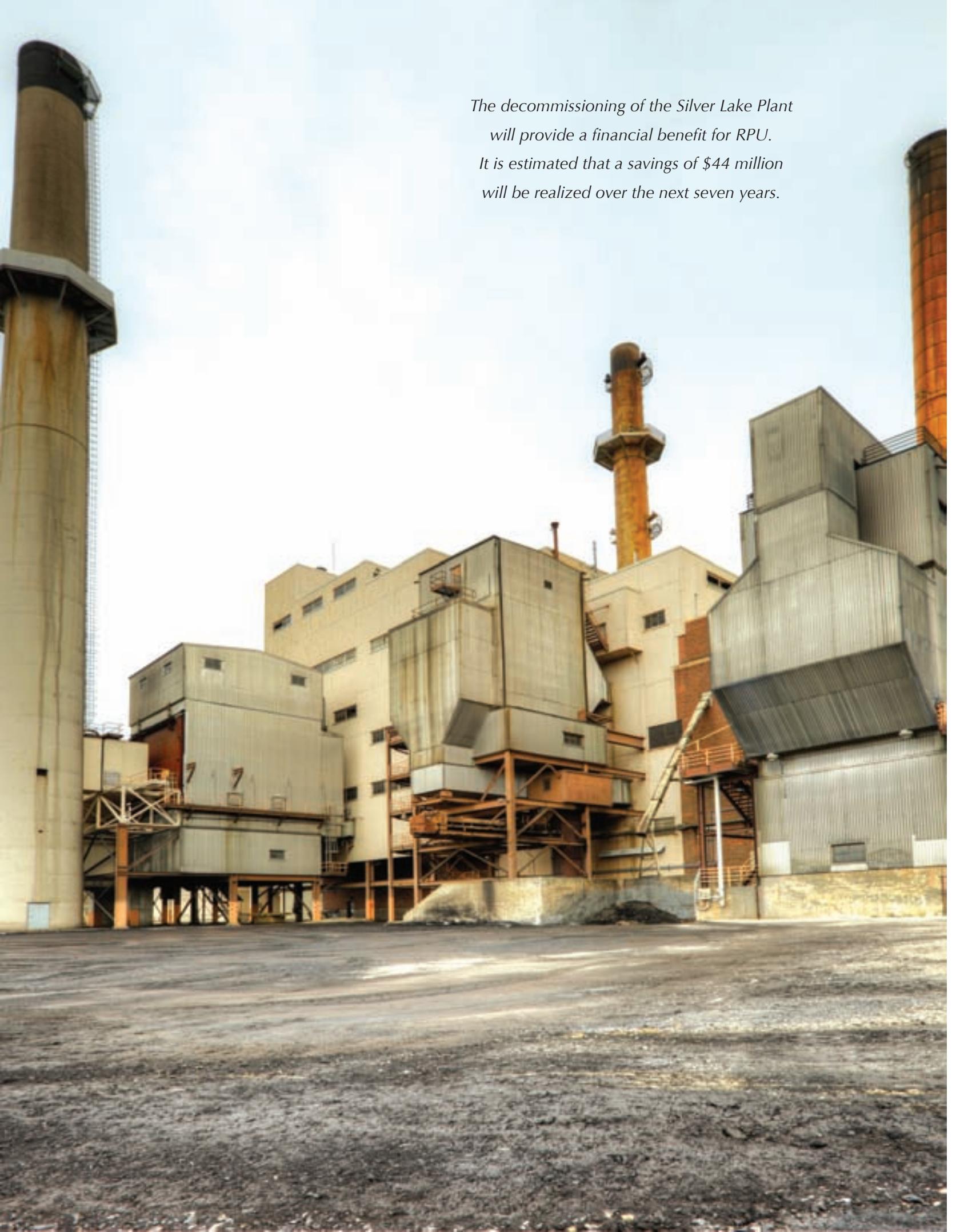




**PUTTING  
OUR  
BEST  
FOOT  
FORWARD**

**2013 Annual Report**

*The decommissioning of the Silver Lake Plant  
will provide a financial benefit for RPU.  
It is estimated that a savings of \$44 million  
will be realized over the next seven years.*



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Photography by Josh Banks  
[www.BanksPhotos.com](http://www.BanksPhotos.com)



*Reflecting back on another year gone by, the sentiment remains the same:  
The strength and value of Rochester Public Utilities lies in its employees.  
Each year, they step up to the challenge inherent in this type of business  
and design opportunities for improvement. This past year was no exception.*



Larry Koshire, General Manager (left), Jerry Williams, Board President (right)



# Letter From Management

The long, cold, winter months prove to always be a challenge. For every RPU employee, ensuring employee and customer safety is the top priority throughout the year, and in the winter months it is even more of a concern. There were a number of water main breaks in 2013, with a majority of them coming in the winter. Water crews worked diligently on each repair to minimize the impact of the water outage to customers. Ironically, we did not have a large electric outage in the winter, but as spring came around so did our largest electric outage in recent history.



A water distribution worker turning water off for water main repair.



Line crews working to restore power.

On May 2, 2013, less than a week after hosting our 11th Annual Arbor Day Celebration outside on a beautiful spring day in Mayo Park, over 12 inches of snow hit Rochester and southeast Minnesota. Over 10,000 customers were without power due to the massive snow storm. The storm disrupted service to some customers for a matter of minutes and some were without service for days. To assist in the restoration effort, RPU received mutual aid from Austin Utilities and Elk River Municipal Utilities. The personal response and dedication of employees when our customers are in need of our help is exactly what RPU prides itself on.

*continued...*



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Work progressed on the CapX 2020 transmission line project spanning from Hampton to Rochester and then east to Lacrosse, Wisconsin. The ground-breaking held in June offered all of the project participants an opportunity to get a close up view of the progress. When completed in 2015, the CapX 2020 project will provide Rochester with a stronger, more robust transmission system allowing for greater importing of electricity as needed.



CapX 2020 project participants at ground breaking for Hampton-Rochester-La Crosse line



The SLP turbine floor and coal yard.

As much as we are excited about the opportunities that CapX 2020 will offer us in terms of importing additional electricity into Rochester, we also continue down the bittersweet path of decommissioning the Silver Lake Plant (SLP), which has been an important source of electricity for Rochester for over 60 years.

After the decommissioning was approved in 2012, RPU set up an internal group to put a plan together that will ensure a proper transition leading up to December 31, 2015. One of the first items addressed was offering senior SLP staff an early retirement package and helping others with possible internal transfer opportunities. The staffing workforce for SLP, originally approved at 54 full-time employees, will be reduced down to a number necessary to continue operating the facilities, which could reach as low as 20 by the end of 2015.

The final coal was burned at SLP on November 14, 2013. This marked the end of steady coal-fired generation at SLP dating back to 1949, when SLP first went online.

With the decommissioning of coal and electric generation, there is equipment and inventory material that is no longer needed. SLP staff is looking into options for selling or repurposing all of these items.

The decommissioning will also provide a financial benefit for RPU. It is estimated that a savings of \$44 million will be realized over the next seven years.



Staying true to our word, we again took careful consideration into whether or not we would need a rate increase in 2013. RPU staff did a wonderful job making considerable reductions where it was possible and kept budgets level without compromising on system reliability or safety. Additionally, with cost reductions from the decommissioning of the Silver Lake Plant (SLP), we were able to again forego a rate increase in 2013. This marked the third straight year for the electric utility and the fifth straight year for the water utility without a rate increase.



RPU Board meeting



4th Street SW water reservoir under construction

The new 4th Street SW water reservoir was put into service on December 5, 2013 after months of construction. The construction began in June with the removal of the old 1.5 million gallon reservoir, which was erected back in 1930. The new reservoir was placed in the same location, but with a wider footprint and a larger capacity of 3.3 million gallons. The new reservoir will support city growth and expansion for years to come. The only items left for completion in 2014 are the outside finish and the landscaping around the site.



*continued...*



...continued from page 7

As we prepare for future growth by installing necessary infrastructure, we are also focused on the present by working with customers to reduce their energy and water usage through RPU's CONSERVE & SAVE® program. Over the course of 2013, RPU customers helped to conserve more than 29 million kilowatt-hours (kWh) of electricity and more than 9 million gallons of water. Residential and commercial customers alike helped us reach this impressive goal that not only helps to reduce the need for future generation and additional wells, but it helps everyone operate and live more efficiently.



RPU Home Energy Report

Through the reduction in staff at SLP and retirements throughout the year, RPU's workforce has changed more in the past year than in recent history. Employees with many years of expertise and dedicated service made 2013 their retirement year. Their attention to providing quality and reliable service was greatly appreciated. Included in the retirements was Joe Hensel who was the Director of Field Services. Joe retired on June 26, 2013 after a 33 year career at RPU.

Board President Jerry Williams presents Joe Hensel (left) with a certificate of service for his 33 year career at RPU.



A significant part of our energy conservation is the Home Energy Report. This report has actually been a part of RPU's overall energy conservation strategy for three years now. The report is sent to all residential RPU customers on a bi-monthly basis and provides useful information on how to be more energy efficient. In addition, the report compares households with similar homes in the same geographic area. As customers take recommended steps to be more efficient, RPU is able to capture those energy savings. More than 18 million kilowatt-hours of energy has been saved through the Home Energy Reports Program (since 2010).



## 2013 RETIREES

- Jay Button – 33 years
- Terry Greenwaldt – 32 years
- Joe Hensel – 33 years
- Dan Kruger – 37 years
- Bob Ledebuhr – 16 years
- Steve Nienow – 36 years
- Wade Reiser – 37 years
- Wayne Seim – 30 years
- Sylvia Shelstad – 23 years
- Kathy Smith – 43 years
- Mike Sommer – 31 years
- Roger Wildeman – 32 years
- Tom Williamson – 30 years
- Kathy Wilson – 24 years

At the December 17, 2013 RPU board meeting, longtime RPU general manager Larry Koshire announced his plans for retirement in April 2014. Koshire has been the General Manager of RPU since 1997.

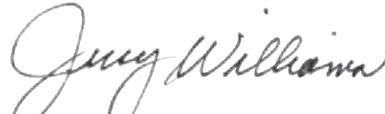
During his tenure, Koshire has seen customer growth increase by over 30 percent in both utilities as well as a number of capital projects including the installation of the Cascade Creek gas turbines, diesel generators at IBM, participation in CapX 2020, and recently the building of the 3.3 million gallon water reservoir in southwest Rochester. In addition, over the 17 years as the general manager, Koshire tirelessly kept the focus on providing reliable services at an affordable price, while ensuring the safety of employees, customers, and the community.

As we continue forward, we acknowledge the past and step into the future with optimism and focus. All of the accomplishments and successes came to fruition in 2013 because of each and every RPU employee's dedication to RPU's customer service model.

Sincerely,



Larry Koshire  
General Manager



Jerry Williams  
Board President



*"I have felt it a privilege to have worked with such a great group of people dedicated to providing safe and reliable service to the citizens of Rochester. The Board has provided a strategic direction which has supported the customer service model RPU has developed. I believe RPU is positioned for success to serve the exciting growth projected for Rochester. I will work with the RPU Board to assure a smooth transition in leadership."*

*– Larry Koshire*







**2013 Financial Statements**



## INDEPENDENT AUDITORS' REPORT

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To the Public Utility Board  
Rochester Public Utilities  
Rochester, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



To the Public Utility Board  
Rochester Public Utilities

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Rochester Public Utilities enterprise funds and do not purport to, and do not present fairly the financial position of the City of Rochester, Minnesota, as of December 31, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, Rochester Public Utilities has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. Accordingly, the accounting change has been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, Rochester Public Utilities has adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* related to Regulatory Operations as of January 1, 2013. Accordingly, the accounting change has been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

### ***Other Matters***

The financial statements of the Rochester Public Utilities as of December 31, 2012 were audited by other auditors whose report dated April 2, 2013, expressed an unmodified opinion on those statements.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

To the Public Utility Board  
Rochester Public Utilities

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated April 2, 2014, on our consideration of Rochester Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rochester Public Utilities' internal control over financial reporting and compliance.

