

community



rochester public utilities
2005 annual report

2005 letter from management

Growth rates in the Rochester community were again strong this past year. We saw growth in both our electric and water customer base. Our electric customers increased by 2.3% and water customers increased by 3.0%. The electric peak demand for the year was 263 megawatts (MW) on August 9, while the water peak pumpage occurred on July 15 at

29,849,000 gallons. As the community continues to grow, we must keep two ideals in mind: first, that taking care of our customers is paramount, and second, that we must constantly evolve in order to continue providing the quality service and products that customers have come to expect from Rochester Public Utilities (RPU).

In 2005, we continued our dedication to meeting and exceeding the needs of our growing community. In order to exceed the needs of our customers, we implemented a new organizational structure to “change the way we do business.” This organizational structure better provides all of our employees with the support and feedback needed to be successful in their jobs. By reorganizing the utility with this focus, we are able to function more efficiently and effectively, providing our customers with the best service today and into the future.

With our focus continually aimed at the future, we are pleased to confirm that RPU will be moving forward with our future-driven infrastructure plan in 2006. This plan was conceived in 2003 and approved by the Utility Board in the summer of 2005. This infrastructure plan is designed to meet electric system needs for the next 25 years and to give direction to budget and capital decisions in the near term. The three phases of the plan included: 1) analyzing current resources to meet the electric service demand of the community to 2030, 2) assessing renewable energy options and conservation programs to reduce the reliance on traditional energy resources, and 3) identifying the total capital expenditures needed for the plan. In response to the plan's findings, we proudly announce that we are increasing our commitment

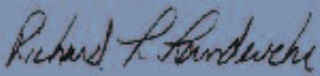
to conservation and demand-side initiatives in the coming year and have planned significant investment in an Air Quality Control System, targeted for completion by 2009 at the Silver Lake Plant (SLP).

On another front, we are pleased with the recently completed steam line project that is a direct result of a strong public/private business partnership with Mayo Clinic. The underground steam line, running from the Silver Lake Plant to Mayo Clinic's Prospect Plant, was completed in the fall of 2005. Mayo's primary use for the steam generated by SLP will be to offset other higher cost fuels for the heating needs of the Mayo Clinic campus. Mayo Clinic estimates that this project will bring energy savings of up to \$3 million per year.

As hard as we try, there will always be circumstances that are out of our control yet help dictate how we do business. We in Minnesota and other electric providers throughout the country are experiencing significant upward pressure on electric rates. In April, our wholesale energy provider, Southern Minnesota Municipal Power Agency (SMMPA), entered a new energy market – The Midwest Independent System Operators (MISO) market. This is an open access market for utility members to buy and sell energy. After entering the MISO market we saw higher energy costs and higher coal and gas prices. This was partly due to Hurricane Katrina, which has and will continue to put upward pressure on energy rates. As we face the future, we appreciate the dedication of RPU employees in their constant focus to perform at a high level and with integrity during this very volatile period.

We look forward to the opportunities the future holds for RPU and the people of Rochester.

Sincerely,



Richard Landwehr
Board President



Larry Koshire
General Manager



2005 annual report

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linking with the community



paul and beverly olander

After living in their California-style home in southwest Rochester for 30 years, Paul and Beverly Olander had gotten to know their home very well. They noticed that their home wasn't as energy efficient as it once was and wanted help generating options to improve its efficiency.

Faced with potential rising fuel and energy costs, Paul and Beverly acted on their concerns and made a proactive decision to sign up for an energy audit with RPU. The energy audit provided the Olanders with an analysis clearly illustrating where their house wasn't efficiently sealed and suggesting how they could change their usage habits to save energy and money.



region advance to the state competition, where two winners are chosen to participate at the national level. By partnering with the Rochester Regional Science Fair and educators like Roger Larsen, RPU can help students push their limits and explore science. With this opportunity comes the hope that new technologies and innovations may one day surface to benefit RPU, our customers, and the environment.

the gables

The Gables is an extended treatment facility for chemically dependent women. The facility, located near downtown Rochester, resides in a 10,000 square foot English Tudor mansion built in 1912.

the guests at the facility. June acted on multiple suggestions, including purchasing new appliances and completing a retrofit lighting project to change many of the indoor and outdoor bulbs to compact fluorescent light bulbs (CFLs). While June enjoys the benefits of the CFLs and lower energy bills, it is the service provided and Stephanie's personal dedication that made her experience with RPU so thoroughly enjoyable.

"We were comfortable with Stephanie and look forward to her continued guidance."

– June Fiksdal Davis, Owner of the Gables



roger larsen

Earth Science teacher Roger Larsen has played an active role in the Rochester Regional Science Fair for the past twelve years. As a science educator and Rochester resident, Roger Larsen has a unique perspective on energy and water concerns in the community. He holds discussions with his students regarding water quality testing, environmental issues affecting the local Zumbro Valley Watershed, and the possibility of alternative energy sources. These discussions are often applied to exhibits entered in the annual Rochester Regional Science Fair.

RPU has worked with Roger and the Rochester Regional Science Fair for the past eight years to provide judges and funding for the event. Two students from the Rochester

June Fiksdal Davis and her husband have owned the Gables since 1982. They became concerned that the aging building wasn't energy efficient and knew it was costing them money. When their facility manager learned of their concerns, he mentioned to June that he'd heard RPU had the people and resources to help local businesses become more energy efficient. June used this tip and called Stephanie Yrjo, RPU Commercial Account Representative, to schedule a walk-through audit of the Gables.

Stephanie offered many suggestions for improving their energy efficiency and explained how these could benefit June and





a community of environmental stewardship



We are constantly evaluating how we can make a positive impact on the environment. In 2005, we spent \$1.3 million on energy conservation, load management, and renewable energy programs for the year.

Renewable energy is quickly becoming a more popular solution to end or reduce our generation's reliance on fossil fuels. Unlike fossil fuels, energy harnessed from natural resources, such as the sun and wind, will always be available and inexhaustible. We're committed to continuing our work to build greater awareness of renewable energy usage to help our customers take advantage of our renewable energy offerings.

wind power

An alternative to burning fossil fuels for electric energy is right in front of our nose-or blowing past it, at least. Wind power is renewable and emission-free.

The wind power that RPU offers is generated by wind turbines in southwest Minnesota and is available to customers for a premium of \$.01 per kilowatt-hour. In 2005, RPU customers purchased a total of 4,621 megawatt-hours (MWh) of wind power. That's enough to power approximately 5,000 homes for a month!

solarchoice

The SolarChoice program was launched in 2005 to promote the use of photovoltaic (solar powered) renewable energy. At the end of 2005, 65 RPU customers were signed up as Solar Purchasers. Customers choosing to become Solar Purchasers make monthly contributions to support photovoltaic energy. The contributions from the Solar Purchasers are used as incentive payments offered to Solar Producers.



Customers who choose to become Solar Producers sign an agreement with RPU and install a photovoltaic (PV) system at their home, enabling them to convert sunlight into electricity. The Solar Producers' incentive payment is determined as a direct percentage of the amount of energy they produce in relation to all producers.



hess

While we will continue to look at existing ways to take advantage of renewable resources for energy, we're also exploring new, cutting-edge methods that would utilize other natural resources for energy. For example, we teamed up with the University of Minnesota Rochester for the Hybrid Energy System Study (HESS). The project moved into its second phase in October.



HESS, a two year project based at the Quarry Hill Nature Center, is designed to study and help determine the effects of combining a fuel cell and a geothermal heating system. The geothermal heating system will take advantage of the natural byproduct of the fuel cell (hot water) and will introduce this to the geothermal loop system. The study may produce a less pollutant and more efficient heating and cooling system, eventually lessening the need for fossil fuel energy.

conserve & save

Through our Conserve & Save program we are able to educate and work with our customers on energy conservation. The program offers rebates to both residential and commercial customers who purchase qualifying ENERGY STAR® products. These products include energy-efficient appliances, equipment, and lighting.

CONSERVE & \$AVE

Conserve & Save, along with our other energy conservation programs, yielded savings of 7,693,788 kWh in 2005.



project green fleet

Project Green Fleet represents an extension of our efforts to encourage the use of renewable energy and promote energy conservation.



MINNESOTA > ENVIRONMENTAL < INITIATIVE

Project Green Fleet is a partnership between businesses and government agencies to help reduce pollution emitted by mobile sources, primarily diesel school buses. The funding collected by Project Green Fleet is allocated to local bus companies to install pollution-control equipment on school buses. According to Project Green Fleet, installing diesel retrofit equipment on a school bus can reduce certain outdoor air pollutants generated from the bus by 40 percent to 90 percent, and also dramatically reduce the level of pollution inside the bus.

