed to the Water Utility by other funds of the City of Rochester, and others contributed \$2,335,721 to the Utility. Cash contributions in aid of construction were \$149,599.

NOTE 7: Long-Term Obligations

ELECTRIC

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/24
02/10/21	Revenue Bond Series 2021A-Advance refund the 2013B issue	12/1/43	1.375-2.30%	\$37,170,000	\$32,030,000
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	87,175,000
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	20,410,000

Revenue bond debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$8,005,000	\$5,681,868	\$13,686,868
2026	8,305,000	5,386,368	13,691,368
2027	8,625,000	5,062,768	13,687,768
2028	8,980,000	4,708,967	13,688,967
2029	9,350,000	4,339,667	13,689,667
2030-2034	26,850,000	17,590,367	44,440,367
2035-2039	25,330,000	13,074,725	38,404,725
2040-2044	28,815,000	7,546,890	36,361,890
2045-2047	15,355,000	1,560,500	16,915,500
	<u>\$139,615,000</u>	<u>\$64,952,120</u>	<u>\$204,567,120</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 2024 was \$13,696,068, which consisted of scheduled principal and interest payments. Total gross revenues as defined for the same period were \$199,245,419. Annual principal and interest payments are expected to require 4.5% of gross revenues on average.

All of the Utility's outstanding revenue bonds contain a provision that upon the occurrence and continuation of an event of default, the bond owners' trustee, or if there is none, the owners of 25.0% 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, 2024 is as follows:

	<u>01/01/24 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/24 Balance</u>	<u>Due Within One Year</u>
Long-term debt	\$147,345,000	\$ -	\$7,730,000	\$139,615,000	\$8,005,000
Bond discount/premium	10,033,005	-	1,118,366	8,914,639	-
Accrued Compensated Absences	3,809,079	306,651	288,217	3,827,513	2,331,318
Pre-1968 Pension Liability	6,000	-	-	6,000	-
Net Pension Liability	13,142,567	-	4,487,347	8,655,220	-
Unearned Revenue	1,594,428	-	325,859	1,268,569	-
SBITA	189,688	1,314,701	162,346	1,342,043	280,127
Totals	<u>\$176,119,767</u>	<u>\$1,621,352</u>	<u>\$14,112,135</u>	<u>\$163,628,984</u>	<u>\$10,616,445</u>

LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the year ended December 31, 2024 is as follows:

	<u>01/01/24 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/24 Balance</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$430,596	\$13,440	\$46,886	\$397,150	\$284,760
Net Pension Liability	1,665,588	-	662,029	1,003,559	-
Totals	<u>\$2,096,184</u>	<u>\$13,440</u>	<u>\$708,915</u>	<u>\$1,400,709</u>	<u>\$284,760</u>

INTEREST EXPENSE – ELECTRIC

	2024
Bond interest expense	\$5,942,384
Bond premium, discount & refunding amortization	(929,614)
Other interest expense	120,098
Interest expense Subscription-Based Information Technology Arrangements	53,699
Total	\$5,186,567

NOTE 8: 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 9: 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). The plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by 0.25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

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 1.0% and a maximum of 1.5%. The 2024 annual increase was 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 prorated increase.

C. Contributions

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

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2024 and the Utilities were required to contribute 7.5% for General Plan members. The Utilities’ contributions to the General Employees Fund for the year ended December 31, 2024, were \$1,533,881 and \$177,851 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, 2024, the Electric Utility reported a liability of \$8,655,220, and the Water Utility reported a liability of \$1,003,559 as each utility’s allocated share of the City of Rochester’s proportionate share of \$28,918,633 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 \$747,777.

City of Rochester’s proportionate share of the net pension liability	\$28,918,633
State of Minnesota’s proportionate share of the net pension liability associated with the City of Rochester	747,777
Total	<u>\$29,666,410</u>

The net pension liability was measured as of June 30, 2024 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, 2023, through June 30, 2024, relative to the total employer contributions received from all PERA’s participating employers. The City’s proportionate share was 0.7822% at the end of the measurement period and 0.7757% for the beginning of the period.

