

Driving Our Service



2014 Annual Report



The CapX2020 transmission project
as it crosses the Mississippi River
approximately 50 miles northwest of LaCrosse, WI

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Photography by Josh Banks
www.BanksPhotos.com



Letter From Management

Rochester Public Utilities (RPU) celebrated 120 years as a municipal utility this year. We couldn't be more proud of where we are today and where we will be going in the future. There were significant milestones set this year that will help to chart the course for another 120 years of safe, reliable service to our customers.



Skill

Unprecedented change occurred in the leadership ranks of RPU, as new people filled important executive positions two from outside RPU and one from within the ranks of RPU.

At the last RPU board meeting of 2013, longtime RPU General Manager Larry Koshire announced his plan to retire at the end of April 2014. With that announcement, a nation-wide search was quickly put in place to find Larry's replacement. The skill and knowledge that Larry provided RPU during his 17 years as General Manager plus previous positions with RPU and other utilities is not easily replaced. After an extensive selection process, the Board named Mark Kotschevar, then Director of Core Services, as Larry's successor.

As Mark was getting settled in as the new General Manager, work had already begun to fill the important position he left, and in August, Sidney Jackson was named to fill the position of Director of Core Services. Sidney came to RPU from the Midcontinent Independent System Operator, Inc. (MISO) where he served as the Director of Client Relations.

RPU was thankful to Susan Parker for her years of service as she announced her retirement in 2014. In September, Peter Hogan formerly of CliftonLarsonAllen LLP, came on board as the new Director of Corporate Services.

RPU was able to draw such highly qualified candidates for all of the leadership positions in part because of how well regarded RPU is in the community and among other utilities across the nation.

Along with these leadership changes, we also celebrated in 2014 the retirements and careers of 10 other long-time RPU employees.

Retirements:

Nancy Kruger • 42 years	Doug Rovang • 29 years
Nick Davis • 35 years	Larry Holloway • 29 years
Jay Mullen • 35 years	Mike Engle • 26 years
Greg Heppner • 34 years	Bob Baier • 20 years
Terry Sethre • 32 years	Larry Koshire • 17 years
Dan Kinzer • 31 years	Sue Parker • 7 years

The dedication shown by the over 170 RPU employees during this year of so much change was again a testament to the type of employees we have. Their skill and commitment to the customer was imperative in continuing to provide safe, reliable electricity and water service to Rochester residents as change was occurring all around them.

continued...



Integrity

Sales for 2014 in the electric and water utilities were relatively flat compared to 2013, despite a small increase in customer growth for both utilities. A mild summer resulting in moderate air conditioning use yielded a 2014 peak of 259 megawatts (MW), well below the 292 MW all-time peak set in 2011. In the water utility, a summer with enough precipitation to irrigate yards led to a peak pumpage of 22.6 million gallons, well below the all-time peak of 30.2 million gallons set in 2007. Additionally, we continued to encourage our customers to purchase energy and water efficient devices through our Conserve & Save® rebate program. As sales are reduced due to the weather or through conservation, revenue is affected as well.

However, because of the 3% rate increase passed by the RPU Board, retail revenues were slightly up from 2013. This was the first rate increase for the electric utility since 2009, increasing the average residential bill by \$2.34 per month.

In July, the RPU Board was presented with findings from the Electric Cost of Service Study conducted by Utility Financial Solutions, LLC. This study helped to identify a number of important components of the RPU rate structure, which gave the RPU Board valuable information moving forward with rate setting. Work initially began in January 2014 with a study session for the RPU Board. The study session was an introduction to rate-making methodologies and principles. A strategic objective set in the study session and the rate study itself was to find better alignment between the fixed and variable costs across all rate classes. One of the factors driving this objective was the need to meld the growing interest for distributed generation and energy efficiency initiatives without compromising the fiscal health of the utility and to avoid creating rate subsidies between customers in the same rate class. At the culmination of numerous RPU Board study sessions and meetings,

clear direction was laid out in the Cost of Service Study including:

- Converting from cash-basis to utility-basis rate setting
- Implementing a rolling 12 month average Power Cost Adjustment (PCA)
- Proposing a three-year average rate adjustment of 3.5%, 1.7%, and 1.7%
- Increasing the residential customer charge by \$1.50, \$1.00, and \$1.00 for 2015-2017, respectively, to move toward cost of service
- Lowering the demand ratchet to reflect our current cost of service for the commercial customers

The RPU Board accepted and placed on file the Electric Cost of Service Study with the final rate changes approved by the Board and City Council in November.