*Baker Gilly Veichow Krause, LLP*

Madison, Wisconsin  
April 2, 2014

# 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, 2013 compared to the year ended December 31, 2012.*

*It also provides an overview of the Utility's financial activities for the year ended December 31, 2012 compared to the year ended December 31, 2011.*

*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

### Financial Statements

The Statements of Net Position present each Utility's assets and liabilities, with the difference between the two 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.



## HIGHLIGHTS

- Rochester continued to grow with 392 new electric customers and 367 new water customers added in 2013. This compares with growth of 583 electric customers and 398 water customers in 2012.
- Retail revenues and kilowatt-hour sales stayed relatively flat from 2012. The annual system peak demand of 279 megawatts was set in August, and compares with a peak demand of 288 megawatts in 2012 and the all-time system peak demand of 292 megawatts in 2011.
- Retail water sales (ccf) were down 7.5% in 2013 due in part to a 66.3% increase in rainfall May through September of 2013 compared to the same months in 2012.
- For the fourth year in a row for the Electric Utility, and the fifth year for the Water Utility, RPU has managed to keep rates steady with no rate increase in 2013. RPU achieved this through a combination of cost control measures along with stable rates from Southern Minnesota Municipal Power Agency (SMMPA), RPU's main power supplier.
- Rates for power purchased from SMMPA remained steady in 2013, with no increase. Purchased power costs from SMMPA and the MISO market represented 68% of electric operating expenses for 2013.
- The Electric Utility transferred approximately \$8.3 million, and the Water Utility transferred \$346,000 to the City of Rochester's General Fund in the form of in-lieu-of-tax payments.
- Design and construction of the new 3.3 million gallon water reservoir located at 4th St and 10th Ave SW took place during 2013, and the reservoir was placed in service in November 2013. Final exterior finish work and remaining site restoration/landscaping will be completed during the spring of 2014. The new reservoir was necessary to provide adequate water storage for existing and future water demands in the downtown Rochester area, and replaced the existing 4th St SE reservoir, which was constructed in 1916.
- Construction of Well #41, located at Ridgeline Dr. SE, just east of University Center Rochester, began in July 2013 and continued through year-end. The main purpose of this well is to alleviate stress on existing wells in the area that are pumping almost constantly year-round. Completion of the well and construction of the wellhouse are scheduled to be completed during the spring of 2014.
- RPU issued bonds in the spring of 2013, the first bond issues since 2007. First, in February, \$4.0 million in bonds were issued to refund the outstanding balance on the existing 2002A bond issue. This was done to take advantage of lower interest rates and will save the Utility just over \$1 million dollars over the next five years. Then, in May, \$38.4 million in bonds were issued to finance RPU's share of the CapX 2020 project, the construction of a 345-kilovolt transmission line from just south of the Twin Cities to Rochester, and then on to LaCrosse, as well as two 161-kilovolt transmission lines specific to the Rochester area. RPU is involved with four other utilities in this project: Xcel Energy (NSP), Dairyland Power Cooperative, SMMPA and Wisconsin Public Power, Inc.



- After many years of planning, the CapX project began to see physical progress in 2013. Construction of the new 161-kilovolt line that connects the North Rochester Substation to the Northern Hills Substation was completed in 2013 and is planned to be energized in April 2014. Construction work began on the 345-kilovolt transmission line from the North Rochester Substation to the Mississippi River. Easements were also being acquired for the other segments of the line that will be constructed in 2014 and 2015. In addition, RPU began engineering and design work on the expansion and upgrade of the Chester Substation, which is one of the final phases of the CapX project. The entire project is scheduled to be completed in December, 2015.
- In August, 2012, the RPU Board directed staff to develop, implement and execute a plan to decommission the Silver Lake Power Plant (SLP) for purposes of electrical generation by December 31, 2015 or sooner. A series of actions were implemented in 2013 to position RPU to meet the December 31, 2015 deadline:
  - A retirement incentive was offered to reduce SLP staff, of which 14 accepted.
  - The coal pile was depleted to eliminate further coal burning from SLP. The last coal delivery was received in the SLP coal yard on May 28, 2013, ending a 64-year run. The last pound of coal was burned on November 14, 2013.
  - Bilateral contracts were revised to coordinate with key dates of the decommissioning schedule.
  - New staffing levels and operational strategies were implemented.
  - Replacement capacity requirement options were exercised.
  - A “retire-in-place” strategy for equipment was implemented.
  - A new steam supply contract was negotiated with Mayo Clinic to extend the production of steam using natural gas through 2025.
  - An infrastructure replacement plan was developed and is being followed.
  - Staff is in discussion with Midcontinent Independent System Operator (MISO) to take all required actions to comply with system requirements.

These actions all support the Decommissioning Plan’s goal of reaching a \$7.0 million annual cost reduction for power supply.

- RPU far surpassed its Aggressive Demand-Side Management (DSM) goal for 2013 of 18,564 megawatt hours in energy savings. Actual energy savings of 29,843 megawatt hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represents an estimated 29,843 tons of carbon reduction. The energy savings also represents 2.4% of annual retail energy sales. RPU almost met its goal of 9.6 million gallons of water saved. Actual savings of 9.5 million gallons were achieved through the use of water conservation rates, customer education, leak detection and offering rebates on clothes washers, high efficiency toilets, rain barrels and other items.



# FINANCIAL ANALYSIS – ELECTRIC UTILITY

## Condensed Financial Information – Electric Utility

December 31, 2013, 2012 and 2011

(In millions)

### Statement of Revenues, Expenses, & Changes in Net Position

	2013	2012	2011	Change	
				2013 vs. 2012	2012 vs. 2011
Operating Revenues	141.0	142.6	142.4	(1.6)	0.2
Operating Expenses	129.1	126.2	125.4	2.9	0.8
<i>Operating Income</i>	11.9	16.4	17.0	(4.5)	(0.6)
Other Income & Expense	(0.2)	-	0.2	(0.2)	(0.2)
Interest Charges	(3.5)	(3.8)	(3.9)	0.3	0.1
<i>Nonoperating Income (Expense)</i>	(3.7)	(3.8)	(3.7)	0.1	(0.1)
Income Before Transfers, Capital Contributions and Special Item	8.2	12.6	13.3	(4.4)	(0.7)
Transfers Out (In-Lieu-Of-Tax Payments)	(8.3)	(8.3)	(8.4)	-	0.1
Capital Contributions	-	0.5	-	(0.5)	0.5
<i>Income Before Special Item</i>	(0.1)	4.8	4.9	(4.9)	(0.1)
Special Item - Impairment Loss	-	(35.5)	-	35.5	(35.5)
<i>Change in Net Position</i>	(0.1)	(30.7)	4.9	30.6	(35.6)
Net Position - Beginning of Year	121.8	152.5	147.6	(30.7)	4.9
<b>Net Position - End of Year</b>	<b>121.7</b>	<b>121.8</b>	<b>152.5</b>	<b>(0.1)</b>	<b>(30.7)</b>

### Statement of Net Position

	2013	2012	2011	Change	
				2013 vs. 2012	2012 vs. 2011
Cash and Investments	42.7	43.2	42.5	(0.5)	0.7
Other Current Assets	17.5	19.5	20.4	(2.0)	(0.9)
Capital Assets, Net	156.4	144.6	178.3	11.8	(33.7)
Other Noncurrent Assets	45.6	14.4	14.3	31.2	0.1
<i>Total Assets</i>	262.2	221.7	255.5	40.5	(33.8)
Deferred Outflows of Resources	1.3	1.4	1.5	(0.1)	(0.1)
<b>Total Assets Plus Deferred Outflows of Resources</b>	<b>263.5</b>	<b>223.1</b>	<b>257.0</b>	<b>40.4</b>	<b>(33.9)</b>
Current Liabilities	20.8	19.0	18.0	1.8	1.0
Long-Term Debt	118.7	80.2	84.4	38.5	(4.2)
Other Noncurrent Liabilities	1.7	1.5	1.4	0.2	0.1
<i>Total Liabilities</i>	141.2	100.7	103.8	40.5	(3.1)
Deferred Inflows of Resources	0.6	0.6	0.7	-	(0.1)
Investment in Capital Assets	67.7	63.8	94.0	3.9	(30.2)
Unrestricted	54.0	58.0	58.5	(4.0)	(0.5)
<i>Net Position</i>	121.7	121.8	152.5	(0.1)	(30.7)
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>263.5</b>	<b>223.1</b>	<b>257.0</b>	<b>40.4</b>	<b>(33.9)</b>

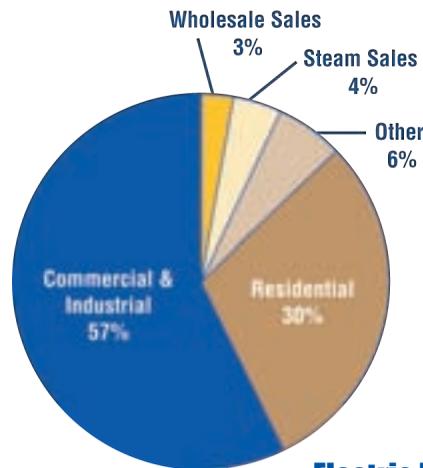


## OPERATING REVENUES

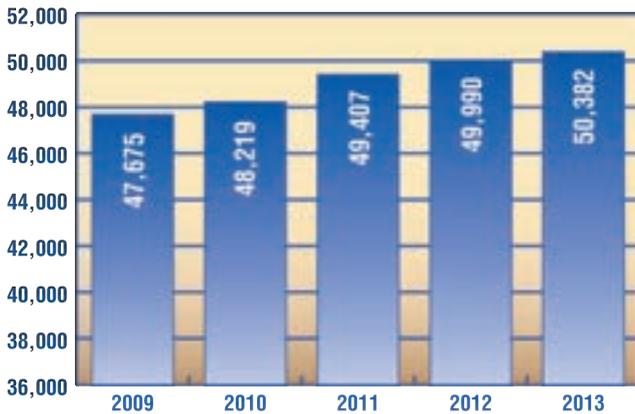
**2013** – Operating revenues decreased \$1.6 million (1.1%) in 2013. Other operating revenues decreased \$1.7 million due to the reclassification of certain items as cost reimbursements rather than revenue. Retail revenue and steam revenues both decreased by \$0.6 million (0.5% and 10.6%, respectively), offset partially by an increase in wholesale revenues of \$0.7 million (17.9%).

**2012** – Operating revenues increased \$0.2 million (0.1%) in 2012. This was due primarily to an increase in wholesale revenues of \$1.4M or 52.2%, offset by a decrease in retail revenues of \$1.2M or 0.9%.