For the year ended December 31, 2024, the Electric Utility and Water Utility recognized pension expense of \$465,540 and \$53,979, respectively, as allocated shares of the City of Rochester’s General Employees Plan’s pension expense. In addition, the City recognized an additional \$14,357 as pension revenue (and grant expense) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not

considered to meet the definition of a special funding situation. The City of Rochester recognized \$1,330,525 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At December 31, 2024, 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	\$815,977	\$ -
Changes in actuarial assumptions	43,334	3,285,155
Net collective difference between projected and actual investment earnings	-	2,456,858
Changes in proportion	82,015	70,169
Contributions paid to PERA subsequent to the measurement date	781,105	-
Total	<u>\$1,722,431</u>	<u>\$5,812,182</u>

The \$781,105 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, 2025. 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
2025	\$(2,737,191)
2026	(436,074)
2027	(1,034,220)
2028	(663,371)
Total	<u>\$(4,870,856)</u>

At December 31, 2024, 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	\$97,513	\$ -
Changes in actuarial assumptions	5,469	406,805
Net collective difference between projected and actual investment earnings	-	297,553
Changes in proportion	9,509	8,886
Contributions paid to PERA subsequent to the measurement date	86,838	-
Total	<u>\$199,329</u>	<u>\$713,244</u>

The \$86,838 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, 2025. 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
2025	\$(352,782)
2026	(48,064)
2027	(122,990)
2028	(76,917)
Total	<hr/> \$(600,753)

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	<hr/> 100.0%	

F. Actuarial Methods and Assumptions

The total pension liability for the cost-sharing defined benefit plan was determined by an actuarial valuation as of June 30, 2024, using the 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%. The 7.0% 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 considered reasonable by the actuary. An investment return of 7.0% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.25% 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 General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2024 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:	\$18,904,393	\$8,655,220	\$224,340
Water Utility’s allocated share of the General Employees Fund net pension liability:	\$2,191,934	\$1,003,559	\$26,012

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, 2024 was \$28,367.

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 10: 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 \$400,000 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 2024 Annual Comprehensive Financial Report.

NOTE 11: 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 12: 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. Upon expiration of the pole attachment agreements, the Electric Utility includes one autorenewal term of one year as the lease term and recognizes the agreements as short-term leases. During 2024, the Electric Utility recognized total lease-related revenues of \$316,836 related to the pole attachment agreements which were not considered short-term leases, of which \$316,836 and \$0 were classified as lease revenues and interest, respectively. The Electric Utility also recognized short-term lease revenues of \$104,989 during the year ended December 31, 2024. During 2024, the Electric Utility recognized revenues of \$13,303 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 2024, the Water Utility recognized total lease-related revenues of \$1,751,297 related to the antenna placement agreements, of which \$1,297,100 and \$454,197 were classified as lease revenues and interest, respectively. The Water Utility also recognized short-term lease revenues of \$14,205 during the year ended December 31, 2024.

The lease contracts may include other payments, such as termination penalties, that are not included in the lease receivable. During 2024, the Water Utility recognized revenues of \$69,751 related to a termination penalty payment that was 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, 2024, the Water Utility included \$880,992 and \$17,749,879 for the current and noncurrent portions of the lease receivables in accounts receivable, net and accrued utility revenues and other noncurrent assets, respectively.

NOTE 13: 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 12). 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 SBITA term any potential autorenewal terms as provided for in the SBITA since the non-cancelable period of any autorenewal term would be less than one year.

During 2024, the Electric Utility recognized amortization expense and interest expense of \$534,332 and \$53,699, respectively, related to SBITA agreements. During 2024, the Utilities recognized short-term expense of \$112,714 related to SBITA agreements with respect to payments that were not included in the measurement of the SBITA right-to-use assets and liabilities. The cost and accumulated amortization of the assets under the Electric Utility's SBITAs included in capital assets totaled \$2,817,186 and \$754,282, respectively, as of December 31, 2024. The Electric Utility's SBITA obligation included in current liabilities and noncurrent liabilities totaled \$280,127 and \$1,061,916, respectively, as of December 31, 2024.

The Electric Utility has entered into six SBITAs for software and related licenses prior to December 31, 2024, whereby the subscription term has not yet commenced as of the year ended December 31, 2024. The initial terms of the SBITAs are between approximately one to five years, with an estimated commencement of each SBITA during 2025 and future years. Certain of the SBITAs also include an autorenewal option for the Electric Utility to extend the term for a period of one year each. The total estimated subscription payment amounts for the terms of the SBITAs (excluding autorenewal option periods that are not reasonably certain to be exercised) are approximately \$6,232,998. Additionally, the total estimated implementation costs for the SBITAs are approximately \$1,850,329. The Electric Utility will measure and record the SBITAs according to GASB Statement No. 96 at the date of SBITA commencement.