We contributed \$25,000 in 2005 and have planned to contribute an additional \$25,000 in 2006 to help reduce bus emissions in Rochester. Project Green Fleet is managed by Clean Air Minnesota and is a part of the Minnesota Environmental Initiative.

water quality report

The water RPU supplies to Rochester is drawn from 32 deep groundwater wells located throughout the city. The primary source of the groundwater is the Jordan aquifer. RPU has created the 3-phase Wellhead Protection Plan to protect this aquifer.

In 2005, we began phase 2 of the plan. This phase involves the identification and inventory of possible contamination sources in the area. Once these possible sources are noted, we can begin to develop strategies for reducing the likelihood of contaminants impacting our water supply. We expect to finish the Wellhead Protection Plan within the next year.

water quality testing

Drinking water quality testing is conducted by RPU and the Minnesota Department of Health on a regular basis. More than 1,500 tests were conducted during 2005, including: physical and chemical properties, microbiological quality, treatment chemical constituent concentrations, and various potential inorganic and organic contaminants. The drinking water quality for the city of Rochester remained excellent in 2005.

Steve Johnson, a Lead Water Distribution Worker, flushes a Rochester fire hydrant. Regular flushing of the fire hydrants in Rochester cleans out the natural iron that settles in the water mains and clears out stagnant water from the system.



Trees are Terrific...



and Energy Wise!

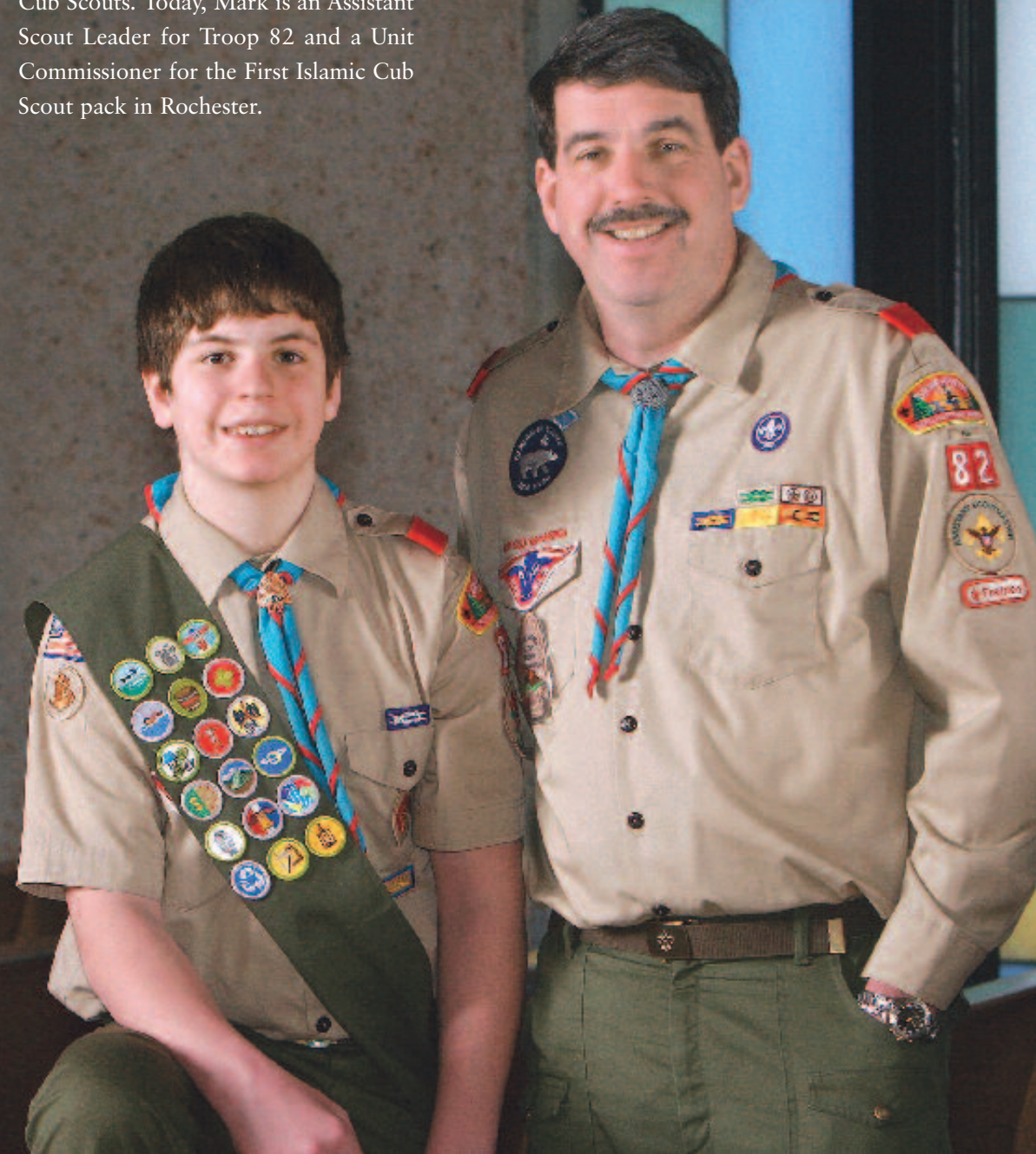
involved in the community



RPU values and encourages employee involvement in the community. Mark Larson, a lineman with RPU for twelve years, is an active Boy Scout volunteer. Mark first got involved with scouting ten years ago when his sons began as Cub Scouts. Today, Mark is an Assistant Scout Leader for Troop 82 and a Unit Commissioner for the First Islamic Cub Scout pack in Rochester.

"I've been involved with Boy Scouts because of the opportunities it presents for the boys and what it teaches them about life."

– Mark Larson
RPU lineman and
Boy Scout volunteer



community involvement facts and figures

- 119 pints of blood were donated by employees during blood drives held at RPU during 2005. All of the blood collected is used locally by Mayo Clinic within Olmsted County.
- Over 364 meals were distributed across Rochester by our employees (pictured below) over their lunch hour for Meals on Wheels.
- Our electrical safety demonstrations reached out to 1,049 school-age children in Rochester public and private schools.
- During our annual Arbor Day celebration, we partnered with local nurseries and handed out over 600 tree seedlings for planting around Rochester.
- \$18,678 was raised by RPU employees through pledges and special events for the United Way of Olmsted County's 2005 campaign. This money will help support 566 programs in our community.
- Each year we transfer money to the city of Rochester in the form of "in lieu of taxes." For 2005, the city of Rochester received \$7.8 million from RPU.





improving service to the community

customer service

In 2005 we installed a new phone system with advanced customer service capabilities and a new outage management system. The system enables us to handle a higher call volume during business hours and during an outage, and to integrate an Interactive Voice Response (IVR) system. In the case of an outage, an IVR system immediately gives customers up-to-date information on the situation over the phone.

In addition to the new phone system, we also installed Responder, a Geographic Information Systems-based (GIS) outage management system, to increase our customer service capabilities during an outage. Numerous man-hours and more than \$50,000 have been invested in this update. Responder will allow us to streamline many processes internally, allowing more employees to focus on customer needs.

capx 2020

CapX 2020 is a vision of partnering utilities for electric transmission in Minnesota by 2020. The plan is designed to ensure that Rochester and the state of Minnesota have available and reliable electricity long into the future. Once completed, by 2020 the transmission projects will support 8000 megawatts (MW) of planned new generation to serve the 6300 MW of projected demand. Currently RPU is working with partner utilities on a project with a proposed 345 kilovolt (kV) transmission line running from Hampton Corners (south of the Twin Cities) to Rochester. The plan calls for the 345 kV line to tie into Rochester with a 161 kV line just north of the city. As this is just the beginning of the planning stage, full completion for the Rochester part of the project is slated for 2012.



2005 financial statements



rochester public utilities
2005 annual report

management discussion & analysis

The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or the Utility) provides an overview of the utility's financial activities for the year ended December 31, 2005. This discussion is designed to be used in conjunction with the financial statements and notes which follow this section.

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

overview of the financial statements

This section of the annual report consists of basic financial statements and the notes to the financial statements.