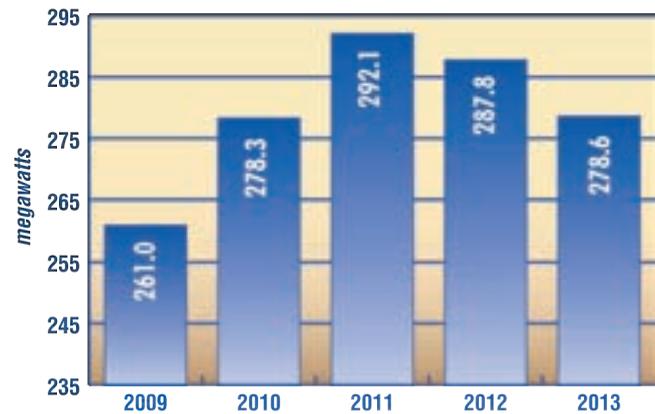
### Electric Operating Revenues



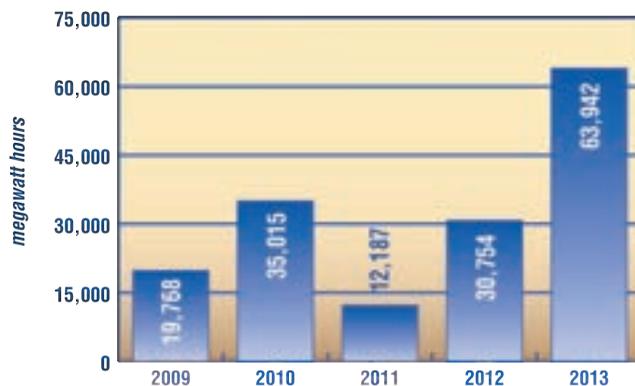
### Number of Electric Customers



### Electric Peaks



### Electric Wholesale Sales



### Electric Retail Sales

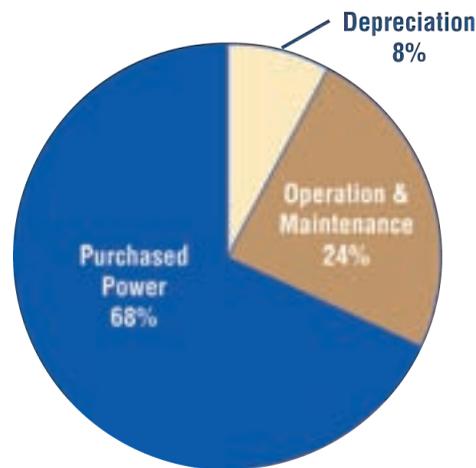


## OPERATING EXPENSES

**2013** – Operating expenses increased \$2.9 million (2.3%) in 2013. Generation fuel increased due to an increase in wholesale sales. Salaries increased slightly, and materials, supplies and outside services increased due to additional tree trimming costs and maintenance projects. Employee expenses increased due to payouts under the retirement incentive plan offered to Silver Lake Plant employees. Cost reimbursements also increased due to the reclassification of rebates from revenues. The primary driver of operating expenses for the Electric Utility continues to be purchases of power from SMMPA and from the MISO market, which comprised 68% of total operating expenses.

**2012** – Operating expenses increased \$0.8 million (0.6%) in 2012, due primarily to an increase in generation fuel costs and purchased power.

### Electric Operating Expenses



## IN-LIEU-OF-TAX PAYMENTS

**2013** – 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. As kilowatt-hour sales stayed steady from 2012 to 2013, the payment to the City also remained steady in 2013.

**2012** – Due to a slight decrease in kilowatt-hour sales the payment to the City decreased by approximately \$73,000 in 2012.



## CAPITAL CONTRIBUTIONS

**2013** – There were no capital contributions in 2013, a decrease of \$0.5 million from 2012.

**2012** – Capital contributions increased \$0.5 million in 2012. This amount represents the City’s portion of the geothermal system that serves both RPU and the Rochester Public Works Operations Center.

## SPECIAL ITEMS

**2013** – There were no special items for 2013.

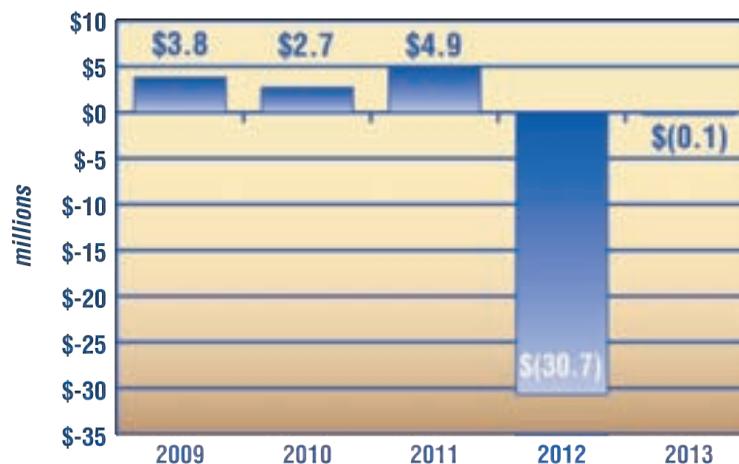
**2012** – The special item of \$35.5 million recorded in 2012 was the result of recording the asset impairment of affected Silver Lake Plant assets due to the decision to decommission the plant for purposes of electrical generation by December 31, 2015.

## CHANGE IN NET POSITION

**2013** – The decrease in net position for 2013 was \$0.1 million, \$30.6 million less than the decrease recorded in 2012. This is due primarily to flat retail revenues and increased operating expenses, along with the recording of the asset impairment in 2012 (see description for 2012 below).

**2012** – The decrease in net position for 2012 was \$30.7 million, \$35.6 million less than the \$4.9 million increase recorded in 2011. This is primarily due to the impact of recording the asset impairment to the Silver Lake Plant assets as a result of the decision to decommission the plant for purposes of electrical generation by December 31, 2015.

### Electric – Change in Net Position

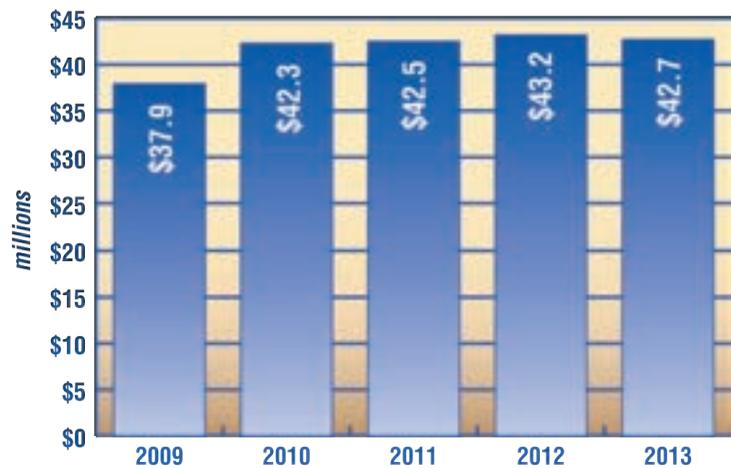


## CASH, INVESTMENTS AND OTHER ASSETS

**2013** – The ending unrestricted cash and investments balance for 2013 was \$42.7 million, \$0.5 million less than 2012. Other current assets for 2013 were \$17.5 million, \$2.0 million lower than at the end of 2012. This decrease was due primarily to the decrease in fossil fuel inventory, as all the remaining coal was burned in 2013. Other noncurrent assets for 2013 were \$45.6 million, \$31.2 million higher than at the end of 2012. This was due to the proceeds remaining from the 2013B bond issue that are restricted for use on the CapX transmission project, as well as the required increase in the debt service reserve account resulting from the 2013 bond issuances.

**2012** – The ending unrestricted cash and investments balance for 2012 was \$43.2 million, \$0.7 million higher than 2011. Other current assets for 2012 were \$19.5 million, \$0.9 million lower than at the end of 2011. This decrease was due primarily to a decrease in accounts receivable.

### Electric – Unrestricted Cash & Investments



## LIABILITIES

**2013** – Current liabilities increased \$1.8 million in 2013, due in large part to an increase in accounts payable.

**2012** – Current liabilities increased \$1.0 million in 2012, primarily due to an increase in the amount owed to the City for sewer and stormwater revenues collected, as well as an increase in the current portion of long-term debt.

## NET POSITION

**2013** – Net position invested in capital assets increased \$3.9 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers. It also reflects all debt issued to fund capital projects, net of unspent debt proceeds.

Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2013, unrestricted net position decreased \$4.0 million due to the results of operations.

**2012** – Net position invested in capital assets decreased \$30.2 million. This decrease reflects the impact of recording the asset impairment of affected Silver Lake Plant assets.

Unrestricted net position decreased \$0.5 million in 2012 due to the results of operations.



## CAPITAL ASSETS

**2013** – At December 31, 2013, the Electric Utility had \$156.4 million invested in a broad range of utility capital assets, including a steam generation/steam production plant, two gas turbines, a hydroelectric power generation plant, two diesel generators, equipment related to providing Mayo Clinic’s Prospect Plant with steam, electric transmission and distribution lines, buildings and equipment. Capital assets increased \$21.0 million in 2013, reflecting investments in the distribution and transmission systems, a good portion of which was related to the CapX transmission project, and general facilities of the Electric Utility. The increase in capital assets was offset by a \$9.2 million increase in accumulated depreciation. Additional details regarding the Utility’s total assets (electric and water) may be found in Note 5 to the financial statements. Capital and major maintenance expenses increased by \$9.9 million, due in large part to work on the CapX transmission project.

**2012** – At December 31, 2012, the Electric Utility had \$144.6 million invested in a broad range of utility capital assets, including a steam generation/steam production plant, two gas turbines, a hydroelectric power generation plant, two diesel generators, equipment related to providing Mayo Clinic’s Prospect Plant with steam, electric transmission and distribution lines, buildings and equipment. Capital assets increased \$9.9 million in 2012, reflecting investments in the distribution and transmission systems, and general facilities of the Electric Utility. This increase in capital assets was offset by a \$43.6 million increase in accumulated depreciation. The large increase in accumulated depreciation was the result of the current year depreciation expense and recording impaired assets due to the decommissioning of the Silver Lake Plant for purposes of electrical generation. Additional details regarding the Utility’s total assets (electric and water) may be found in Note 5 of the financial statements. Capital and major maintenance expenses increased by \$2.1 million in 2012, due to increased development activity and some larger projects.

### Electric – Capital & Major Maintenance Expenditures



## LONG-TERM DEBT

**2013** – At the end of 2013, the Utility had \$113.5 million in revenue bonds and \$2.2 million in revenue notes outstanding. New debt in the amount of \$4.0 million and \$38.4 million was issued in February and May 2013, respectively. The \$4.0 million was issued to refund the outstanding balance on the 2002A bond issue at a much lower interest rate. The \$38.4 million was issued to finance RPU’s portion of the CapX transmission project. In addition to the new debt issued, \$8.9 million was retired in 2013.

**2012** – At the end of 2012, the Utility had \$77.8 million in revenue bonds and \$4.4 million in revenue notes outstanding. No new debt was issued during the year and \$4.0 million was retired in 2012.

The Utility maintained an AA- bond rating from Fitch, and an Aa3 rating from Moody’s. Additional details regarding the Utility’s long-term debt may be found in Note 7 to the financial statements.



# FINANCIAL ANALYSIS – WATER UTILITY

## Condensed Financial Information – Water Utility

December 31, 2013, 2012 and 2011

(In millions)

### Statement of Revenues, Expenses, & Changes in Net Position

	2013	2012	2011	Change	
				2013 vs. 2012	2012 vs. 2011
Operating Revenues	8.3	8.6	8.3	(0.3)	0.3
Operating Expenses	8.7	8.2	8.1	0.5	0.1
<i>Operating Income</i>	(0.4)	0.4	0.2	(0.8)	0.2
Other Income & Expense	-	0.1	0.1	(0.1)	-
<i>Nonoperating Income (Expense)</i>	-	0.1	0.1	(0.1)	-
Income Before Transfers, Capital Contributions and Special Item	(0.4)	0.5	0.3	(0.9)	0.2
Transfers Out (In-Lieu-Of-Tax Payments)	(0.3)	(0.4)	(0.3)	0.1	(0.1)
Capital Contributions	3.3	0.9	1.3	2.4	(0.4)
<i>Change in Net Position</i>	2.6	1.0	1.3	1.6	(0.3)
Net Position - Beginning of Year	93.8	92.8	91.5	1.0	1.3
<b>Net Position - End of Year</b>	<b>96.4</b>	<b>93.8</b>	<b>92.8</b>	<b>2.6</b>	<b>1.0</b>

### Statement of Net Position

	2013	2012	2011	Change	
				2013 vs. 2012	2012 vs. 2011
Cash and Investments	6.6	8.0	6.5	(1.4)	1.5
Other Current Assets	0.6	0.7	0.7	(0.1)	-
Capital Assets, Net	91.0	87.2	87.0	3.8	0.2
<b>Total Assets</b>	<b>98.2</b>	<b>95.9</b>	<b>94.2</b>	<b>2.3</b>	<b>1.7</b>
Current Liabilities	1.2	1.7	1.0	(0.5)	0.7
Noncurrent Liabilities	0.2	0.2	0.2	-	-
<i>Total Liabilities</i>	1.4	1.9	1.2	(0.5)	0.7
Deferred Inflows of Resources	0.4	0.2	0.2	0.2	-
Investment in Capital Assets	91.0	87.2	87.0	3.8	0.2
Unrestricted	5.4	6.6	5.8	(1.2)	0.8
<i>Net Position</i>	96.4	93.8	92.8	2.6	1.0
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>98.2</b>	<b>95.9</b>	<b>94.2</b>	<b>2.3</b>	<b>1.7</b>

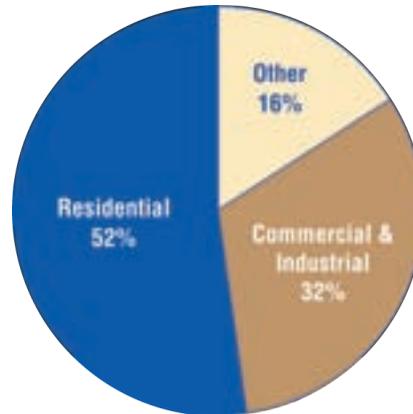


## OPERATING REVENUES

**2013** – Operating revenues decreased by \$0.3 million (3.9%) in 2013. Rates did not change in 2013, and retail revenues decreased by 4.6% due to the wet summer.