NOTE 14: 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 16.23 mills (tenths of a cent) per kWh to 30.21 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 1,159,041,494 kilowatt-hours totaling \$98,900,205 from SMMPA during the year ended December 31, 2024.

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, 2024. 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	\$15,007,487	\$4,082,667
AMI-Professional Services	615,826	789,613
 <u>Water Projects</u>	 <u>Spent-to-Date</u>	 <u>Remaining Commitment</u>
AMI meters	\$214,551	\$4,006,750
Watermain Reconstruction	1,080,543	58,565
Vendor Provided Services	240,518	175,406
Professional Services	40,308	80,292

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 15: Subsequent Events

On January 21, 2025, the Utility Board approved and in February 2025, the City Council approved a supplement to the 2025 Water Utility budget to include acceptance of a Minnesota Public Facilities Authority (MPFA) grant for Lead Service Line Replacement. Contingent upon receiving the MPFA grant, the Board approved a multi-year (2025-2028) project of up to \$26.7M and the related operating budget costs and associated access fee to the property owner for indirect costs not covered by the grant for improvements to customer owned property. This fee is expected to be \$500 per residence or less, based on what expenses are reimbursed through the grant for indirect costs of the program. The Utility Board also approved Master Grant Agreement and Project Order document with the State of Minnesota, acting through its Chair of the Public Facilities Authority, for implementation of the Lead Service Line Replacement Program, subject to final review and approval by the General Manager and City Attorney, and authorize the RPU Director of Water to perform the acts to execute the 2025 Lead Service Line Replacement project within the approved budget.

On January 21, 2025, the Utility Board approved authorization of the Rochester Public Utilities General Manager to approve bilateral sales agreements for the sale of excess generation capacity as measured in Zonal Resource Credits (ZRC) for MISO planning years PY25/26 (June 1, 2025 to May 31, 2026) and PY26/27 (June 1, 2026 to May 31, 2027).

On February 18, 2025, the Utility Board approved a proposal with Utility Data Contractors Inc (UDC) in the amount of \$267,221 to migrate RPU's electric data to the Utility Network, and authorize the RPU Project Manager to perform the acts to execute the project.

On March 25, 2025, the Utility Board approved the designation of all per- and polyfluoroalkyls (PFAS) funds received by the Water Utility through settlement or judgment award to a Special Capital Reserve, to be used for the purpose of monitoring or mitigating PFAS elements.

On March 25, 2025, the Utility Board approved reimbursement resolutions of up to \$6.0 million for the AMI project in the Water Utility and \$457.8 million for construction projects related to the Power Supply Resource Plan in the Electric Utility. This allows RPU to seek reimbursement for project related expenditures from a future bond issuance.

On March 25, 2025, the Utility Board approved authorizing management to enter into a Memorandum of Understanding defining cost reimbursements and project responsibilities with the Mayo Clinic to support the Bold. Forward. Unbound. Initiative, subject to final review and approval of the General Manager and City Attorney.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through April 4, 2025, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2024

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%
December 31, 2024	\$1,547,978	\$1,547,978	\$ -	\$20,639,703	7.5%

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%
December 31, 2024	\$176,079	\$176,079	\$ -	\$2,347,717	7.5%

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%
June 30, 2024	0.7822%	\$8,655,220	\$20,155,509	42.94%	89.08%

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%
June 30, 2024	0.7822%	\$1,003,559	\$2,439,612	41.14%	89.08%

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, 2024

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.

2024 CHANGES:

Changes in Actuarial Assumptions:

The following changes in assumptions are effective with the July 1, 2024 valuation, as recommended in the most recent experience study (dated June 29, 2023):

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

Changes in Plan Provisions:

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

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.

See accompanying *Independent Auditors' Report*.

- 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.

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.

See accompanying *Independent Auditors' Report*.

- 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.

2018 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90.0% funding ratio to 50.0% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

See accompanying *Independent Auditors' Report*.

2017 CHANGES:

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions:

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

See accompanying *Independent Auditors' Report*.