Basic Financial Statements

The Consolidated Statements of Net Assets present the Utility's assets and liabilities, with the difference between the two reported as net assets. The Statement of Net Assets provides information about the nature and amount of investments in resources (assets), and the obligations to creditors (liabilities). Net assets increase when revenues exceed expenses. The Consolidated Statements of Revenues, Expenses, and Changes in Net Assets report the revenues and expenses during the periods indicated. The Consolidated Statements of Cash Flows provide information about the Utility's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

Notes to the Financial Statements

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

electric utility highlights

- Due to the City of Rochester's continued growth, 1,041 new electric customers were added in 2005.
- The warm summer weather had a positive impact on revenues and demand. Retail kilowatt-hour sales were on par with budget, with an increase of 5% over 2004. A record annual peak demand of 263.8 megawatts was set in August 2005, which represented a 6% increase over 2004. The previous record of 262 megawatts occurred in 2003.
- A rate increase of 3% was approved by the Utility Board in December 2004, and went into effect January 2005.
- Rates for power purchased from SMMPA (Southern Minnesota Municipal Power Agency) remained flat. Purchased power costs represented 59% of operating expenses for 2005.
- The cost to RPU of providing health insurance coverage to its employees increased 26% over 2004.
- RPU's bonds continue to be rated at Aa3 (Moody's), and A+ (Fitch).
- The electric utility transferred approximately \$7.5 million to the City's general fund in the form of in-lieu-of-tax payments.
- In the spring of 2005, two two-megawatt generators were purchased in partnership with IBM, and placed at their Rochester site. These generators will provide backup power for IBM, as well as an additional power source and revenue stream for RPU.
- In November 2005, RPU finished the steam line from the Silver Lake Plant to the Mayo Clinic's Prospect Plant, and officially began selling steam to the Mayo Clinic.
- In 2005, RPU completed a long-term power supply plan that maps out the Utility's power and infrastructure needs through 2030, and sets forth a plan that will enable the Utility to meet those needs.

water utility highlights

- Due to the City of Rochester's continued growth, 1,005 new water customers were added in 2005.
- Retail water sales (ccf) were up 2.7% in 2005 due in part to an average summer in terms of rainfall, as compared to a wet summer in 2004.
- A new record peak pumpage of 29.8 million gallons was set on July 15, 2005. The previous record of 29.3 million gallons occurred in 2003.
- A rate increase of 5% was approved by the Board in December 2004, and went into effect January 2005.
- The water utility transferred approximately \$339,000 to the City's general fund in the form of in-lieu-of-tax payments.

financial analysis – electric utility

The following discussion provides analysis of the 2005 and 2004 comparative financial information provided in the following table.

Condensed Financial Information - Electric Utility

December 31, 2005 and 2004 (In millions)

Statement of Revenues, Expenses, & Changes in Net Assets

	2005	2004	Change
Operating Revenues	\$ 112.4	\$ 102.3	\$ 10.1
Operating Expenses	95.6	90.2	5.4
Operating Income	16.8	12.1	4.7
Transfers Out			
(In-Lieu-Of-Tax Payments)	(7.5)	(7.0)	0.5
Other Income & Expense	.6	1.3	(0.7)
Interest Charges	(2.2)	(2.2)	-
Capital Contributions	-	0.4	(0.4)
Change in Net Assets	7.7	4.6	3.1
Net Assets - Beginning of Year	106.9	102.3	4.6
Net Assets - End of Year	\$ 114.6	\$ 106.9	\$ 7.7

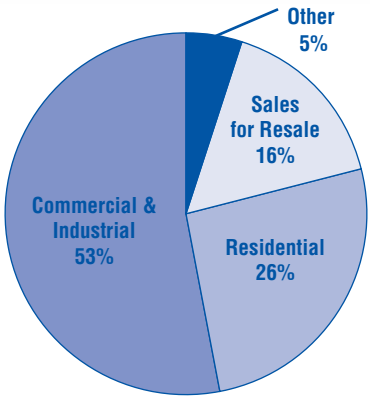
Statement of Net Assets

	2005	2004	Change
Cash	\$ 17.5	\$ 15.5	\$ 2.0
Other Current Assets	19.1	15.6	3.5
Capital Assets, Net	135.2	128.4	6.8
Other Noncurrent Assets	6.1	4.4	1.7
Total Assets	177.9	163.9	14.0
Current Liabilities	14.2	11.6	2.6
Long-Term Debt	47.1	43.4	3.7
Other Long-Term Liabilities	2.0	2.0	-
Total Liabilities	63.3	57.0	6.3
Invested in Capital Assets,			
Net of Related Debt	90.6	87.2	3.4
Restricted	0.6	0.2	0.4
Unrestricted	23.4	19.5	3.9
Net Assets	\$ 114.6	\$ 106.9	\$ 7.7

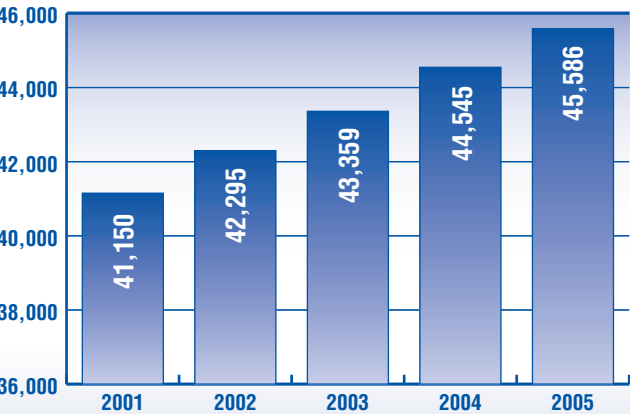
Operating Revenues

Operating revenues increased \$10.1 million (9.9%) in 2005. This was due in part to a rate increase of 3%, as well as an increase in retail kilowatt-hour sales and wholesale revenues.

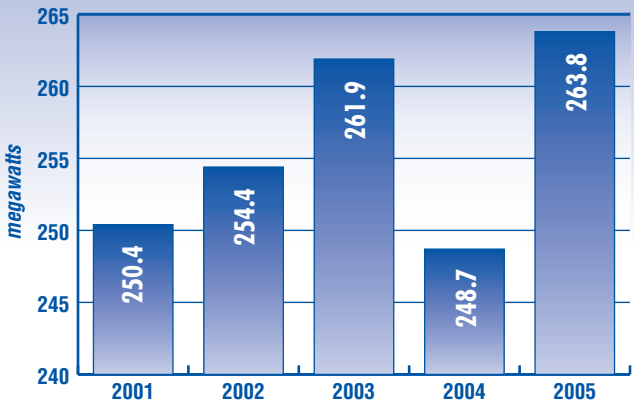
Electric Operating Revenues



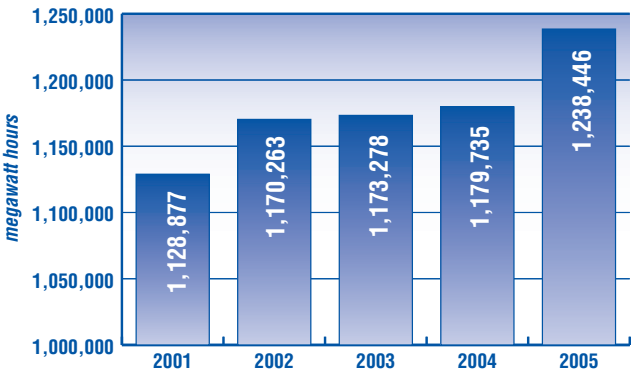
Number of Electric Customers



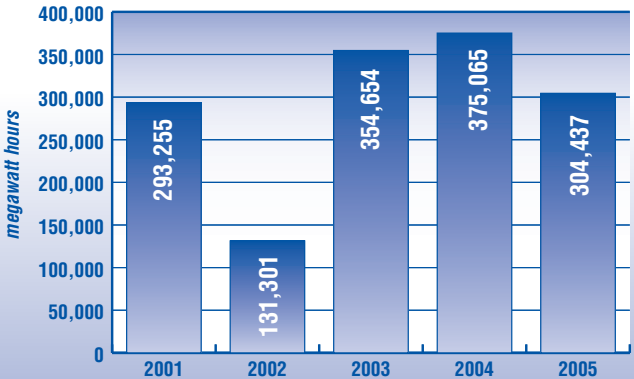
Electric Peaks



Electric Retail Sales



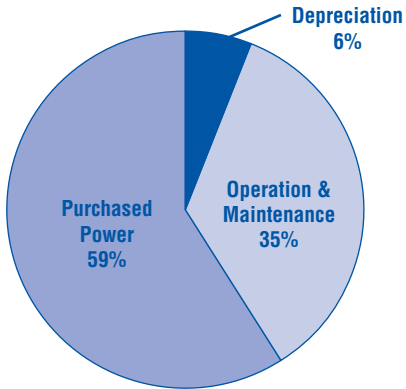
Wholesale Sales



Operating Expenses

Operating expenses increased \$5.4 million (6%) in 2005, due to increases in fuel purchases, purchased power costs, and health insurance costs. The primary driver of operating expenses for the Electric Utility continues to be purchases of power from SMMPA, which comprised 59% of total Utility operating expenses.