In December, the bond rating agency Moody's reaffirmed RPU's bond rating at Aa3 (Electric Utility). Aa3 is Moody's fourth highest rating out of twenty-five possible rating categories. Bonds that carry the Aa3 rating are judged to be of high quality and are subject to very low credit risk. In their ratings report, Moody's noted that RPU is a well-established enterprise with a long, stable operating history and good financial liquidity. The Rochester community also played an important part in this positive rating as Moody's commented that RPU's service area (which is the City of Rochester) is economically sound with a highly educated workforce and low unemployment.

Part of RPU's electric rates are directly impacted by the interest payments required on money borrowed through the issuance of bonds. The higher the bond rating, the lower our interest rates, which helps hold down electric rates. Maintaining the Aa3 bond rating was great news for staff and customers alike.

Retail revenues in the water utility were flat compared to 2013. A 1.5% rate adjustment passed by the RPU Board helped to keep revenues up in light of decreased sales.



This was the first water rate increase since 2007 and increased the average residential bill by \$0.35 per month. Water use continues to decline on a per customer basis with weather playing a big part when it comes to water use and irrigation at the residential level. Water conservation technology continues to be popular in the marketplace and is becoming a more cost-effective choice for customers. Through RPU's Conserve & Save® rebate program, thousands of dollars went back to customers for purchasing qualifying water efficient equipment.

Much like the Electric Cost of Service Study helped to identify areas for improvement in RPU's rate-making for the electric utility, RPU will be conducting a Water Cost of Service Study in 2015.

Through careful management of expenses and rate adjustments, RPU finished the year with a positive net position for both utilities.

continued...



The RPU Utility Board monthly meetings are open to the public. Operating with transparency and open dialogue, provides customers and stakeholders the opportunity to be a part of the decision-making process at RPU.



RPU water and electric crews strive to provide safe, reliable electricity and drinking water to customers. Repairing water mains is one of the ways RPU water crews continue to provide water service to the city of Rochester.



Service

RPU is one of over 2,000 public power providers from across the United States and is the largest of the 129 municipal utilities in Minnesota. One of the pillars of public power is local control.

Through local control and decision-making, RPU is able to hear the voice of the customer and have a stronger connection with the needs of the community. One of RPU's long-time customers is the Mayo Clinic. RPU has worked with the Mayo Clinic on many programs and collaborative efforts over the years and this year was no different.

RPU and Mayo have had an agreement in place since 2002 to provide a contracted amount of steam to the Mayo campus from RPU's Silver Lake Plant (SLP). This contract proved to be valuable to both parties as Mayo has energy needs around the clock for its facilities and RPU is able to supply steam from SLP, as we transition out of the electrical generation business at that site.

With the transition at SLP, RPU and Mayo formed a working group to investigate the feasibility of developing a new steam sale contract. Looking at future needs for Mayo and future capabilities of SLP, both parties were able to work together to ensure that RPU will continue to provide steam to Mayo through the end of 2025. We look forward to this valuable partnership for years to come.

System reliability certainly plays a big part in serving customers on a daily basis. The first of two 161 kilovolt (kV) transmission lines for the Hampton-Rochester-LaCrosse (WI) part of the CapX2020 transmission project was energized in mid-May providing increased reliability to the Rochester area.

The 161 kV line spans from the new North Rochester substation to our existing Northern Hills substation. The second 161 kV line is scheduled to go in service to the east of Rochester in the fall of 2015.

This is the first major electric transmission project in southeast Minnesota in over 30 years. When completed, the Rochester area will have added redundancy in its transmission infrastructure providing for added security, reliability, and service.