OPERATING AND FINANCIAL STATISTICS

(unaudited)

ELECTRIC

	2024	2023	2022	2021	2020	2014 (ten years ago)
RETAIL CUSTOMERS:						
Residential	55,533	54,402	53,353	53,058	52,531	46,035
Industrial / Commercial	5,206	5,164	5,127	5,120	5,099	4,761
Other	4	4	4	4	4	4
Total Retail Customers	60,743	59,570	58,484	58,182	57,634	50,800
RETAIL SALES: (mWh)						
Residential	369,451	376,656	376,838	381,177	373,658	341,452
Industrial / Commercial	751,554	757,822	738,087	747,692	740,236	849,657
Other	12,262	13,234	11,935	12,545	14,074	15,252
Total Retail Sales (mWh)	1,133,267	1,147,711	1,126,860	1,141,414	1,127,968	1,206,361
RETAIL REVENUE:						
Residential	\$66,161,624	\$63,527,467	\$58,727,873	\$56,798,847	\$55,698,487	\$42,818,865
Industrial / Commercial	99,866,866	95,386,143	86,789,758	84,814,704	83,472,364	82,011,839
Other	6,222,801	5,594,050	3,921,265	5,105,482	4,804,095	5,617,574
Total Retail Revenue	\$172,251,291	\$164,507,660	\$149,438,896	\$146,719,033	\$143,974,946	\$130,448,277
Steam Sales (MLBs)	399,132	406,032	446,334	457,284	498,039	424,402
Steam Revenues	\$4,734,711	\$5,383,049	\$7,870,967	\$6,840,976	\$4,811,514	\$6,743,606
Annual Peak (Megawatts)	290.5	294.8	267.0	270.3	265.3	258.7
Total mWh Generated	76,586	97,415	75,579	99,624	65,866	20,770
Total mWh Purchased	1,163,055	1,177,207	1,158,886	1,172,624	1,152,434	1,237,135
Year End Restricted/ Unrestricted Cash & Investment Balance	\$143,990,450	\$130,874,546	\$117,068,142	\$116,987,025	\$104,543,197	\$60,598,749

WATER

	2024	2023	2022	2021	2020	2014 (ten years ago)
RETAIL CUSTOMERS:						
Residential	38,093	37,845	37,620	37,514	37,238	34,871
Industrial / Commercial	3,913	3,846	3,846	3,690	3,631	3,459
Total Retail Customers	42,006	41,691	41,466	41,204	40,869	38,330
RETAIL SALES: (ccf)						
Residential	2,762,853	3,162,145	2,716,996	3,050,632	2,921,681	2,792,307
Industrial / Commercial	3,002,038	3,152,187	2,870,513	2,872,053	2,672,310	2,689,861
Total Retail Sales (ccf)	5,764,891	6,314,332	5,587,509	5,922,685	5,593,991	5,482,168
RETAIL REVENUE:						
Residential	\$7,742,865	\$7,433,640	\$6,542,317	\$6,615,552	\$6,433,325	\$4,283,619
Industrial / Commercial	4,475,283	4,410,300	3,883,307	3,852,026	3,641,258	2,647,654
Public Fire Protection	656,118	616,337	600,677	596,318	590,779	571,535
Total Retail Revenue	\$12,874,266	\$12,460,278	\$11,026,301	\$11,063,896	\$10,665,362	\$7,502,808
Total Pumped (billion gallons)	4.5	5.0	4.4	4.6	4.4	4.4
Year End Restricted/ Unrestricted Cash & Investment Balance	\$15,518,760	\$14,773,752	\$14,147,248	\$12,902,983	\$11,975,432	\$5,747,264

LEADERSHIP



Tim McCollough
General Manager



Scott Nickels
Director of
Power Delivery



Peter Hogan
Director of
Corporate Services



Patty Hanson
Director of
Customer Relations



Bill Bullock
Director of
Power Resources



Todd Blomstrom
Director of
Water

UTILITY BOARD



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



Malachi McNeilus
Board Vice President
Vice President of
Operations
– Sterling State Bank



Patrick Keane
**Board Member &
City Council Liaison**
City Council Member
Ward 1
– City of Rochester



**Brett Gorden,
P.E., M.B.A**
Board Member
Division Chair – Facilities
& Support Services
– Mayo Clinic



Brian Morgan, P.E.
Board Member
Senior Engineer
– Short Elliott
Hendrickson, Inc.

ADVISORS AND CONSULTANTS

Baker Tilly US, LLP • Independent Auditors
Kennedy & Graven • Bond Counsel
Baker Tilly Municipal Advisors, LLP • Financial Advisors

UTILITY HEADQUARTERS

Rochester Public Utilities • 4000 East River Road NE • Rochester, MN 55906-2813
800-778-3421 • 507-280-1500 • www.rpu.org



4000 East River Road NE
Rochester, MN 55906-2813
800-778-3421 • 507-280-1500
www.rpu.org