**2012** – Operating revenues increased by \$0.3 million (3.6%) in 2012. Rates from 2011 were not changed. Sales volume increased by 5.1%, however, utility service revenues increased by only 4.1%. This is due to the rate structure where approximately 45% of utility service revenue comes from a fixed customer charge that doesn't vary with sales volume.

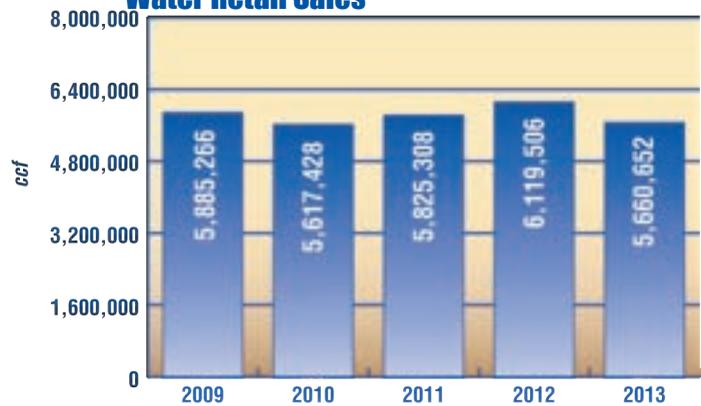
### Water Operating Revenues



### Number of Water Customers



### Water Retail Sales

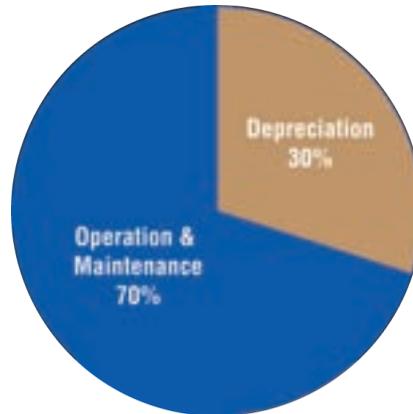


**OPERATING EXPENSES**

**2013** – Operating expenses increased by \$0.5 million (6.0%) in 2013. Salaries increased slightly, and materials, supplies and outside services increased due to an increased amount spent on water tower cleaning and painting and maintenance of water mains, pipes, valves, etc.

**2012** – Operating expenses increased by \$0.1 million (1.4%) in 2012. This was primarily due to increases in depreciation, salaries expense and outside services, offset by a decrease in materials and supplies expense.

**Water Operating Expenses**



**IN-LIEU-OF-TAX PAYMENTS**

**2013** – 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 decrease in ccf sold in 2013, payments to the City decreased by approximately \$28,000.

**2012** – Due to an increase in ccf sold, payments to the City increased by approximately \$18,000 in 2012.



## CAPITAL CONTRIBUTIONS

**2013** – Capital contributions increased \$2.4 million in 2013. These are assets, primarily water towers, water mains and fire hydrants, which are contributed to the Water Utility from both the City and developers. These assets are valued using a costing database that estimates the approximate construction costs associated with these assets. Beginning in 2013, however, instead of the City paying for the cost to construct water towers and reservoirs and then contributing the finished asset to the Water Utility, the Utility took on that responsibility and paid for the new reservoir out of its own funds. The City had funds set aside from Water Availability Charges (WAC) collected specifically for this purpose, and used these funds to reimburse the Water Utility for part of the cost of constructing the reservoir. The amount reimbursed was \$1.5 million, which is the majority of the 2013 increase.

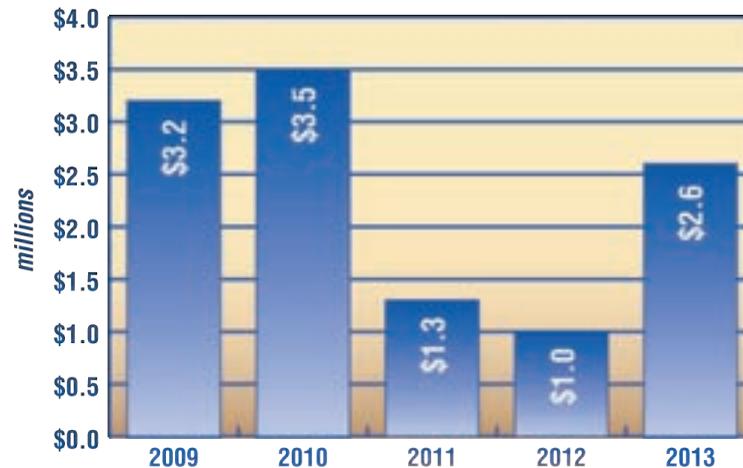
**2012** – Capital contributions decreased \$0.4 million in 2012.

## CHANGE IN NET POSITION

**2013** – The increase in net position for 2013 was \$2.6 million, \$1.6 million higher than in 2012. This is due to the increase in capital contributions in 2013.

**2012** – The increase in net position for 2012 was \$1.0 million, \$0.3 million lower than in 2011. This is primarily due to a decrease in reported capital contributions in 2012.

### Water – Change in Net Position

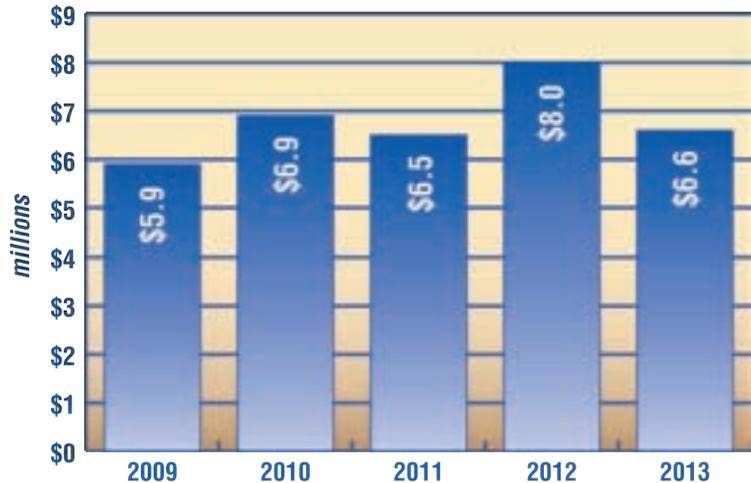


## CASH, INVESTMENTS AND OTHER ASSETS

**2013** – The ending unrestricted cash and investments balance for 2013 was \$6.6 million, \$1.4 million lower than 2012 due to cash used for the construction of the new reservoir.

**2012** – The ending unrestricted cash and investments balance for 2012 was \$8.0 million, \$1.5 million higher than 2011 due to an increase in cash provided by operations.

### Water – Unrestricted Cash & Investments



## LIABILITIES

**2013** – Current liabilities decreased \$0.5 million in 2013 due to a decrease in the amount owed to the City at the end of 2013.

**2012** – Current liabilities increased \$0.7 million in 2012, mainly due to an increase in the amount owed to the City at the end of 2012.

## NET POSITION

**2013** – Net position invested in capital assets increased \$3.8 million. This increase reflects additions to capital assets, the majority of which was the new reservoir constructed in 2013. Capital expenditures for the Water Utility are funded through rate-based revenues and fees from customers.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2013, unrestricted net position decreased \$1.2 million due to the results of operations.

**2012** – Net position invested in capital assets increased \$0.2 million. This increase reflects additions to capital assets.



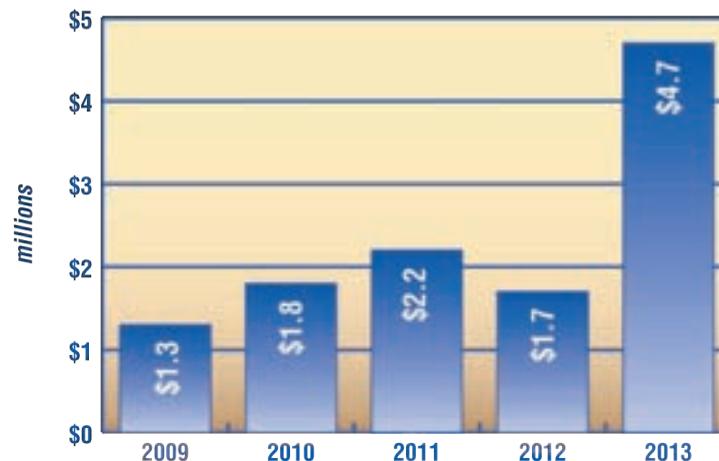
Unrestricted net position increased \$0.8 million in 2012 due to the results of operations.

## CAPITAL ASSETS

**2013** – At December 31, 2013, the Water Utility had \$91.0 million invested in a broad range of utility capital assets, including 19 water storage facilities, 31 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$6.3 million in 2013, reflecting capital contributions as well as construction associated with the growth of the City, a large part of which was the new reservoir, and general facilities of the Water Utility. This increase in capital assets was partially offset by a \$2.5 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (electric and water) may be found in Note 5 to the financial statements. Capital and major maintenance expenses increased by \$3.0 million in 2013, due primarily to the addition of the new reservoir. Some of the major components of capital spending in 2013 were the new reservoir, City projects, design and drilling of a new well, water storage facility maintenance, well maintenance, two new vehicles and spending on water meters.

**2012** – At December 31, 2012, the Water Utility had \$87.2 million invested in a broad range of utility capital assets, including 20 water storage facilities, 32 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased \$2.7 million in 2012, 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 \$2.5 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (electric and water) may be found in Note 5 to the financial statements. Capital and major maintenance expenses decreased by \$0.5 million in 2012, due to less work being completed in 2012. Some of the major components of capital spending in 2012 were City projects, design of a new well, water storage facility maintenance, well maintenance, a new vehicle and spending on water meters and automated meter reading.

## Water – Capital & Major Maintenance Expenditures



# MISCELLANEOUS INFORMATION

## ECONOMIC FACTORS

The City Council has approved Electric and Water rate increases as needed to support the Utility on a cost of service basis. In December 2012, the Utility Board voted to have no rate increase for 2013 for both the Electric and Water Utilities. The Electric Utility had rate increases in 2008 and 2009, followed by four years of no rate increases. The Water Utility has not had a rate increase since 2007. For the Electric Utility, the fact that SMMPA has not had a rate increase since 2010 has been a major contributing factor in allowing RPU to accomplish this. For both Utilities, this has also been the result of careful planning and continued aggressive cost control measures, and has been a way for RPU to support the Rochester community during difficult economic conditions. 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>
2014*	2.0%	3.0%	1.5%
2013	1.5%	0.0%	0.0%
2012	2.1%	0.0%	0.0%
2011	3.2%	0.0%	0.0%
2010	1.7%	0.0%	0.0%
<b>Annualized Average</b>	2.1%	0.6%	0.3%

\*Estimated Yearly Values

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

As the housing market has continued to pick up, growth of the city has increased as well. In 2013, there were 338 building permits totaling \$77.0 million issued for single-family homes as compared to 312 permits totaling \$68.2 million in 2012. While the number of commercial building permits stayed steady from 2012, the dollar value decreased significantly. Commercial permits numbered 41 for 2013 totaling \$56.5 million as compared to 40 commercial permits valued at \$95.8 million in 2012.