Final completion of the Hampton-Rochester-LaCrosse (WI) transmission project is scheduled for late 2016.

We continued our investments in the electric distribution infrastructure through system maintenance and replacement of aging assets. These important investments paid dividends in recording an Average System Availability Index (ASAI) of 99.994% for the year. This is the second highest index in the last ten years.

Our water infrastructure was challenged significantly by Minnesota's historic winter weather in 2014. The frost level recorded in Rochester and Olmsted County measured as deep as six feet in places, which has been previously unseen. At those levels, water infrastructure can become compromised including water main and individual service lines to a home or business.

As the frost line deepened in Rochester, staff began to communicate with customers on the steps they would need to take to protect their service lines. Customers began measuring the temperature of their tap water, and if it was below the stated 40 degree mark, they began running their water continuously. RPU's customer service department received over 2,000 calls from customers who informed us they were running their water to keep their service from freezing. In an average year, less than six would usually run their water for this purpose.

The water mains were also tested due to the frost. Sixty water main breaks were recorded in 2014, which is roughly 20 percent more than an average year. Many thanks are owed to the water crews that worked long cold hours throughout the winter months maintaining and repairing the water infrastructure in Rochester. Despite the large increase in work and repair, the water crew's level of service to the customer was never compromised.



Accountability

Being accountable for actions and outcomes is at the heart of what being a public utility provider is about. In order to ensure customers have input into RPU's service, customers and the community are regularly engaged and asked for feedback on RPU projects and planning. This level of transparency is an integral part of being accountable to our customers.

Significant feedback and input came from community members as the new St. Mary's reservoir was being planned. The new 3.3 million gallon reservoir was put into service in late 2013, with the final finish work and landscaping completed in 2014. RPU added additional time and money to the budget in response to a number of requests from community members.

The first thing Rochester residents will notice with the reservoir is the exterior finish. A combination of colored concrete and brick was chosen over a steel façade based on the importance of having the reservoir fit into the natural surroundings.

Ensuring that trees and other plantings were brought back into the reservoir space was another concern brought to the attention of RPU staff. Local residents and the community were assured that RPU would bring the area back to the serene green space that many have enjoyed and loved for years.

The feedback after all of the work was completed was overwhelmingly positive, from the process in which the community was engaged to the final follow-through on commitments. By working together, RPU increased needed water storage for the city of Rochester, and local residents had a direct say and impact into how the reservoir came together.





The finishing touches on the 3.3 million gallon Saint Mary's Reservoir were completed in early 2014, however the reservoir was operational back in November 2013. The final exterior finish, site restoration, and landscaping were final pieces necessary to finishing the reservoir project. The reservoir will provide additional water storage for the Rochester community today and into the future.



Stewardship

RPU is looking at opportunities to increase its renewable energy footprint in a number of ways as part of its commitment to environmental stewardship.