Electric Operating Expenses



In-Lieu-of-Tax Payments

The Electric Utility transfers an amount to the City of Rochester's General Fund each month based on the amount of retail kilowatt-hours sold. Due to the increased kilowatt-hour sales because of the warm summer, in-lieu-of-tax payments to the City increased by \$500,000.

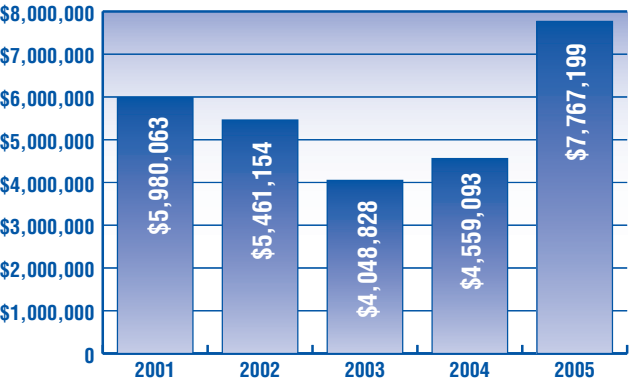
Other Income and Expense

Other income decreased \$.7 million (54%) in 2005. This was due to the fact that RPU sold fewer excess SO2 allowances in 2005 than in 2004. These SO2 allowances are provided each year to the Electric Utility by the federal government at no cost, under provisions of the Clean Air Act.

Change in Net Assets

The increase in net assets for 2005 was \$7.7 million, \$3.1 million (67%) higher than in 2004. This is due to the rate increase of 3% effective January 2005, as well as the increase in retail kilowatt-hour sales and wholesale revenues.

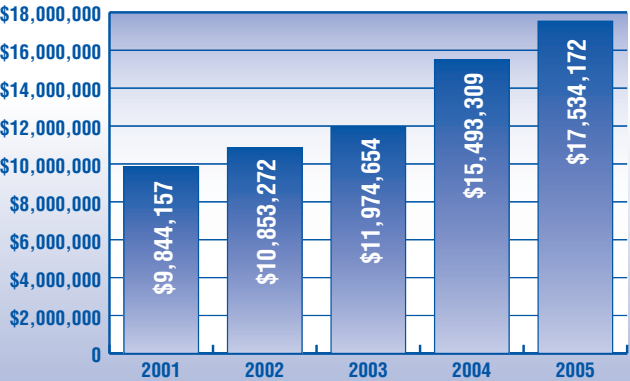
Change in Net Assets



Cash and Other Assets

The ending cash balance for 2005 was \$17.5 million, \$2.0 million higher than at the end of 2004. This is primarily due to several projects that were budgeted for in 2005, but not completed at the end of the year.

Unrestricted Cash – Electric



Other current assets for 2005 were \$19.1 million, \$3.5 million higher than at the end of 2004. This increase was due primarily to some large receivables outstanding at the end of 2005, as well as an increase in fuels inventory due to higher fuel prices.

Other noncurrent assets increased by \$1.7 million due to an increase in the debt service reserve, and an increase in the service territory escrow fund.

Liabilities

Current liabilities increased \$2.6 million in 2005, primarily due to increased accounts payable related in part to increased fuel usage and prices in December, as well as an increase in retainages on contracts not yet completed at the end of 2005.

Net Assets

Net assets invested in capital assets, net of related debt, increased \$3.4 million. This increase reflects additions to capital assets, as well as a lesser increase in outstanding debt and cash restricted for debt service. Capital expenditures are funded through rate-based revenues, fees from customers, and debt proceeds.

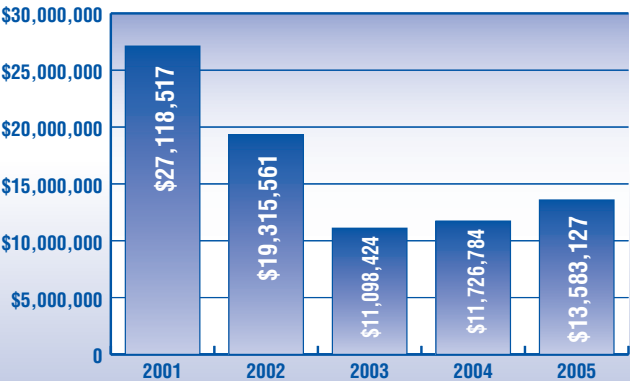
Restricted net assets increased by \$400,000. This represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Specifically, restricted net assets for the Electric Utility consist of amounts placed in escrow for future acquisition of service territory from People's Cooperative Services. See Note 4 to the financial statements for additional details regarding this amount.

Unrestricted net assets are not subject to any constraints established by debt covenants or other legal requirements. In 2005, unrestricted net assets increased \$3.9 million due to the results of operations.

CAPITAL ASSETS

At December 31, 2005, the Electric Utility had \$135.2 million invested in a broad range of utility capital assets, including a coal-burning steam generation plant, two gas turbines, a hydroelectric power generation plant, electric transmission and distribution lines, buildings and equipment. Capital assets increased \$12.4 million in 2005, reflecting investments in the distribution and transmission systems, as well as construction associated with the growth of the City and general facilities of the Electric Utility. This increase in capital assets was partially offset by a \$5.6 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (electric and water) may be found in Note 6 to the financial statements. Capital expenditures increased by \$1.9 million in 2005, due to the completion of two major projects, the Mayo steam project and the IBM diesel generators.

Capital and Major Maintenance Expenditures



LONG-TERM DEBT

At the end of 2005, the Utility had \$43.4 million in revenue bonds and \$5.4 million in a revenue note outstanding. In December of 2004, the Utility Board authorized borrowing approximately \$5 million (the revenue note) through the Minnesota Consortium of Municipal Utilities at a variable interest rate. The closing on this loan occurred in March of 2005. This money was used by the Electric Utility during 2005 to improve the distribution system. In addition to this new revenue note, \$1.7 million was retired in 2005. The Utility maintains an Aa3 bond rating from Moody's, and an A+ bond rating from Fitch on its revenue bonds. Additional details regarding the Utility's long-term debt may be found in Note 5 to the financial statements.

financial analysis – water utility

The following discussion provides analysis of the 2005 and 2004 comparative financial information provided in the following table.

Condensed Financial Information - Water Utility

December 31, 2005 and 2004 (In millions)

Statement of Revenues, Expenses, & Changes in Net Assets

	2005	2004	Change
Operating Revenues	\$ 7.0	\$ 6.5	\$ 0.5
Operating Expenses	6.1	5.7	0.4
Operating Income	0.9	0.8	0.1
Transfers Out (In-Lieu-Of-Tax Payments)	(0.3)	(0.3)	-
Capital Contributions	2.6	9.2	(6.6)
Change in Net Assets	3.2	9.7	(6.5)

Net Assets - Beginning of Year	74.5	64.8	9.7
Net Assets - End of Year	\$ 77.7	\$ 74.5	\$ 3.2

Statement of Net Assets

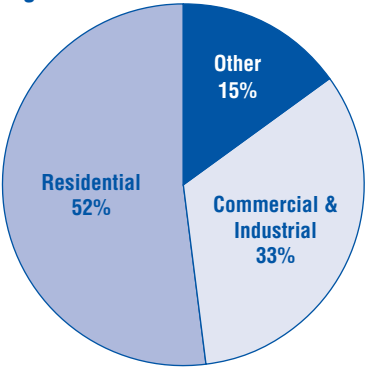
	2005	2004	Change
Cash	\$ 1.5	\$ 1.7	\$ (0.2)
Other Current Assets	1.0	0.9	0.1
Capital Assets, Net	76.6	73.1	3.5
Total Assets	79.1	75.7	3.4
Current Liabilities	1.3	1.1	0.2
Other Long-Term Liabilities	0.2	0.1	0.1
Total Liabilities	1.5	1.2	0.3

Invested in Capital Assets, Net of Related Debt Unrestricted	76.6	73.1	3.5
	1.1	1.4	(0.3)
Net Assets	\$ 77.7	\$ 74.5	\$ 3.2

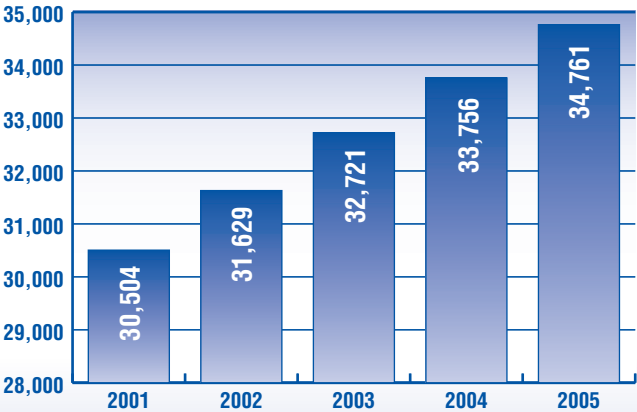
Operating Revenues

Operating revenues increased \$500,000 (7.7%) in 2005. Some of this was due to a rate increase of 5.0%, as well as an increase in sales volume of 2.7%. Antenna site rental revenues also increased \$50,000.