According to the US Department of Labor Bureau of Labor Statistics, the December 2013 unemployment rate of 3.8% for the area remains well below the state and national rates of 4.7% and 6.7%, respectively. The employment data shows that, on average, there were slightly fewer people working in the Rochester area than the previous year. During the past 12 months, the average unemployment rate for Rochester was 4.3%.



A new initiative, Destination Medical Center (DMC) is underway and is projected to have a major impact to the future economic growth of the city. In May 2013, the Minnesota Legislature approved the financing plan for DMC, allocating \$585 million to the project. Mayo Clinic plans to invest \$3.5 billion of its own funds over the next 20 years to improve and enhance care and services on the Rochester campus. They plan to use a mixture of the public funds allocated and private funds to fund the initiatives of DMC. These include boosting the economy by creating thousands of new jobs and billions in new tax revenues for state and local governments over 20 years, creating new business and jobs developed through promoting Rochester and the State of Minnesota as a desirable location for start-up biotech businesses, add vibrancy and enhance dining, entertainment, retail, arts and culture and infrastructure improvements, and attract and retain the most promising talent of students and health care professionals, thinkers and educators from across the globe. Specifically for Rochester, this means thousands of new jobs created and an estimated \$195-\$205 million in additional tax revenue over a 20-year period, along with the creation and retention of new businesses with a focus on biotech companies.

After examining all of these factors in the budgeting process, RPU has projected both electric and water rates to increase modestly over the next five years. Management recommended, and the Board and City Council approved an electric rate increase of 3.0% and a water rate increase of 1.5% for 2014.

## **REQUESTS FOR INFORMATION**

The consolidated 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](http://www.rpu.org).



# Electric Utility

## Statements of Net Position

As of December 31, 2013 and 2012

	2013	2012
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$5,178,525	\$6,351,333
Investments	37,558,555	36,900,146
Accounts Receivable and Accrued Utility Revenues	11,630,103	11,422,881
Fossil Fuel Inventory	112,563	2,925,430
Materials and Supplies Inventory	5,649,187	4,997,287
Other Current Assets	76,640	130,762
Total Current Assets	<b>60,205,573</b>	<b>62,727,839</b>
<b>Noncurrent Assets:</b>		
Restricted Assets:		
Cash and Cash Equivalents	25,935,278	-
Investments	5,588,191	2,508,848
Funds-Held in Trust	1,841,156	-
Capital Assets:		
Construction Work in Progress	24,478,297	8,485,018
Land and Land Rights	3,339,902	3,319,092
Depreciable Assets, Net:	128,582,180	132,770,671
Net Capital Assets	<b>156,400,379</b>	<b>144,574,781</b>
Other Assets	12,274,586	11,920,988
Total Noncurrent Assets	<b>202,039,590</b>	<b>159,004,617</b>
Total Assets	<b>262,245,163</b>	<b>221,732,456</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Total Assets Plus Deferred Outflows of Resources	<b>1,272,422</b>	<b>1,382,772</b>
	<b>\$263,517,585</b>	<b>\$223,115,228</b>
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$10,702,083	\$9,290,033
Due to the Municipality	2,352,573	2,280,501
Accrued Compensation and Compensated Absences	2,199,669	2,122,026
Customer Deposits	525,810	534,228
Interest Payable	429,794	296,357
Current Maturities of Long Term Debt	4,558,123	4,503,032
Total Current Liabilities	<b>20,768,052</b>	<b>19,026,177</b>
<b>Noncurrent Liabilities:</b>		
Accrued Compensated Absences	1,265,331	1,417,366
Accrued Claims	442,859	27,000
Long-Term Debt	118,784,540	80,202,150
Total Noncurrent Liabilities	<b>120,492,730</b>	<b>81,646,516</b>
Total Liabilities	<b>141,260,782</b>	<b>100,672,693</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	<b>592,535</b>	<b>628,955</b>
<b>NET POSITION:</b>		
Net Investment in Capital Assets	67,694,762	63,761,585
Unrestricted	53,969,506	58,051,995
Total Net Position	<b>121,664,268</b>	<b>121,813,580</b>
Total Liabilities, Deferred Inflows of Resources and Net Position	<b>\$263,517,585</b>	<b>\$223,115,228</b>

See accompanying *Notes to Financial Statements*.



# Electric Utility

## Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Operating Revenues:</b>		
Retail	\$128,864,261	\$129,480,259
Wholesale	4,786,100	4,058,764
Other	7,327,681	9,063,734
Total Operating Revenues	<u>140,978,042</u>	<u>142,602,757</u>
<b>Operating Expenses:</b>		
Purchased Power	88,020,377	88,282,511
Operations and Maintenance	30,458,057	26,974,077
Depreciation	10,184,577	10,556,355
Amortization of Regulatory Assets	380,299	367,781
Total Operating Expenses	<u>129,043,310</u>	<u>126,180,724</u>
<b>Operating Income</b>	<u>11,934,732</u>	<u>16,422,033</u>
<b>Nonoperating Income (Expenses):</b>		
Investment Income (Loss)	(79,629)	354,682
Interest Expense	(3,421,412)	(3,678,512)
Amortization of Regulatory Assets	(130,487)	(84,774)
Miscellaneous, Net	(145,384)	(374,581)
Total Nonoperating Income (Expenses)	<u>(3,776,912)</u>	<u>(3,783,185)</u>
<b>Income Before Transfers and Special Item</b>	<u>8,157,820</u>	<u>12,638,848</u>
Transfers Out	(8,307,132)	(7,720,361)
<b>Income Before Special Item</b>	<u>(149,312)</u>	<u>4,918,487</u>
Special Item - Impairment Loss	-	(35,536,828)
<b>Change in Net Position</b>	<u>(149,312)</u>	<u>(30,618,341)</u>
Net Position, Beginning of Year	121,813,580	152,431,921
Net Position, End of Year	<u>\$121,664,268</u>	<u>\$121,813,580</u>

See accompanying *Notes to Financial Statements*.



# Electric Utility

## Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	\$136,769,725	\$138,908,555
Cash Paid to Suppliers	(102,259,618)	(102,847,050)
Cash Paid to Employees	(14,157,368)	(13,688,500)
Internal Activity - Payments From Other Funds	5,551,114	5,409,778
Service Territory Acquisition	(511,112)	(608,580)
Net Cash Provided By Operating Activities	<u>25,392,741</u>	<u>27,174,203</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Operating Transfers to Other Funds	<u>(8,242,920)</u>	<u>(8,303,458)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Additions to Utility Plant and Other Assets	(21,830,433)	(11,522,625)
Payments on Bonds and Notes Payable Obligations	(13,114,551)	(7,249,076)
Proceeds from Issuance of Bonds	48,207,391	-
Net Cash (Used In) Capital and Related Financing Activities	<u>13,262,407</u>	<u>(18,771,701)</u>
<b>Cash Flows From Investing Activities:</b>		
Interest Received	(70,850)	636,089
Investment Purchases	(29,562,278)	(3,502,670)
Investment Redemptions	23,983,370	3,032,442
Net Cash Provided by (Used In) Investing Activities	<u>(5,649,758)</u>	<u>165,861</u>
Net Increase in Cash and Cash Equivalents	<u>24,762,470</u>	<u>264,905</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,351,333</u>	<u>6,086,428</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>31,113,803</u>	<u>\$6,351,333</u>
<b>Classified As:</b>		
Current Assets	5,178,525	6,351,333
Restricted Assets	25,935,278	-
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$31,113,803</u>	<u>\$6,351,333</u>

See accompanying *Notes to Financial Statements*.



	2013	2012
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	<b>\$11,934,732</b>	\$16,422,033
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	<b>10,564,876</b>	10,924,136
Bad Debts	<b>92,177</b>	131,878
Service Territory Payments	<b>(511,112)</b>	(608,580)
Miscellaneous Income	<b>(145,384)</b>	(374,581)
Interest Expense, Customer Deposits	<b>(837)</b>	(904)
(Increase) Decrease In:		
Accounts Receivable and Accrued Utility Revenues	<b>(299,399)</b>	1,253,616
Fossil Fuel Inventory	<b>2,812,867</b>	(551,185)
Materials and Supplies Inventory	<b>(651,900)</b>	126,108
Other Current Assets	<b>49,452</b>	(41,744)
Increase (Decrease) In:		
Accrued Liabilities and Accounts Payable	<b>1,592,107</b>	(87,557)
Customer Deposits	<b>(8,418)</b>	16,928
Unearned Lease Revenues	<b>(36,420)</b>	(36,420)
Other	<b>-</b>	475
Net Cash Provided by Operating Activities	<b>\$25,392,741</b>	\$27,174,203
<b>Non-Cash Capital and Related Financing Activities:</b>		
Additions to Utility Plant and Other Assets Contributed By:		
City's Governmental Funds	<b>-</b>	\$585,129
Equipment Purchases in Accounts Payable	<b>\$753,546</b>	\$746,314
Silver Lake Plant capital asset impairment	<b>-</b>	\$35,536,828

See accompanying *Notes to Financial Statements*.



# Water Utility

## Statements of Net Position

As of December 31, 2013 and 2012

	2013	2012
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$796,044	\$1,160,156
Investments	5,773,515	6,798,967
Accounts Receivable and Accrued Utility Revenues	454,819	615,418
Materials and Supplies Inventory	140,588	134,838
Total Current Assets	<b>7,164,966</b>	8,709,379
<b>Noncurrent Assets:</b>		
Capital Assets:		
Construction Work in Progress	2,891,250	2,773,599
Land and Land Rights	816,332	816,332
Depreciable Assets, Net	87,295,188	83,574,931
Net Capital Assets	<b>91,002,770</b>	87,164,862
Total Noncurrent Assets	<b>91,002,770</b>	87,164,862
Total Assets	<b>\$98,167,736</b>	\$95,874,241
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$419,199	\$355,350
Due to the Municipality	533,291	1,082,765
Accrued Compensation and Compensated Absences	275,051	261,904
Customer Deposits	4,771	5,385
Total Current Liabilities	<b>1,232,312</b>	1,705,404
<b>Noncurrent Liabilities:</b>		
Accrued Compensated Absences	208,473	191,357
Total Noncurrent Liabilities	<b>208,473</b>	191,357
Total Liabilities	<b>1,440,785</b>	1,896,761
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>351,367</b>	150,360
<b>NET POSITION:</b>		
Net Investment in Capital Assets	91,002,770	87,164,862
Unrestricted	5,372,814	6,662,258
Total Net Position	<b>96,375,584</b>	93,827,120
Total Liabilities, Deferred Inflows of Resources and Net Position	<b>\$98,167,736</b>	\$95,874,241

See accompanying *Notes to Financial Statements*.



# Water Utility

## Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Operating Revenues:</b>		
Retail	\$7,528,460	\$7,890,123
Other	753,644	729,752
Total Operating Revenues	<u>8,282,104</u>	<u>8,619,875</u>
<b>Operating Expenses:</b>		
Operations and Maintenance	6,038,919	5,584,789
Depreciation	2,647,112	2,608,689
Total Operating Expenses	<u>8,686,031</u>	<u>8,193,478</u>
<b>Operating Income (Loss)</b>	<u>(403,927)</u>	426,397
<b>Nonoperating Income (Expenses):</b>		
Investment Income	80,827	96,669
Interest Expense	(8)	(11)
Miscellaneous, Net	(44,836)	(46,296)
Total Nonoperating Income	<u>35,983</u>	<u>50,362</u>
<b>Income (Loss) Before Transfers and Capital Contributions</b>	<u>(367,944)</u>	476,759
Transfers Out	(345,922)	(373,963)
Capital Contributions	3,262,330	904,652
<b>Change in Net Position</b>	<u>2,548,464</u>	1,007,448
Net Position, Beginning of Year	<u>93,827,120</u>	92,819,672
Net Position, End of Year	<u>\$96,375,584</u>	<u>\$93,827,120</u>

See accompanying *Notes to Financial Statements*.