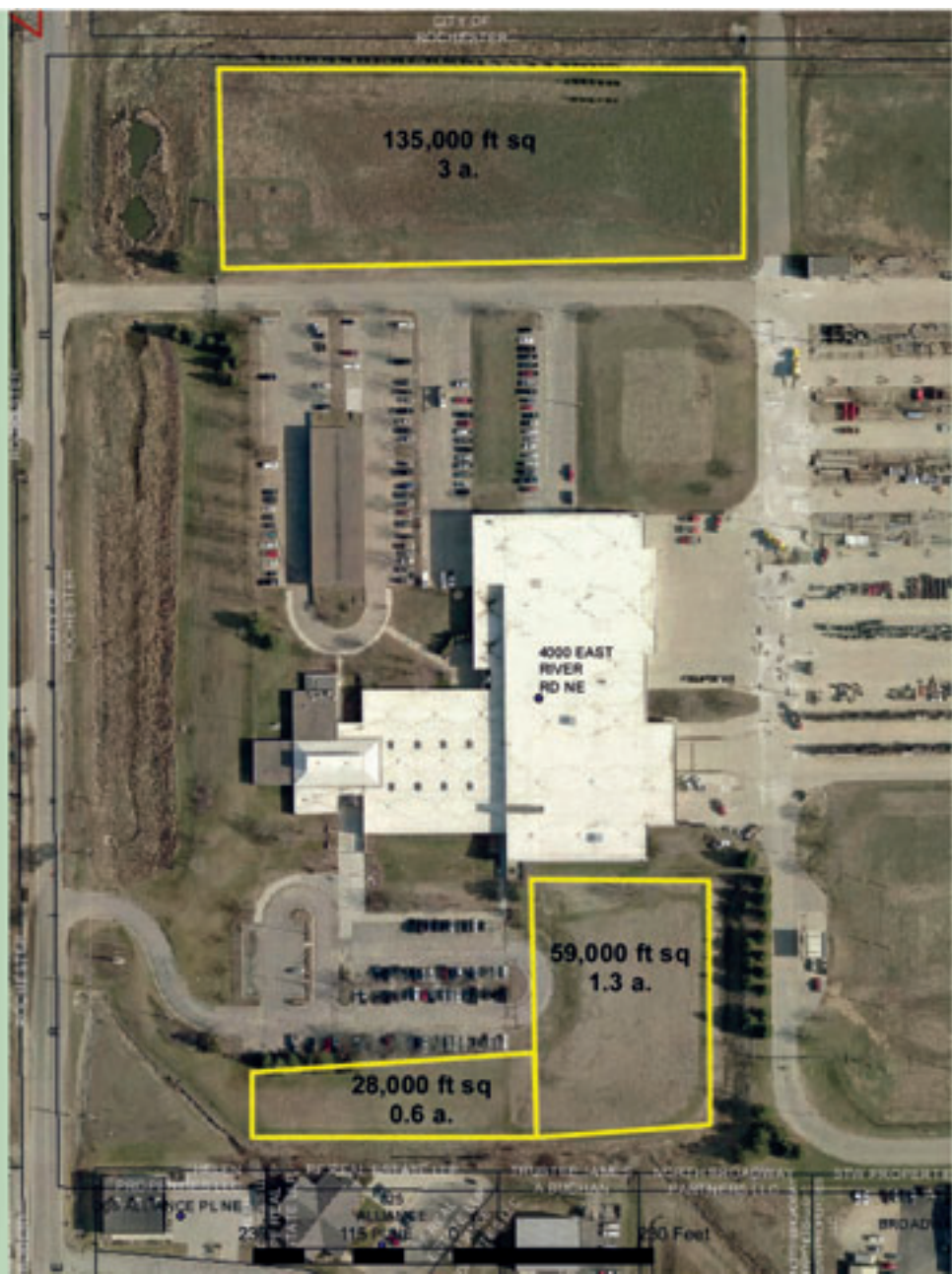
A significant part of RPU's stewardship effort is the reduction in carbon dioxide (CO₂) emissions. The two main components that feed into the CO₂ metric are kilowatt-hours saved through RPU's Conserve & Save® rebate program and the output of RPU's Lake Zumbro hydroelectric plant. By working with residential and commercial customers alike, a combined savings of over 21 million kilowatt-hours (kWh) and over 9 million gallons of water was realized. The Lake Zumbro hydroelectric dam produced 9,766,000 kilowatt-hours (kWh) in 2014 as well. In total, through the Conserve & Save®

rebate program and the Lake Zumbro hydroelectric facility, over 39,000 tons of CO₂ were avoided.

Adding to the already robust stewardship efforts, a presentation given at the November 25th RPU board meeting explored future possibilities for a RPU solar project to be built in 2015. The open space at the RPU Service Center could look significantly different as RPU is looking at that space to be the home for up to 500 kilowatt (kW) of renewable, emission-free solar energy.

RPU's current portfolio of renewable energy sources allows us to voluntarily comply with Minnesota's renewable energy standard and with the addition of solar we will also voluntarily comply with the new State solar requirements.

The area outlined in yellow is space where up to 500 kW of solar may be placed on the RPU Service Center property.