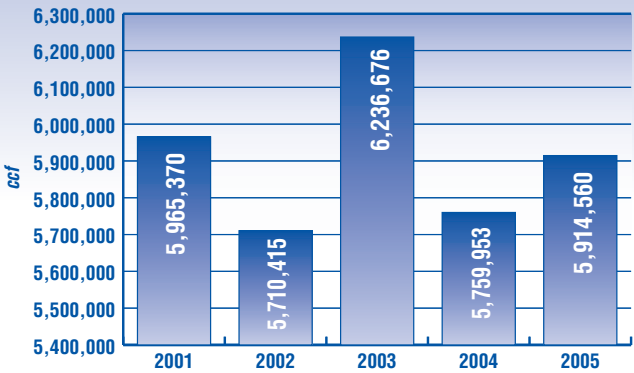
Water Operating Revenues



Number of Water Customers



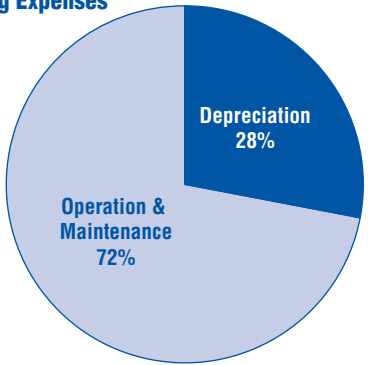
Water Retail Sales



Operating Expenses

Operating expenses increased by \$400,000 (7%) in 2005. This was primarily due to an increase in depreciation as well as salaries and health insurance costs.

Water Operating Expenses



In-Lieu-of-Tax Payments

The Water Utility transfers an amount to the City of Rochester's General Fund each month based on the amount of retail ccf (hundred cubic feet) sold. Due to the increase in ccf sold in 2005, in-lieu-of-tax payments to the City increased by approximately \$16,000.

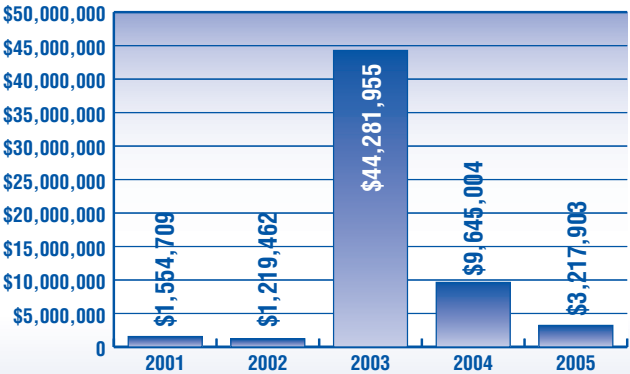
Capital Contributions

Capital contributions decreased \$6.6 million in 2005. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from both the City and from developers. These assets are valued using a costing database that estimates the appropriate construction costs associated with these assets.

Change in Net Assets

The increase in net assets for 2005 was \$3.2 million, \$6.5 million lower than in 2004. This is primarily due to the decrease in reported capital contributions in 2005.

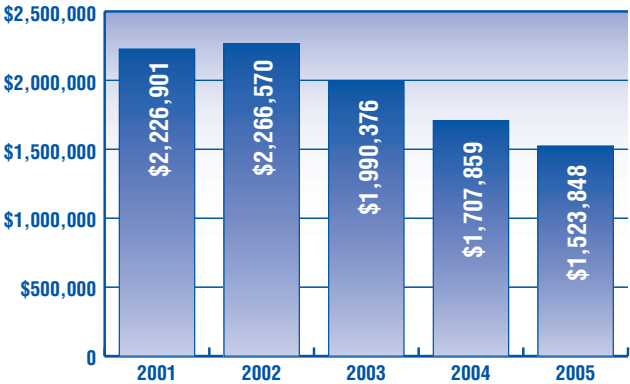
Change in Net Assets



Cash and Other Assets

The ending cash balance for 2005 was \$1.5 million, \$200,000 lower than at the end of 2004. This was primarily due to spending on capital projects.

Unrestricted Cash – Water



Other current assets for 2005 were \$1.0 million, \$100,000 higher than at the end of 2004. These consisted of accounts receivable, inventory, and accrued revenues.

Liabilities

Current liabilities increased \$200,000 in 2005 due to increased accounts payable at the end of 2005 related to capital projects such as well houses and oversize water main reimbursements.

Net Assets

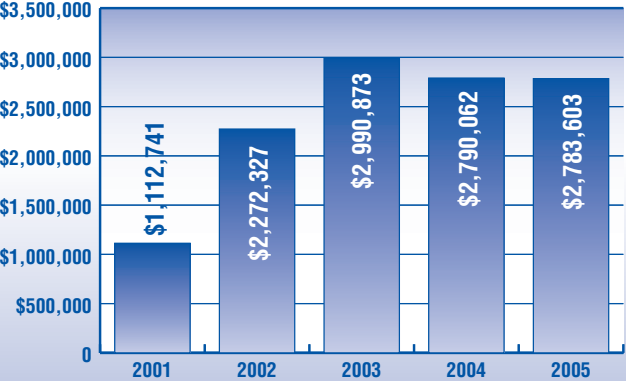
Net assets invested in capital assets, net of related debt, increased \$3.5 million. This increase reflects the increase in net capital assets. Capital expenditures for the Water Utility are funded through rate-based revenues and fees from customers.

Unrestricted net assets are not subject to any constraints established by debt covenants or other legal requirements. In 2005, unrestricted net assets decreased \$.3 million due to the results of operations.

CAPITAL ASSETS

At December 31, 2005, the Water Utility had \$76.6 million invested in a broad range of utility capital assets, including 18 water storage facilities, 32 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$5.3 million in 2005, 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 partially offset by a \$1.8 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (electric and water) may be found in Note 6 to the financial statements. Capital expenditures decreased slightly in 2005. Some of the major components of capital spending in 2005 were the Highway 52 project, new wells, and spending on water meters and automated meter reading.

Capital and Major Maintenance Expenditures



miscellaneous information

ECONOMIC FACTORS

The City Council has approved Electric rate increases two out of the last three years, and Water rate increases for three consecutive years. These overall increases of 3% for 2004 and 2005 for the Electric Utility, and 4% for 2003 and 2004, and 5% for 2005 for the Water Utility will help strengthen RPU's financial stability by meeting the expected increased costs to operate each Utility, improve system reliability, and build liquidity by increasing cash reserves.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, infrastructure needs, accelerated debt payments, future supply costs, regulatory changes, and others.

2006 COST INCREASE

In early 2006, RPU was notified that SMMPA (RPU's main supplier of power) would be increasing rates 16.9% effective May 1, 2006. This rate increase was in addition to the 5% rate increase that went into effect January 1, 2006. This has forced RPU to revisit the 2006 budget and make several changes, including reductions in planned expenditures, as well as increases in revenues, part of which calls for a rate increase of 8.5% pending approval of the Utility board and City Council.