# Water Utility

## Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	<b>\$8,384,685</b>	\$8,219,040
Cash Paid to Suppliers	<b>(4,486,877)</b>	(3,989,359)
Cash Paid to Employees	<b>(1,588,947)</b>	(1,522,561)
Internal Activity - Payments From Other Funds	<b>203,329</b>	244,504
Net Cash Provided By Operating Activities	<b>2,512,190</b>	2,951,624
<b>Cash Flows From Noncapital Financing Activities:</b>		
Operating Transfers to Other Funds	<b>(344,196)</b>	(376,591)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Additions to Utility Plant and Other Assets	<b>(5,138,377)</b>	(1,248,824)
Capital Contributions Received	<b>1,500,000</b>	-
Net Cash (Used In) Capital and Related Financing Activities	<b>(3,638,377)</b>	(1,248,824)
<b>Cash Flows From Investing Activities:</b>		
Interest Received	<b>80,819</b>	96,657
Investment Purchases	<b>(266,478)</b>	(1,548,385)
Investment Redemptions	<b>1,291,930</b>	350,072
Net Cash Provided by (Used In) Investing Activities	<b>1,106,271</b>	(1,101,656)
Net Increase in Cash and Cash Equivalents	<b>(364,112)</b>	224,553
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>1,160,156</b>	935,603
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$796,044</b>	\$1,160,156

See accompanying *Notes to Financial Statements*.



	2013	2012
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	(\$403,927)	\$426,397
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,647,112	2,608,689
Bad Debts	31,165	12,069
Other	(44,836)	(46,296)
(Increase) Decrease In:		
Accounts Receivable and Accrued Utility Revenues	129,435	(58,927)
Materials and Supplies Inventory	(5,750)	3,297
Increase (Decrease) In:		
Accrued Liabilities and Accounts Payable	(41,402)	98,632
Customer Deposits	(614)	(1,235)
Unearned Revenue	201,007	(91,002)
Net Cash Provided by Operating Activities	<u>\$2,512,190</u>	<u>\$2,951,624</u>
<b>Non-Cash Capital and Related Financing Activities:</b>		
Additions to Utility Plant and Other Assets Contributed By:		
City's Governmental Funds	\$697,202	\$423,393
Developers	\$1,065,128	\$481,259
Equipment Purchases in Accounts Payable	<u>\$322,362</u>	<u>\$1,205,026</u>

See accompanying *Notes to Financial Statements*.



# NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

## NOTE 1: Summary of Significant Accounting Policies

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

The significant account 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 Rochester City Council. 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, liabilities and deferred inflows 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 2011, GASB issued Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The Utilities made the decision to implement this standard effective January 1, 2012.



In April 2012, GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows. The Utilities made the decision to implement this standard effective January 1, 2013.

## **ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS 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. Fair values are based on quoted market prices. 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. Market values may have changed significantly after year-end.

Investment of utility funds is restricted by state statutes. Investments are limited to:

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

As a department of the City of Rochester, MN, the utility is governed by the investment policy that has been adopted by the Rochester City Council. That policy follows the state statute for allowable investments.



**Receivables/Payables and Accrued Utility Revenues**

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

The Utilities provide an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable has been reduced by an Allowance for Doubtful Accounts of \$200,000 and \$255,000 at December 31, 2013 and 2012, respectively for the Electric Utility and \$20,000 each year for the Water Utility.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are:

	<u>Year ended December 31</u>	
	<u>2013</u>	<u>2012</u>
<b>Electric</b>	\$4,844,353	\$4,641,826
<b>Water</b>	\$143,101	\$145,482

**Inventories**

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

**Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties.

**Other Current Assets**

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



## Capital Assets

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

Capital assets are recorded at cost or the fair market value at the time of contribution to RPU. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

<b>Electric Plant</b>	<b>Years</b>
Generation	10-60
Transmission	20-45
Distribution	10-50
General	5-50

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



NOTE 1: Summary of Significant Accounting Policies (continued)...

**Other Assets – Noncurrent**

Other Assets – Noncurrent includes Regulatory Assets consisting of Bond Issue Costs and Service Territory Acquisition Costs. With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, RPU applied the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, ¶ 480, General Standards of Accounting for the Effects of Regulation, to record bond issuance costs as a regulatory asset and amortize them over the terms of the bond issues. RPU applied the same GASB 62 provisions to record costs to acquire certain electric service territory rights from People’s Energy Cooperative (PEC) as a regulatory asset amortizing these costs over forty years. (See Note 12 Commitments and Contingencies, Service Territory Settlements). Prior year amounts have been restated to agree to this presentation.

A summary of changes in electric other assets for 2013 follows:

	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
Bond issue costs	\$1,114,876	\$367,854	-	\$1,482,730
Less: Amortization of bond issue costs	580,734	130,487	-	711,221
Nonoperating Other Assets	534,142			\$771,509
Regulatory asset-Service territory payments	14,638,638	496,530	-	15,135,168
Less: Amortization of Regulatory asset	3,251,792	380,299	-	3,632,091
Operating Other Assets	11,386,846			11,503,077
Net Other Assets	<u>\$11,920,988</u>			<u>\$12,274,586</u>

A summary of changes in electric other assets for 2012 follows:

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Bond issue costs	\$1,114,876	-	-	\$1,114,876
Less: Amortization of bond issue costs	495,960	84,774	-	580,734
Nonoperating Other Assets	618,916			534,142
Regulatory asset-Service territory payments	14,042,587	596,051	-	14,638,638
Less: Amortization of Regulatory asset	2,884,011	367,781	-	3,251,792
Operating Other Assets	11,158,576			11,386,846
Net Other Assets	<u>\$11,777,492</u>			<u>\$11,920,988</u>



### **Deferred Outflows of Resources**

The Utilities have issued revenue bonds to finance the advance refund of the outstanding revenue bonds. This advance 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 interest method.

### **Compensated Absences**

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

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

### **Customer Deposits**

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

### **Long-Term Obligations**

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 interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### **Accrued Claims**

A one-time offer of Retirement/Resignation Incentive Program was made available to eligible employees in the Power Resources Division. The Utilities will pay a lump-sum amount equal to one week of base wages for each full year of employment to each participating employee upon separation.

### **Deferred Inflows of Resources**

The Electric Utility leases a portion of its transmission system, known as the North Loop, to Southern Minnesota Municipal Power Agency (SMMPA) under a non-cancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and lease revenues are being recognized ratably over the lease term. The amounts deferred as of December 31, 2013 and 2012 were \$592,535 and \$628,955 respectively.

The Utilities have received advance payments for leasing antenna space on its water towers. These payments for 2013 and 2012 were \$351,367 and \$150,360, respectively.



## **REVENUES AND EXPENSES**

The Utilities distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a utility's 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 rates were approved by the Utility Board and the City Council and placed into effect on January 1, 2009.

Current water rates were approved by the Utility Board and the City Council and placed into effect on April 1, 2010.

### **Transfers**

Transfers include the payment in lieu of taxes to the municipality.

### **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 statements of revenues, expenses and changes in net position.

### **Special Item**

In August 2012, the Public Utilities Board passed a resolution directing Utilities staff to develop, implement and execute a plan to decommission the Silver Lake Plant for purposes of electrical generation by December 31, 2015 or sooner. That resolution was further clarified to state that portions of the Silver Lake Plant would remain operating to produce steam for sale to the Mayo Clinic using only natural gas as a fuel source. It has been determined that steam boilers for Silver Lake Plant Units 2 and 3 will remain in operation for that purpose. The decommissioning decision was driven by wholesale market factors and also current and upcoming regulations issued by the U.S. Environmental Protection Agency that impact coal-fired generating facilities. Additionally two new transmission lines are projected to be in service by the end of 2015 which will address reliability concerns of having less generation within the Electric Utility's service area. An impairment loss of \$35,536,828 has been reported as a special item in 2012 which represents the estimated undepreciated book value of impaired capital assets at the anticipated decommissioning date of December 31, 2015.



## **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

GASB has approved GASB Statement No. 66, *Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Application of these standards may restate portions of these financial statements.

## **COMPARATIVE DATA**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

## **NOTE 2: Deposits and Investments**

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

The Utilities' equity in the City of Rochester cash and investment pool is based on actual cash receipts and disbursements and a monthly allocation of investment earnings on a pro-rata basis. Investments held in the investment pool and associated risks are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2013 Comprehensive Annual Financial Report.



### NOTE 3: Due to the Municipality

The following is a schedule of balances as of December 31, 2013 and 2012:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2013 Amount</u>	<u>2012 Amount</u>
Municipality	Electric	General operating	\$20,570	\$17,468
Municipality	Electric	Payments in lieu of tax	692,579	628,366
Municipality	Electric	Sewer and Storm water revenue	2,327,614	2,301,512
<b>Total Electric Due To Municipality</b>			<b>3,040,763</b>	<b>2,947,346</b>
Electric	Municipality	Sewer and Storm water billing fees	85,788	73,968
Electric	Municipality	Utility bills	412,039	384,131
Electric	Municipality	Utility bill collections	11,935	4,232
Electric	Municipality	General operating	69,790	91,404
Electric	Municipality	Interest on investments	108,638	113,110
<b>Total Electric Due From Municipality</b>			<b>688,190</b>	<b>666,845</b>
<b>Electric Net Due to Municipality</b>			<b>\$2,352,573</b>	<b>\$2,280,501</b>
Municipality	Water	General operating	\$729	\$1,260
Municipality	Water	Water main reconstruction	493,403	952,814
Municipality	Water	Street opening repairs	25,482	110,789
Municipality	Water	Payments in lieu of tax	23,253	21,527
<b>Total Water Due To Municipality</b>			<b>542,867</b>	<b>1,086,390</b>
Water	Municipality	Utility bills	9,329	-
Water	Municipality	General operating	247	3,625
<b>Total Water Due From Municipality</b>			<b>9,576</b>	<b>3,625</b>
<b>Water Net Due to Municipality</b>			<b>\$533,291</b>	<b>\$1,082,765</b>

The following is a schedule of transfer balances for the years ending December 31, 2013 and 2012:

<u>To</u>	<u>From</u>	<u>Principal Purpose</u>	<u>2013 Amount</u>	<u>2012 Amount</u>
Municipality	Electric	Tax Equivalents	\$8,307,132	\$7,720,361
Municipality	Water	Tax Equivalents	\$345,922	\$373,963

### NOTE 4: Restricted Assets

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

	<u>2013</u>	<u>2012</u>
<b>Construction Fund</b>	\$25,935,278	-
Under the provisions of the bond agreements and revenue notes, unspent proceeds are placed in a construction fund until capital expenditures are made.		
<b>Reserve Account</b>	5,588,191	2,508,848
Proceeds deposited to be used to pay principal and interest payments on long-term debt.		
<b>Funds-Held in +Trust</b>	1,841,156	-
Funds to be used for CapX 2020 expenses		
	<b>\$33,364,625</b>	<b>\$2,508,848</b>



## NOTE 5: Changes in Capital Assets

### ELECTRIC

A summary of changes in electric capital assets for 2013 follows:

	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated:				
Land and land rights	\$3,319,092	\$20,810	-	\$3,339,902
Construction in progress	8,485,018	19,345,976	3,352,697	24,478,297
Total capital assets, not being depreciated	<u>11,804,110</u>	<u>19,366,786</u>	<u>3,352,697</u>	<u>27,818,199</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	33,964,697	678,330	-	34,643,027
Installations, equipment and fixtures	265,366,240	4,698,628	1,103,202	268,961,666
Intangible plant assets	367,829	-	67	367,762
Capital lease assets	18,925	777,985	18,925	777,985
Total capital assets, being depreciated	<u>299,717,691</u>	<u>6,154,943</u>	<u>1,122,194</u>	<u>304,750,440</u>
Total capital assets	311,521,801	25,521,729	4,474,891	332,568,639
Less: Accumulated depreciation	<u>166,947,020</u>	<u>10,184,578</u>	<u>963,338</u>	<u>176,168,260</u>
Net Capital Assets	<u>\$144,574,781</u>			<u>\$156,400,379</u>

A summary of changes in electric capital assets for 2012 follows:

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Capital assets, not being depreciated:				
Land and land rights	\$3,179,592	\$139,500	-	\$3,319,092
Construction in progress	8,040,552	5,145,403	4,700,937	8,485,018
Total capital assets, not being depreciated	<u>11,220,144</u>	<u>5,284,903</u>	<u>4,700,937</u>	<u>11,804,110</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	30,605,176	3,359,521	-	33,964,697
Installations, equipment and fixtures	259,742,519	8,365,721	2,742,000	265,366,240
Intangible plant assets	-	367,829	-	367,829
Capital lease assets	18,925	-	-	18,925
Total capital assets, being depreciated	<u>290,366,620</u>	<u>12,093,071</u>	<u>2,742,000</u>	<u>299,717,691</u>
Total capital assets	301,586,764	17,377,974	7,442,937	311,521,801
Less: Accumulated depreciation	<u>123,277,770</u>	<u>46,093,182</u>	<u>2,423,932</u>	<u>166,947,020</u>
Net Capital Assets	<u>\$178,308,994</u>			<u>\$144,574,781</u>

Accumulated depreciation as of December 31, 2012 and 2013 includes an impairment loss reserve of \$35,536,828. In 2012, capital assets totaling \$585,129 were contributed to the Utility by other funds of the City of Rochester.