Safety

The number one core value at RPU is safety. The safety goal for RPU has always been zero injuries. RPU employees are working in hazardous situations every day and in order to achieve the Towards Zero safety goal, staff is required to attend a number of safety trainings each year for updates to safety procedures or as a refresher on a specific topic. In 2014, over 100 individual safety topics were delivered with almost 4,400 individual courses completed by RPU personnel.

Within the Core Services department the "7 Safety Habits That Could Save Your Life" safety process was implemented. This is a process which has been used successfully throughout North America.

There is also an ongoing effort to improve safety efforts at RPU through a peer safety team. The safety team works with the safety manager and staff to identify areas of improvement and to maintain a safe work environment. A collaborative safety effort has proven to be a valuable way to engage staff and increase safety.

Providing reliable service is what RPU has been doing for 120 years, but safety will never be compromised in that effort.

As faces change and new challenges arise, the one constant continues to be that our employees take care of our customers. RPU employees arrive each day to work with the understanding that the electricity and water that they provide touch the lives of over 50,000 electric and 38,000 water customers. That pride of service and commitment to excellence is what made the first 120 years' worth celebrating and the next 120 years' worth aspiring to.

Sincerely,


Mark Kotschevar
General Manager


Jerry Williams
Board President



The number one core value at RPU is safety. Every employee from office staff to the line crews (pictured above) work to achieve the Toward Zero safety goal.



Core Values

Driving Our Service

2014 Financial
Statements



INDEPENDENT AUDITORS' REPORT

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To the Public Utilities 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 years ended December 31, 2014 and 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

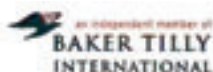
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Public Utilities as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



An Affirmative Action Equal Opportunity Employer

To the Public Utilities Board
Rochester Public Utilities

Emphasis of Matters

As discussed in Note 1, the financial statements present only 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, 2014 and 2013 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 14 to the financial statements, the 2013 financial statements have been restated to correct an error relating to the historical recognition of contributed assets from the City of Rochester. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated March 27, 2015 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 Vichow Krause, LLP

Madison, Wisconsin
March 27, 2015

MANAGEMENT DISCUSSION & ANALYSIS

(Unaudited)

The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or the Utility) provides an overview of the Utility's financial activities for the year ended December 31, 2014 compared to the year ended December 31, 2013. It also provides an overview of the Utility's financial activities for the year ended December 31, 2013 compared to the year ended December 31, 2012. 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, deferred outflows of resources, deferred inflows of resources and liabilities, with the difference between them reported as net position. The Statement of Net Position provides information about the nature and amount of investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. Net position increases when revenues exceed expenses. The Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated. The Statements of Cash Flows provide information about each Utility's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

Notes to Financial Statements

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



HIGHLIGHTS

- Rochester continued to grow with 418 new electric customers and 296 new water customers added in 2014. This compares with growth of 392 electric customers and 367 water customers in 2013.
- Retail revenues were up 1.2% over 2013, while kilowatt-hour sales were down 2.0%. The increase in revenues was due to a 3.0% rate increase effective January 1, 2014. The annual system peak demand of 259 megawatts was set in July, and compares with a peak demand of 279 megawatts in 2013 and the all-time system peak demand of 292 megawatts in 2011.
- Even though 2014's May-through-September rainfall decreased 19.6% from 2013, retail water sales volume was still down 3.2% in 2014 due primarily to conservation efforts.
- After four years without a rate increase for the Electric Utility, and six years without a rate increase for the Water Utility, the Utility Board voted for and the City Council approved a 3.0% rate increase for the Electric Utility and a 1.5% rate increase for the Water Utility, both effective January 1, 2014. The rate increases were needed to support operating, maintenance, and capital activities for both Utilities.
- Rates for power purchased from SMMPA remained steady in 2014, with no increase. Purchased power costs from SMMPA and the MISO market represented 68% of electric operating expenses for 2014.
- In lieu of tax payments of \$8.2 million and \$340,000 were transferred by the Electric and Water Utilities respectively to the City of Rochester's General Fund.
- Drilling of new Well #41, located at Ridgeline Dr. SE, just east of University Center Rochester, was completed in 2014. 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 new wellhouse is scheduled for 2015.
- Procurement and installation of a new Supervisory Control and Data Acquisition (SCADA) system was initiated in 2014. This system will replace RPU's existing 17-year-old system and add additional security and functionality for the monitoring and control of the electric and water systems. Cutover to the new system is planned for early 2015.
- Construction was completed in 2014 on a new backup data and control center. This new hardened site will serve as RPU's redundant data center along with being a backup control center.
- RPU was approved for membership as a transmission owner by the Midcontinent Independent System Operator (MISO) Board of Directors on August 28, 2014. This membership allowed RPU to be approved by the Federal Energy Regulatory Commission (FERC) for regional cost sharing of a portion of its investment in the CapX2020 project.