REQUESTS FOR INFORMATION

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

2005 financial statements

consolidated
statements
of revenues,
expenses,
and changes
in net assets

	Years Ended December 31	
	2005	2004
Operating Revenues:		
Electric	\$112,432,402	\$102,339,632
Water	7,047,596	6,475,669
Total Operating Revenues	119,479,998	108,815,301
Operating Expenses:		
Purchased Power	55,780,898	53,787,320
Operations and Maintenance	37,918,061	34,432,299
Depreciation	8,026,868	7,714,913
Total Operating Expenses	101,725,827	95,934,532
Operating Income	17,754,171	12,880,769
Nonoperating Income (Expenses):		
Investment Income	719,188	501,968
Interest Expense	(2,170,778)	(2,120,360)
Miscellaneous, Net	(116,827)	654,424
Total Nonoperating Income (Expenses)	(1,568,417)	(963,968)
Income Before Transfers/Capital Contributions	16,185,754	11,916,801
Transfers Out	(7,884,443)	(7,299,132)
Capital Contributions	2,683,791	9,586,428
Change in Net Assets	10,985,102	14,204,097
Net Assets, Beginning of Year	181,288,445	167,084,348
Net Assets, End of Year	\$192,273,547	\$181,288,445

See Notes to Consolidated Financial
Statements Found on Pages 41-45

income by
segments
of business

2005	Electric	Water	Total
Operating Revenues	\$112,432,402	\$7,047,596	\$119,479,998
Operating Expenses	95,582,269	6,143,558	101,725,827
Operating Income	16,850,133	904,038	17,754,171
Nonoperating Income (Expense)	(1,543,204)	(25,213)	(1,568,417)
Income Before Transfers/Capital Contributions	15,306,929	878,825	16,185,754
Transfers Out	(7,546,050)	(338,393)	(7,884,443)
Capital Contributions	6,321	2,677,470	2,683,791
Change in Net Assets	\$7,767,200	\$3,217,902	\$10,985,102

2004	Electric	Water	Total
Operating Revenues	\$102,339,632	\$6,475,669	\$108,815,301
Operating Expenses	90,223,040	5,711,492	95,934,532
Operating Income	12,116,592	764,177	12,880,769
Nonoperating Income (Expense)	(938,745)	(25,223)	(963,968)
Income Before Transfers/Capital Contributions	11,177,847	738,954	11,916,801
Transfers Out	(6,976,896)	(322,236)	(7,299,132)
Capital Contributions	358,142	9,228,286	9,586,428
Change in Net Assets	\$4,559,093	\$9,645,004	\$14,204,097

See Notes to Consolidated Financial
Statements Found on Pages 41-45

consolidated
statements
of net assets

	December 31	
	2005	2004
ASSETS:		
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$19,058,019	\$17,201,168
Accounts Receivable and Accrued Utility Revenues	11,855,196	9,482,030
Fossil Fuel Inventory	3,338,326	2,515,929
Materials and Supplies Inventory	4,764,596	4,329,187
Other Current Assets	177,641	110,055
Total Current Assets	39,193,778	33,638,369
Non-Current Assets:		
Restricted Assets (Note 4):		
Cash and Cash Equivalents	4,201,995	3,517,468
Amounts Held in Escrow	660,387	241,608
Total Restricted Assets	4,862,382	3,759,076
Deferred Charges:		
Unamortized Bond Issuance Costs	629,828	500,634
Other	559,812	208,595
Total Deferred Charges	1,189,640	709,229
Capital Assets:		
Construction Work in Progress	14,553,576	10,481,206
Land and Land Rights	2,117,874	2,103,301
Depreciable Assets, Net (Note 6)		
Electric	120,447,123	118,330,570
Water	74,636,721	70,538,089
Net Capital Assets	211,755,294	201,453,166
Total Non-Current Assets	217,807,316	205,921,471
Total Assets	\$257,001,094	\$239,559,840

See Notes to Consolidated Financial
Statements Found on Pages 41-45

	December 31	
	2005	2004
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$9,597,032	\$7,440,061
Due to Other Funds	1,794,163	1,869,377
Accrued Compensated Absences	1,743,272	1,571,694
Customer Deposits	421,225	353,818
Interest Payable	177,195	181,477
Current Maturities of Long Term Debt (Note 5)	1,750,000	1,310,000
Deferred Credits	82,962	176,479
Total Current Liabilities	15,565,849	12,902,906
Non-Current Liabilities:		
Accrued Compensated Absences	1,096,006	901,369
Accrued Claims	123,000	149,000
Revenue Bonds Payable		
(net of unamortized discount) (Note 5)	47,058,798	43,397,806
Unearned Lease Revenues	883,895	920,314
Total Non-Current Liabilities	49,161,699	45,368,489
Commitments and Contingencies (Note 10)		
Total Liabilities	\$64,727,548	\$58,271,395
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	\$167,148,490	\$160,262,828
Restricted (Note 4)	660,387	241,608
Unrestricted Net Assets	24,464,670	20,784,009
Total Net Assets	\$192,273,547	\$181,288,445

See Notes to Consolidated Financial
Statements Found on Pages 41-45

consolidated
statements
of cash flows

	Years Ended December 31	
	2005	2004
Cash Flows From Operating Activities:		
Cash Received from Customers	\$118,837,596	\$106,491,347
Cash Paid to Suppliers and Employees	(99,475,478)	(88,374,191)
Internal Activity – Payments From Other Funds	3,882,976	3,561,614
Net Cash Provided By Operating Activities	23,245,094	21,678,770
Cash Flows From Noncapital Financing Activities:		
Transfers to Other Funds	(7,851,502)	(7,262,600)
Cash Flows From Capital and Related Financing Activities:		
Capital Contributions		179,083
Additions to Utility Plant and Other Assets	(14,164,066)	(10,509,249)
Service Territory Acquisition	(582,343)	(596,357)
Payments on Bonds and Notes Payable Obligations	(4,155,847)	(3,672,295)
Proceeds from Issuance of Note Payable	5,765,000	
Net Cash (Used In) Capital and Related Financing Activities	(13,137,256)	(14,598,818)
Cash Flows From Investing Activities:		
Interest Received	703,822	500,317
Service Territory Escrow Payments	(418,780)	(1,017)
Net Cash Provided By Investing Activities	285,042	499,300
Net Increase in Cash and Cash Equivalents	2,541,378	316,652
Cash and Cash Equivalents, Beginning of Year	20,718,636	20,401,984
Cash and Cash Equivalents, End of Year	\$23,260,014	\$20,718,636
Classified As:		
Current Assets	\$19,058,019	\$17,201,168
Restricted Assets	4,201,995	3,517,468
Total Cash and Cash Equivalents, End of Year	\$23,260,014	\$20,718,636
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$17,754,171	\$12,880,769
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	8,026,868	7,714,913
Other	70,758	781,791
(Increase) Decrease In:		
Accounts Receivable and Accrued Utility Revenues	(2,373,166)	422,405
Inventories	(1,257,806)	(226,827)
Prepaid and Other Current Assets	(99,604)	13,242
Increase (Decrease) In:		
Accrued Liabilities and Accounts Payable	1,186,402	253,967
Customer Deposits	67,407	63,227
Unearned Lease Revenues	(36,419)	(36,420)
Other	(93,517)	(188,297)
Net Cash Provided by Operating Activities	\$23,245,094	\$21,678,770
Non-Cash Capital and Related Financing Activities:		
Additions to Utility Plant and Other Assets Contributed by the City's Governmental Funds	\$506,946	\$3,248,733
Additions to Utility Plant and Other Assets Contributed by Developers	\$2,176,845	\$6,158,612

See Notes to Consolidated Financial Statements Found on Pages 41-45

notes to consolidated financial statements

NOTE 1: Organization and Summary of Significant Accounting Policies

Organization and Accounting Method
Rochester Public Utilities (“Utility”) is a municipal utility. 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 equity of the Utility is vested in the City of Rochester, Minnesota. The Utility is comprised of two proprietary funds, the Electric and the Water Enterprise Funds of the City of Rochester, Minnesota. Activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. The Utility prepares its financial statements as a business-type activity in conformity with accounting practices prescribed for regulated enterprises by the applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Utility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements. Interfund transactions are not eliminated for purposes of the consolidated financial statements.

Revenues
Meters are read through a series of monthly cycles. Accounts are billed based on a combination of fixed charges and charges for actual usage. Utility tariffs for electric service include a power supply adjustment under which electric rates charged to customers are adjusted to reflect changes in power supply costs. Other activities are billed according to contractual arrangements and fees, or fees for services provided. Utility revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed.

Accounts Receivable
The Utility provides an allowance for losses on receivables, as needed, for accounts considered uncollectible.

Capital Assets, Depreciation and Amortization
Electric and water capital assets are recorded at original cost. Additions to utility plant and significant replacements are recorded at cost. Cost includes components of labor, materials and overhead. Depreciation expense is recorded using the straight-line method over the expected useful life of the asset, which ranges from five years to seventy-five years. Purchased service territory rights are amortized over a forty-year period on a straight-line basis.

Contributions in Lieu of Taxes
Contributions in Lieu of Taxes are paid by the Utility to the General Fund of the City of Rochester based upon the monthly commodity sales billed by the electric and water utilities, and are reported as Transfers Out in the Statement of Revenues, Expenses and Changes in Net Assets.

Inventories
Inventories consist of materials, supplies, and fossil fuels used in Utility operations. Materials and supplies inventory is valued at a moving average cost or market. Fossil fuel inventory is valued at cost, using the last-in, first-out method.