NOTE 5: Changes in Capital Assets (continued)...

**WATER**

A summary of changes in water capital assets for 2013 follows:

	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated:				
Land and land rights	\$816,332	-	-	\$816,332
Construction in progress	2,773,599	2,495,811	2,378,160	2,891,250
Total capital assets, not being depreciated	<u>3,589,931</u>	<u>2,495,811</u>	<u>2,378,160</u>	<u>3,707,582</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	12,548,700	3,201,630	-	15,750,330
Installations, equipment and fixtures	108,004,332	3,209,838	253,145	110,961,025
Total capital assets, being depreciated	<u>120,553,032</u>	<u>6,411,468</u>	<u>253,145</u>	<u>126,711,355</u>
Total capital assets	124,142,963	8,907,279	2,631,305	130,418,937
Less: Accumulated depreciation	<u>36,978,101</u>	<u>2,647,112</u>	<u>209,046</u>	<u>39,416,167</u>
Net Capital Assets	<u><u>\$87,164,862</u></u>			<u><u>\$91,002,770</u></u>

In 2013, capital assets totaling \$697,202 were contributed to the Utility by other funds of the City of Rochester, and \$1,065,128 were contributed to the Utility by others.

A summary of changes in water capital assets for 2012 follows:

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Capital assets, not being depreciated:				
Land and land rights	\$816,332	-	-	\$816,332
Construction in progress	1,907,815	1,839,183	973,399	2,773,599
Total capital assets, not being depreciated	<u>2,724,147</u>	<u>1,839,183</u>	<u>973,399</u>	<u>3,589,931</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	12,539,036	9,664	-	12,548,700
Installations, equipment and fixtures	106,149,131	1,855,201	-	108,004,332
Total capital assets, being depreciated	<u>118,688,167</u>	<u>1,864,865</u>	<u>-</u>	<u>120,553,032</u>
Total capital assets	121,412,314	3,704,048	973,399	124,142,963
Less: Accumulated depreciation	<u>34,441,913</u>	<u>2,608,689</u>	<u>72,501</u>	<u>36,978,101</u>
Net Capital Assets	<u><u>\$86,970,401</u></u>			<u><u>\$87,164,862</u></u>

In 2012, capital assets totaling \$423,393 were contributed to the Utility by other funds of the City of Rochester, and \$481,259 were contributed to the Utility by others.



## NOTE 6: Capital Leases

The Utility financed the acquisition of a computer network Core Switch by means of a lease. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The Utility had leased a mailing machine in 2010 which ended in 2013.

The electric utility assets acquired through a capital lease during 2013 are as follows:

	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
DM925 Mailing machine	\$18,925	-	\$18,925	-
Core Switch Refresh, Construction in Progress	689,177	88,808	777,985	-
Core Switch Refresh	-	777,985	-	777,985
Less: Accumulated depreciation	9,305	6,483	9,305	6,483
Totals	<u>\$698,797</u>			<u>\$771,502</u>

The electric utility assets acquired through a capital lease during 2012 are as follows:

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
DM925 Mailing machine	\$18,925	-	-	\$18,925
Core Switch Refresh, Construction in Progress	-	689,177	-	689,177
Less: Accumulated depreciation	5,520	3,785	-	9,305
Totals	<u>\$13,405</u>			<u>\$698,797</u>

The future minimum lease obligations and the net present value of these future minimum lease payments are as follows:

<u>Year Ending December 31</u>	
2014	\$265,057
Less: Amount representing interest	<u>6,934</u>
	<u>\$258,123</u>



## NOTE 7: Long-Term Obligations

### ELECTRIC

The following revenue bonds and notes have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/13
5/29/13	Revenue Bond Series 2013B-CapX 2020 Southwest Metro to Rochester to La Crosse transmission line project	12/1/43	3.00-5.00%	\$38,370,000	\$38,370,000
3/19/07	Revenue Bond Series 2007C-Emission reduction equipment at Silver Lake Plant, transmission and substation work, distribution system expansion, and advance refund of Series 2000A Bonds	12/1/30	4.00-5.00%	76,680,000	71,945,000
2/26/13	Revenue Bond Series 2013A-Refund 2002 issue	12/1/17	2.00%	3,960,000	3,175,000
8/15/02	Revenue Bond Series 2002A-Support capital budget	12/1/17	3.00-4.50%	11,275,000	-
3/10/05	Revenue Note-2005A-Improve distribution system	12/1/14	Variable, Currently 0.05%	5,765,000	880,000
9/25/09	Revenue Note-2009A-Expand distribution system	12/1/14	Variable, Currently 0.05%	6,790,000	1,355,000

Revenue bond and note debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$4,300,000	\$5,245,844	\$9,545,844
2015	3,765,000	5,090,525	8,855,525
2016	3,895,000	4,939,375	8,834,375
2017	4,060,000	4,782,125	8,842,125
2018	4,445,000	4,610,675	9,055,675
2019-2023	25,385,000	19,908,400	45,293,400
2024-2028	31,595,000	13,705,250	45,300,250
2029-2033	19,125,000	6,349,500	25,474,500
2034-2038	8,545,000	3,704,500	12,249,500
2039-2043	10,610,000	1,643,500	12,253,500
	<u>\$115,725,000</u>	<u>\$69,979,694</u>	<u>\$185,704,694</u>



All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds and notes until the bonds and notes are defeased. Principal and interest paid for 2013 and 2012 were \$8,681,844 and \$7,736,980, respectively. Total gross revenues as defined for the same periods were \$140,898,413 and \$142,957,439. Annual principal and interest payments are expected to require 4% of gross revenues on average.

In March 2007, the Electric Utility issued \$76.2 million in Revenue Bonds, Series 2007C, to finance the emission reduction project at Silver Lake Plant, transmission and substation work, and distribution system expansion, and to advance refund the majority of the outstanding Series 2000A Bonds. This advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,172,658. This difference, reported in the financial statements as deferred outflow of resources, is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance at December 31, 2013 and 2012 was \$1,254,213 and \$1,382,772 respectively. The refunding was fully completed December 1, 2010, and no defeased debt remained outstanding as of that date.

In February 2013, the Electric Utility issued \$3.96 million in Revenue Bonds, Series 2013A, to finance the refunding of the outstanding Series 2002A Bonds. This current refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$25,962. This difference, reported in the financial statements as deferred outflow of resources, is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance at December 31, 2013 was \$18,208.

Variable revenue notes are issued by the Midwest Consortium of Municipal Utilities (MCMU). Actual interest expense on variable rate notes is determined annually. During the year, interest payments on variable rate debt are made at an assumed rate set according to the provisions of the Project Loan Agreements, 2.0% for both the 2005A and 2009A variable rate issues currently. Annually an evaluation is completed based on actual interest rates incurred by the MCMU and any deficit is added or any excess is credited to the debt service payment due June 1st of the subsequent year.



NOTE 7: Long-Term Obligations (continued)...

### LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC

Long-term obligation activity for the years ended December 31, 2013 and 2012 is as follows:

	<u>1/1/13</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Long-term debt	\$82,255,000	\$42,330,000	\$8,860,000	\$115,725,000	\$4,300,000
Bond discount/premium	1,931,771	5,877,391	449,622	7,359,540	-
Accrued Compensated Absences	1,417,366	105,626	257,661	1,265,331	-
Accrued Claims	27,000	423,859	8,000	442,859	-
Capital Lease	518,411	-	260,288	258,123	258,123
Totals	\$86,149,548	\$48,736,876	\$9,835,571	\$125,050,853	\$4,558,123

	<u>1/1/12</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Long-term debt	\$86,280,000	-	\$4,025,000	\$82,255,000	\$4,245,000
Bond discount/premium	2,110,093	-	178,322	1,931,771	-
Accrued Compensated Absences	1,366,147	105,930	54,711	1,417,366	-
Accrued Claims	35,000	-	8,000	27,000	-
Capital Lease	12,505	769,251	263,345	518,411	258,032
Totals	\$89,803,745	\$875,181	\$4,529,378	\$86,149,548	\$4,503,032

### LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the years ended December 31, 2013 and 2012 is as follows:

	<u>1/1/13 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/13 Balance</u>
Accrued Compensated Absences	\$191,357	\$17,116	-	\$208,473
Totals	\$191,357	\$17,116	-	\$208,473

	<u>1/1/12 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12 Balance</u>
Accrued Compensated Absences	\$169,553	\$46,750	\$24,946	\$191,357
Totals	\$169,553	\$46,750	\$24,946	\$191,357

### INTEREST EXPENSE – ELECTRIC

	<u>2013</u>	<u>2012</u>
Bond interest expense	\$4,521,061	\$3,629,431
Bond premium & discount amortization	(78,115)	123,823
Interest expense	54,773	94,806
Allowance for funds used during construction	(815,333)	-
Totals	\$3,682,386	\$3,848,060



## NOTE 8: Net Position

GASB Statement No. 63 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

### DEFINED BENEFIT PENSION PLANS – STATEWIDE

#### Plan Description

All eligible employees of the Utilities are covered by defined benefits plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost sharing, multiple employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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.



NOTE 9: Pension Plans *(continued)*...

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and .7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. 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.

PERA issues a publically available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088, or by calling (651) 296-7460 or 1-800-652-9026.

### **Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Utilities make annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in both 2013 and 2012. The Utilities were required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members in both 2013 and 2012. The Utilities contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$1,113,065, \$1,113,554, and \$1,075,186, respectively. The Utilities' contributions were equal to the contractually required contributions for each year as set by state statute.



## **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, 2013 and 2012 was \$40,729 and \$45,618, respectively.

## **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 minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. Rochester Public Utilities participates in this self-insurance program. The group health program is limited to losses of \$275,000 per claim with a variable annual aggregate, and the 2013 workers' compensation coverage is limited to \$940,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on unreported claims that are incurred but not yet reported. Additional details regarding the self-insurance program are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2013 Comprehensive Annual 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 ratemaking 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 regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking 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.

GASB Statement No. 62 is used in the accounting of debt issue costs and service territory acquisition costs. The Utilities made the decision to implement this standard effective January 1, 2013 and have reclassified prior year amounts.