HIGHLIGHTS *(continued)*...

- Work continued on the CapX2020 project in 2014. The first of two new 161-kilovolt (kV) transmission lines was energized in 2014. This new line runs from the North Rochester Substation to the Northern Hills Substation. Work continued on the North Rochester to LaCrosse 345kV line, along with the North Rochester to Chester 161kV line. Both of these lines are planned to be energized in 2015. The final segment, Hampton Substation to the North Rochester Substation 345kV line, is planned to be completed in 2016.
- Staff continued to execute on the Board-approved plan to transition the Silver Lake Power Plant out of the electrical generation business by December 31, 2015:
 - Staff has been reduced by 24 through retirements and attrition.
 - MISO has approved the official retirement notification of electrical generation capabilities.
 - Necessary replacement capacity has been acquired.
 - Operation of two boilers continues on natural gas for steam supply to the Mayo Clinic.
- A cost-of-service study was completed for the Electric Utility with the Board and Council approving a three-year rate track. This new rate track will build cash reserves for the future replacement of infrastructure along with maintaining the financial health of the Electric Utility.
- RPU once again surpassed its Aggressive Demand-Side Management (DSM) goal for 2014 of 18,611 megawatt hours in energy savings. Actual energy savings of 22,102 megawatt hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represents an estimated 22,102 tons of carbon reduction. The energy savings also represents 1.8% of annual retail energy sales. RPU met 92.2% of its goal of 9.6 million gallons of water saved. Actual savings of 8.8 million gallons were achieved through the use of water conservation rates, customer education, leak detection and rebates offered on clothes washers, high efficiency toilets, rain barrels and other items.



FINANCIAL ANALYSIS – ELECTRIC UTILITY

Condensed Financial Information – Electric Utility

December 31, 2014, 2013 and 2012

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2014	2013	2012	Change	
				2014 vs. 2013	2013 vs. 2012
Operating Revenues	\$142.9	\$141.0	\$142.6	\$1.9	\$(1.6)
Operating Expenses:	128.3	129.1	126.2	(0.8)	2.9
<i>Operating Income</i>	14.6	11.9	16.4	2.7	(4.5)
Other Income & Expense	-	(0.2)	-	0.2	(0.2)
Interest Charges	(3.4)	(3.5)	(3.8)	0.1	0.3
<i>Nonoperating Income (Expense)</i>	(3.4)	(3.7)	(3.8)	0.3	0.1
Income Before Transfers, Capital Contributions and Special Item	11.2	8.2	12.6	3.0	(4.4)
Transfers Out (In-Lieu-Of-Tax Payments)	(8.2)	(8.3)	(8.3)	0.1	-
Capital Contributions	-	-	0.5	-	(0.5)
<i>Income Before Special Item</i>	3.0	(0.1)	4.8	3.1	(4.9)
Special Item - Impairment Loss	-	-	(35.5)	-	35.5
<i>Change in Net Position</i>	3.0	(0.1)	(30.7)	3.1	30.6
Net Position - Beginning of Year	121.7	121.8	152.5	(0.1)	(30.7)
<i>Net Position - End of Year</i>	\$124.7	\$121.7	\$121.8	\$3.0	\$(0.1)