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

The Utility's sick leave liability is estimated based on the Utility's past experience of making termination payments for sick leave. Employees are compensated upon termination for one-third of their unused sick leave, after meeting certain qualifications.

Amortization of Bond Issuance Costs and Bond Discount
Bond issuance costs, bond discount and bond premium are amortized over the terms of the related bond issues using the interest method.

Taxes

In accordance with certain provisions of the United States Internal Revenue Code and related federal and state governing laws and regulations, the Utility is exempt from federal and state income taxes, and local property taxes.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

Concentration of Credit Risk

Financial instruments which expose the Utility to a concentration of credit risk consist primarily of cash equivalents and accounts receivable.

Cash equivalents are primarily comprised of the Utility's equity in the City of Rochester cash and investment pool. Credit risk factors associated with the cash and investment pool are disclosed in Note 3.

The Utility's accounts receivable are generally due from a large number of residential and business retail customers who are concentrated geographically in or near the City of Rochester.

NOTE 2: Revenues

Revenue, consisting primarily of billings to customers for Utility services, includes accrued Utility revenue amounts of \$2,754,244 and \$2,995,289 for the years ended December 31, 2005 and 2004, respectively.

Sales to the Utility's single largest customer were \$11,862,381 and \$10,990,528 in 2005 and 2004, respectively. During the year ended December 31, 2005, no other customer accounted for more than 10% of operating revenues. Sales to other funds

of the City of Rochester were \$3,244,401 and \$3,036,064 for the years ended December 31, 2005 and 2004, respectively.

NOTE 3: Cash and Cash Equivalents

The Utility considers all temporary cash investments, including the Utility's equity in the City of Rochester investment pool, to be cash and cash equivalents. Generally, cash equivalents are highly liquid investments. The majority of the Utility's cash and cash equivalents are held in the City of Rochester cash and investment pool.

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

The Utility's 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 are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2005 Comprehensive Annual Financial Report by credit risk category which gives an indication of the level of credit risk assumed by the City of Rochester.

NOTE 4: Restricted Assets

Restricted Cash and Cash Equivalents

In 2002 the Electric Utility issued revenue bonds to fund improvements to the distribution system and in 2000 the Electric Utility issued revenue bonds to fund the construction of a new gas turbine generator and improvements to the Electric Utility's transmission and distribution system. Provisions of the revenue bonds require that the Electric Utility fund a debt service account in an amount equal to the following year's bond principal and interest payments at least by the date the debt service payments are due each year. In addition to the debt service account, bond provisions require that \$4,201,995 of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if funds in the debt service account are insufficient.

Restricted Cash and Cash Equivalents are summarized as follows:

	2005	2004
Reserve Account	\$ 4,201,995	\$ 3,517,468

Restricted Amounts Held in Escrow

In accordance with a territorial rights agreement with People's Cooperative Services, the Utility deposits funds in an escrow account managed by a fiscal agent upon annexation of areas in service territories assigned to People's Cooperative Services. Upon agreement of compensation for the transfer of the service territory rights to the Utility, the funds in escrow are returned to the Utility. The service territory escrow fund totaled \$660,387 and \$241,608 at December 31, 2005 and 2004 respectively.

NOTE 5: Long-Term Debt

At December 31, 2005 and 2004, long-term debt consisted of the following:

	2005	2004
Revenue Bonds, Series 2002A 3.00% - 4.50% due each December 1 through 2017	\$ 9,605,000	\$ 10,225,000
Revenue Bonds, Series 2000A 4.75% - 5.25% due each December 1 through 2030	34,135,000	34,825,000
Revenue Note Payable, principal due each December 1 through 2014, interest due each June 1 and December 1 at variable rate, currently 3.98%	5,420,000	0
Less: Unamortized Discount	408,228	421,524
Plus: Unamortized Premium	57,026	79,330
Less: Current Maturities	1,750,000	1,310,000
TOTAL	\$ 47,058,798	\$ 43,397,806

The revenue bonds and note are secured by all funds and revenues of the Utility derived from the ownership and operation of its electric Utility system. The bond issuance costs, bond discount and bond premium are amortized over the terms of the bond issues.

The annual requirements to amortize all debt outstanding as of December 31, 2005, including interest payments of \$31,390,723 are as follows:

	Revenue Bonds	Notes Payable
2006	\$ 3,491,344	\$ 590,266
2007	3,487,706	615,119
2008	3,495,394	642,326
2009	3,493,656	674,915
2010	3,492,606	704,088
Thereafter	56,577,198	3,286,106
Total	\$ 74,037,904	\$ 6,512,819

NOTE 6: Capital Assets

Major classes of depreciable assets and total accumulated depreciation as of December 31, 2005 and 2004 are as follows:

	2005	2004
Intangible Plant Assets	\$ 7,970,220	\$ 7,387,877
Buildings, Structures, and Improvements	27,179,831	26,527,152
Installations, Equipment, and Fixtures	263,927,824	251,480,269
Total Depreciable Assets	299,077,875	285,395,298
Less: Accumulated Depreciation	103,994,031	96,526,639
Net Depreciable Assets	\$ 195,083,844	\$ 188,868,659

In 2005 capital assets totaling \$506,946 were contributed to the Utility by the City of Rochester, and \$2,176,845 were contributed to the Utility by others.

NOTE 7: Southern Minnesota Municipal Power Agency

The Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,258,723,258 and 1,202,156,074 kilowatt hours totaling \$57,293,036 and \$54,887,199 from SMMPA during the years ended December 31, 2005 and 2004, respectively.

The Utility was reimbursed \$1,958,485 and \$1,947,072 for the years ended December 31, 2005 and 2004 respectively, for its share of previous SMMPA charges. These reimbursed charges are reported as offsets to purchased power costs.

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

NOTE 8: Pension Plans

The Utility participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA) of Minnesota. PERA administers the Public Employees Retirement Fund (PERF) which is a cost sharing, multiple employer retirement plan. PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits and annual contributions are established by State statute. Total required contributions made during the year ended December 31, 2005 were \$1,365,595 of which \$711,245 was made by the Utility and \$654,350 was made by the Utility's employees.

PERA does not make separate measurements of assets and pension benefit obligations for individual employers participating in the plan. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 60 Empire Dr. #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

The Utility 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, 2005 and 2004 was \$95,884 and \$108,273, respectively. Payments under the plan for 2005 and 2004 were \$14,279 and \$14,770, respectively.

NOTE 9: Legal Matters

The Utility continues to pursue the acquisition of certain electric service rights from People's Cooperative Services, a rural Utility system. At times this involves proceedings before the Minnesota Public Utilities Commission and the Minnesota courts, and negotiation of various settlement agreements with People's Cooperative Services.

In 2005, RPU brought a claim against Southern Minnesota Municipal Power Agency (SMMPA) its primary wholesale power supplier, seeking a declaratory judgment that with respect to RPU's election of a “contract rate of delivery (CROD)” in 1999, Rochester is not obligated to pay the capital costs of new generating resources. Rochester also alleged breach of contract related to the process by which SMMPA establishes its rates and the possibility that SMMPA might have overcollected costs through rates charged to RPU (and others) under the Power Sales Contract since 2003.

SMMPA has filed a counterclaim alleging that RPU's steam sale agreement with the Mayo Clinic represents a breach of a 1992 “Settlement Agreement” concerning the use of RPU's Silver Lake Plant. SMMPA also filed counterclaims for declaratory judgment on issues relating to the nature of RPU's obligations under the Power Sales Contract.

No provision for gain or loss related to RPU's claims or SMMPA's counterclaims have been recorded in the accompanying financial statements as it is not possible to predict or determine the outcome of this litigation.

NOTE 10: Commitments and Contingencies

Risk Management Program

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. Rochester Public Utilities participates in this self-insurance program. The group health program is limited to losses of \$225,000 per claim with a variable annual aggregate, and the workers' compensation coverage is limited to \$760,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on unreported claims that are incurred but not yet reported. The Utility recognized an estimated liability for workers' compensation claims of \$43,000 and \$47,000 at December 31, 2005 and 2004, respectively. No actuarial studies have been performed by independent actuaries.

Power Sales Agreement

The Utility has entered into two agreements with the Minnesota Municipal Power Agency (MMPA) to sell a maximum 100 megawatts of power annually from its Silver Lake Plant to MMPA. Under the terms of the agreements, 100 megawatts of power is sold at fixed rates for providing the availability of generating capacity. The Utility is reimbursed for the fuel-related costs of generating power for half of the energy production. The remaining half of the energy produced is sold at market-based rates adjusted for SO2 allowance consumption net of sales commissions.