## NOTE 12: Commitments and Contingencies

### POWER SALES AGREEMENT

The Electric 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 one quarter of the energy production. The remaining three quarters of the energy produced is sold into the Midcontinent Independent System Operator (MISO) market at market-based rates adjusted for SO2 allowance consumption under a margin-sharing arrangement. The Utility has an additional agreement with MMPA to market energy from its Cascade Creek combustion turbines (approximately 82 megawatts) into the MISO market, also under a margin-sharing arrangement. These agreements expire October 31, 2015.

Revenue under these agreements for the years ended December 31, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
kWh provided	63,875,273	30,655,054
Payments for availability	\$1,904,162	\$1,651,366
Reimbursed generation costs	\$59,314	\$182,405
Market-based sales	\$2,774,410	\$2,125,168

### 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 12.73 mills (tenths of a cent) per kWh to 16.00 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 ratemaking purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

### SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,243,336,412 and 1,258,605,881 kilowatt hours totaling \$87,239,794 and \$87,384,202 from SMMPA during the years ended December 31, 2013 and 2012, respectively.

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 12: Commitments and Contingencies (continued)...

### **CAPX 2020**

Since 2007, the Utility has participated in the CapX 2020 initiative, a joint initiative among midwest utilities intended to expand the transmission grid through construction of transmission lines primarily in Minnesota, Wisconsin and the surrounding region.

In December 2012, the Utility Board and City Council approved the Project Agreements for the Utility's participation in the La Crosse Project portion of the CapX 2020 initiative which consists of plans to build a 345 kilovolt (kV) line from Hampton, MN to Rochester, MN and on to La Crosse, WI. The project includes a transmission substation near Rochester where two associated 161 kV lines are routed to the Utility's Northern Hills and Chester Substations. Five utilities have an ownership interest in the La Crosse Project. The other participants in the La Crosse Project are Dairyland Power Cooperative ("DPC"), Northern States Power Company, a Minnesota corporation ("NSP-MN"), Northern States Power Company, a Wisconsin corporation ("NSP-WI"), Southern Minnesota Municipal Power Agency (SMMPA), and Wisconsin Public Power, Inc. (WPPI).

The La Crosse transmission line will improve reliability for the Twin Cities, Rochester and La Crosse areas, as well as improve access to generation in the southern part of Minnesota. The Utility is sharing in the project cost based on its load ratio shared between the five participating utilities, which is calculated to be 9% or approximately \$43.4 million. Construction began in 2013 and is expected to be completed by the end of 2015. NSP-MN is acting as the Construction Manager for the La Crosse Project and administers a trust account where the five participating utilities make required deposits based on expenditure plans provided by the Construction Manager, and from which the Construction Manager withdraws funds as construction expenditures occur. As of December 31, 2013 RPU had \$1,841,156 on deposit in the trust account.

### **OPEN CONSTRUCTION CONTRACTS**

The Utilities have several active projects as of December 31, 2013. At year end, the Utilities commitments with contractors are as follows:

<u>Electric Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
CapX 2020	\$15,828,367	\$27,537,825
SCADA Replacement	321,084	1,039,821

<u>Water Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
4th Street Reservoir	\$3,359,648	\$293,275
Well #41 Construction	109,058	148,592
SCADA Replacement	30,000	622,310

### **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 13: Subsequent Events**

In November 2013, the Utility Board and the City Council approved a 3.0% overall rate increase for the Electric Utility effective January 1, 2014.

In November 2013, the Utility Board and the City Council approved a 1.5% overall rate increase for the Water Utility effective January 1, 2014.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through April 2, 2014, the date the financial statements were available to be issued.



# OPERATING AND FINANCIAL STATISTICS (unaudited)

## ELECTRIC

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2004</u> <i>(ten years ago)</i>
<b>RETAIL CUSTOMERS:</b>						
Residential	45,651	45,244	44,700	43,614	43,123	40,329
General Service	4,725	4,740	4,701	4,599	4,546	4,210
Industrial / Commercial	2	2	2	2	2	2
Other	4	4	4	4	4	4
Total Retail Customers	50,382	49,990	49,407	48,219	47,675	44,545
<b>RETAIL SALES: (mWh)</b>						
Residential	348,952	342,986	346,088	345,076	325,400	300,108
General Service	641,210	634,692	642,712	643,998	633,700	592,690
Industrial / Commercial	225,082	236,566	236,880	240,438	246,180	270,939
Other	15,442	16,199	15,525	15,310	15,808	15,998
Total Retail Sales (mWh)	1,230,686	1,230,443	1,241,205	1,244,822	1,221,088	1,179,735
<b>RETAIL REVENUE:</b>						
Residential	\$42,344,833	\$41,924,195	\$42,565,163	\$41,706,952	\$39,405,261	\$26,391,940
General Service	62,342,255	62,452,007	62,924,479	61,730,430	60,130,384	41,172,242
Industrial / Commercial	18,562,734	19,405,820	19,455,536	19,389,007	18,984,349	14,536,253
Other	5,614,439	5,698,237	5,752,823	5,154,490	4,573,021	1,756,415
Total Retail Revenue	\$128,864,261	\$129,480,259	\$130,698,001	\$127,980,879	\$123,093,015	\$83,856,850
Steam Sales (MLBs)	451,945	447,579	459,491	453,280	438,810	-
Steam Revenues	\$4,849,550	\$5,427,419	\$5,512,332	\$5,555,370	\$5,178,145	-
Annual Peak (Megawatts)	278.6	287.8	292.1	278.3	261.0	248.7
Total mWh Generated	75,775	38,210	25,375	44,640	66,726	383,246
Total mWh Purchased	1,255,701	1,273,851	1,263,798	1,260,920	1,235,082	1,208,357
Year End Restricted/ Unrestricted Cash & Investment Balance	\$76,101,705	\$45,760,328	\$45,025,194	\$44,813,640	\$46,566,146	\$19,252,385

## WATER

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2004</u> <i>(ten years ago)</i>
<b>RETAIL CUSTOMERS:</b>						
Residential	34,571	34,213	33,827	33,547	33,337	30,622
Industrial / Commercial	3,463	3,454	3,442	3,404	3,395	3,134
Total Retail Customers	38,034	37,667	37,269	36,951	36,732	33,756
<b>RETAIL SALES: (ccf)</b>						
Residential	2,863,062	3,170,446	2,931,422	2,817,200	3,007,600	2,751,441
Industrial / Commercial	2,797,590	2,949,060	2,893,886	2,800,228	2,877,666	3,008,512
Total Retail Sales (ccf)	5,660,652	6,119,506	5,825,308	5,617,428	5,885,266	5,759,953
<b>RETAIL REVENUE:</b>						
Residential	\$4,286,290	\$4,526,267	\$4,290,475	\$4,170,552	\$4,202,344	\$3,303,751
Industrial / Commercial	2,684,057	2,808,702	2,741,479	2,672,797	2,680,653	2,275,949
Public Fire Protection	558,113	555,154	549,014	545,114	541,544	429,228
Total Retail Revenue	\$7,528,460	\$7,890,123	\$7,580,968	\$7,388,463	\$7,424,541	\$6,008,928
Total Pumped (billion gallons)	4.5	4.8	4.5	4.5	4.7	4.6
Year End Restricted/ Unrestricted Cash & Investment Balance	\$6,569,559	\$7,959,122	\$6,536,257	\$6,921,137	\$5,869,010	\$1,707,859





**ROCHESTER PUBLIC UTILITIES LEADERSHIP (pictured from left to right)**

Bill Cook • Acting Director of Field Services

Walter Schlink • Director of Power Resources/Customer Relations

Mark Kotschevar • Director of Core Services

Susan Parker • Director of Corporate Services

Larry Koshire • General Manager



**UTILITY BOARD (pictured from left to right)**

Mark Browning • Board Member • Project Manager, Facilities Project Services, Mayo Clinic

Dave Reichert • Board Member • Project Manager, Facilities Engineering Manager, IBM

Roger Stahl • Board Member • Owner and Attorney, RMS Law Firm, PLLC

Jerry Williams • Board President • Retired

Michael Wojcik • Board Member & City Council Liaison • Owner, Elite Consulting, Inc.

**ADVISORS AND CONSULTANTS**

Baker Tilly Virchow Krause, LLP • Independent Auditors

Kennedy & Graven • Bond Counsel

Springsted Public Finance Advisors • Financial Advisors

**UTILITY HEADQUARTERS**

Rochester Public Utilities

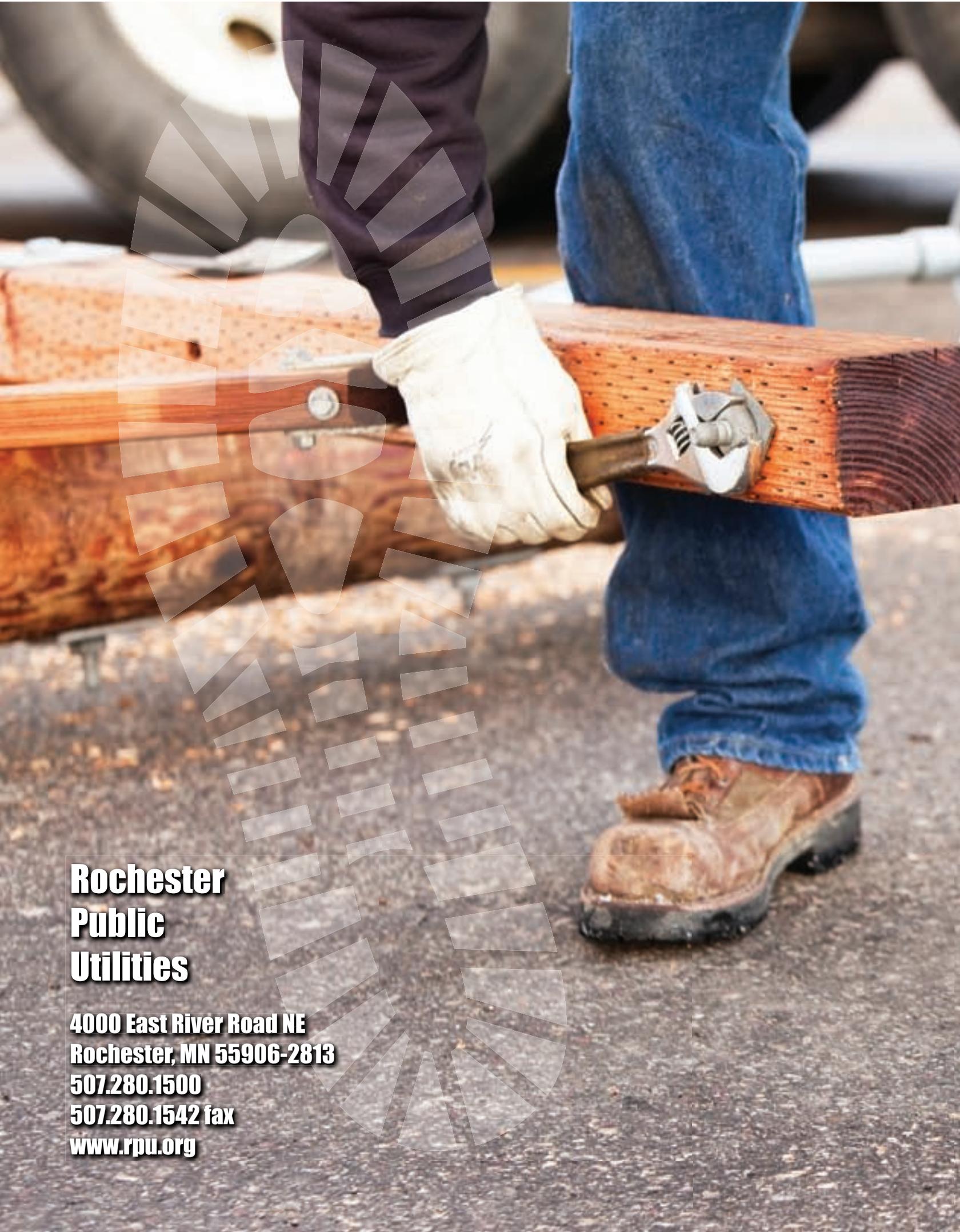
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