Revenue under these agreements for the years ended December 31, 2005 and 2004 was as follows:

	2005	2004
kWh provided	293,114,000	363,091,000
Payments for availability	\$ 4,583,350	\$ 4,700,160
Reimbursed generation costs	\$ 10,626,679	\$ 10,726,349
Market-based sales	\$ 2,318,289	

Service Territory Settlements

In connection with the acquisitions of certain electric service rights from People's Cooperative Services (PCS), the Utility is required to make payments to PCS based upon the amount of electricity sold in specific territories over a ten-year term. The payment varies by each settlement agreement and ranges from 5.7 mills (tenths of a cent) per kWh to 14.5 mills per kWh. These commitments expire over various periods through 2012. Costs are recognized under these agreements as service is provided.

report of independent auditors

To the Public Utility Board
City of Rochester, Minnesota

We have audited the consolidated statements of net assets of Rochester Public Utilities as of December 31, 2005 and 2004 and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Rochester Public Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in Note 1, the consolidated financial statements present only the Electric and Water Funds and are not intended to present fairly the financial position of the City of Rochester and the results of its

operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management’s discussion and analysis on pages 26 through 35 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Smith Schafer and Associates, LLC.
Smith, Schafer and Associates, Ltd.
Certified Public Accountants
February 21, 2006
Rochester, Minnesota

operating and financial statistics (unaudited)

ELECTRIC	2005	2004	2003	2002	2001	1996
Retail Customers:						
Residential	41,179	40,329	39,244	38,259	37,196	31,925
General Service	4,401	4,210	4,109	4,030	3,948	3,359
Industrial / Commercial	2	2	2	2	2	19
Other	4	4	4	4	4	4
Total Retail Customers	45,586	44,545	43,359	42,295	41,150	35,307
Retail Sales: (kWh)						
Residential	327,161,549	300,108,426	304,653,325	302,755,054	281,380,914	230,182,148
General Service	608,760,469	592,690,358	601,393,595	608,230,284	588,722,985	308,930,309
Industrial / Commercial	286,246,138	270,939,006	250,347,096	243,121,084	242,412,000	347,254,001
Other	16,277,635	15,997,702	16,883,613	16,156,452	16,361,294	14,285,757
Total Retail Sales (kWh)	1,238,445,791	1,179,735,492	1,173,277,629	1,170,262,874	1,128,877,193	900,652,215
Retail Revenue:						
Residential	\$29,724,751	\$26,391,940	\$25,876,051	\$25,569,567	\$23,182,844	\$18,752,889
General Service	43,813,580	41,172,242	40,375,839	40,155,746	38,046,675	22,333,800
Industrial / Commercial	15,484,581	14,536,253	13,281,822	13,093,886	12,904,764	21,343,448
Other	1,857,280	1,756,415	1,722,054	1,650,037	1,604,468	1,409,057
Total Retail Revenue	\$90,880,192	\$83,856,850	\$81,255,766	\$80,469,236	\$75,738,751	\$63,839,194
Steam Sales (MLBs)	17,934					
Steam Revenues	\$281,966					
Annual Peak (Megawatts)	263.8	248.7	261.9	254.4	250.4	189.3
Total kWh Generated	317,898,898	383,245,906	361,726,670	144,260,682	300,149,000	193,778,400
Total kWh Purchased	1,262,309,983	1,208,354,664	1,194,543,798	1,179,943,696	1,155,555,944	919,402,779
Year End Cash Balance	\$22,396,555	\$19,252,385	\$18,652,198	\$23,532,042	\$24,455,887	\$18,222,408
WATER	2005	2004	2003	2002	2001	1996
Retail Customers:						
Residential	31,477	30,622	29,663	28,684	27,589	23,387
Industrial / Commercial	3,284	3,134	3,058	2,945	2,915	2,605
Total Retail Customers	34,761	33,756	32,721	31,629	30,504	25,992
Retail Sales: (ccf)						
Residential	3,002,546	2,751,441	3,314,437	2,829,508	2,853,453	2,545,916
Industrial / Commercial	2,912,014	3,008,512	2,922,239	2,880,907	3,111,917	2,939,205
Total Retail Sales (ccf)	5,914,560	5,759,953	6,236,676	5,710,415	5,965,370	5,485,121
Retail Revenue:						
Residential	\$3,677,305	\$3,303,751	\$3,423,496	\$3,003,346	\$2,959,844	\$2,150,800
Industrial / Commercial	2,392,942	2,275,949	2,141,201	2,049,770	2,164,850	1,658,887
Public Fire Protection	450,215	429,228	401,055	324,105	291,665	216,469
Total Retail Revenue	\$6,520,462	\$6,008,928	\$5,965,752	\$5,377,221	\$5,416,359	\$4,026,156
Total Pumped (gallons)	4,708,567,996	4,591,078,140	5,011,304,421	4,560,177,918	4,789,401,579	4,318,850,057
Year End Cash Balance	\$1,523,848	\$1,707,859	\$1,990,376	\$2,266,570	\$2,226,901	\$1,908,499

general information

rochester public utilities leadership

General Manager	Larry Koshire
Director of Core Services	Walter Lorber
Director of Corporate Services	Curt Kraft
Director of Customer Relations	Jim Walters
Director of Field Services	Joe Hensel
Director of Power Resources	Walter Schlink

utility board

Board President	Richard Landwehr <i>Director of Business Development, Weis Builders Inc.</i>
Board Member	Mark Utz <i>Attorney and Shareholder, Wendland, Utz, Stahl, and Mintz, Ltd.</i>
Board Member	John (Jack) Jibben <i>Vice Chair of Campus Planning/ Project Coordination, Mayo Clinic</i>
Board Member	Susan Parker <i>Controller, Olmsted County Public Works</i>
Board Member and City Council Liaison	Dennis Hanson <i>City Council President, City of Rochester</i> <i>Director of Business Development, Kruse Lumber</i>

advisors and consultants

Independent Auditors	Smith, Schafer and Associates, Ltd.
Bond Counsel	Briggs & Morgan
Financial Advisors	Springsted Public Finance Advisors

headquarters

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



rochester public utilities leadership and board



General Manager – *Larry Koshire*

Larry has been the General Manager of RPU since 1997. He is responsible for the overall operation of the utility in accordance with established Board policies. Before joining RPU as General Manager, Larry was General Manager for Muscatine Power and Water in Muscatine, Iowa; and previous to that was the Director of the Power Division for RPU.



Director of Customer Relations – *Jim Walters*

As Director of Customer Relations, Jim has more than 20 years of management experience in the electric utility industry. He has been with RPU for eight years and is responsible for overseeing the public relations, customer service, meter reading and marketing for RPU. Before joining RPU, Jim was the Manager of Residential and Commercial Services with Interstate Power Company (Alliant Energy).



Director of Core Services – *Walter Lorber*

As Director of Core Services, Walter is responsible for all electric and water delivery systems for RPU. This includes overseeing the planning, design, construction, operation and maintenance of all systems. He has been with RPU for 25 years in numerous roles. Prior to that, he was a Substation Engineer with St. Joseph Light & Power Company in St. Joseph, MO.



Director of Field Services – *Joe Hensel*

As the Director of Field Services, Joe is responsible for environmental stewardship, regulatory compliance, work planning, geographic information systems and inventory and facilities management. Joe has been with RPU for 26 years. Previously, he worked for the state of Minnesota with MN/DOT and with the Office of Environmental Affairs.



Director of Corporate Services – *Curt Kraft*

As Director of Corporate Services, Curt oversees information services, finance and accounting, and procurement functions for RPU. He also coordinates budget development and obtains required financing for large capital projects. Before starting with RPU 28 years ago, Curt worked in the finance department for the city of Rochester.



Director of Power Resources – *Walter Schlink*

As Director of Power Resources, Walter is responsible for three power-generation facilities, future power-generation development, and all wholesale energy supply and marketing efforts. Prior to joining RPU eight years ago, Walter served in numerous power-generation management positions with various utility companies in Florida, the Virgin Islands, and Indiana.



utility board (clockwise, beginning with Mr. Landwehr seated at the right)

- Board President – Richard Landwehr, *Director of Business Development, Weis Builders Inc.*
- Board Member – Mark Utz, *Attorney and Shareholder, Wendland, Utz, Stahl, and Mintz, Ltd.*
- Board Member and City Council Liaison – Dennis Hanson, *City Council President, City of Rochester*
Director of Business Development, Kruse Lumber
- Board Member – John (Jack) Jibben, *Vice Chair of Campus Planning/ Project Coordination, Mayo Clinic*
- Board Member – Susan Parker, *Controller, Olmsted County Public Works*



headquarters

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