Statements of Net Position

	2014	2013	2012	Change	
				2014 vs. 2013	2013 vs. 2012
Cash and Investments	\$38.7	\$42.7	\$43.2	\$(4.0)	\$(0.5)
Other Current Assets	19.3	17.5	19.5	1.8	(2.0)
Capital Assets, Net	167.7	156.4	144.6	11.3	11.8
Other Noncurrent Assets	34.2	45.6	14.4	(11.4)	31.2
<i>Total Assets</i>	259.9	262.2	221.7	(2.3)	40.5
Deferred Outflows of Resources	1.1	1.3	1.4	(0.2)	(0.1)
<i>Total Assets Plus Deferred Outflows of Resources</i>	\$261.0	\$263.5	\$223.1	\$(2.5)	\$40.4
Current Liabilities	\$20.2	\$20.8	\$19.0	\$(0.6)	\$1.8
Long-Term Debt	114.4	118.7	80.2	(4.3)	38.5
Other Noncurrent Liabilities	1.1	1.7	1.5	(0.6)	0.2
<i>Total Liabilities</i>	135.7	141.2	100.7	(5.5)	40.5
Deferred Inflows of Resources	0.6	0.6	0.6	-	-
Investment in Capital Assets	72.6	67.7	63.8	4.9	3.9
Unrestricted	52.1	54.0	58.0	(1.9)	(4.0)
<i>Net Position</i>	124.7	121.7	121.8	3.0	(0.1)
<i>Total Liabilities, Deferred Inflows of Resources and Net Position</i>	\$261.0	\$263.5	\$223.1	\$(2.5)	\$40.4

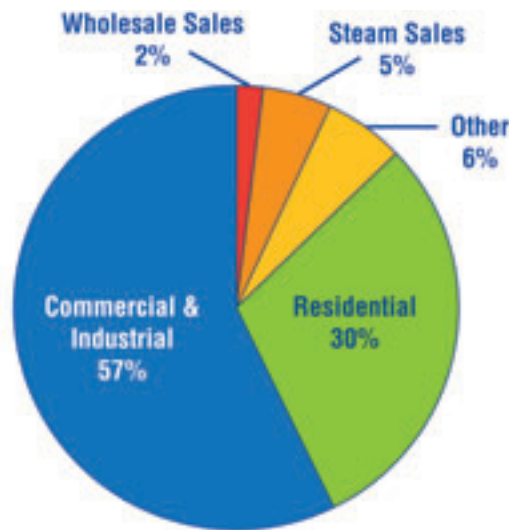


OPERATING REVENUES

2014 – Operating revenues increased \$1.9 million (1.3%) in 2014. Retail revenues were up \$1.6 million (1.2%), due primarily to a 3.0% rate increase effective January 1, 2014. Other operating revenues increased \$0.4 million due primarily to additional billing fee revenue. Steam revenues increased by \$1.9 million (39.1%), offset by a decrease in wholesale revenues of \$1.9 million (40.5%).

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%).

Electric Operating Revenues



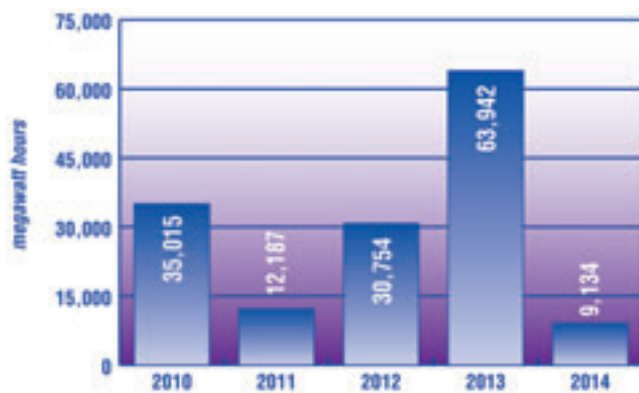
Number of Electric Customers



Electric Peaks



Electric Wholesale Sales



Electric Retail Sales

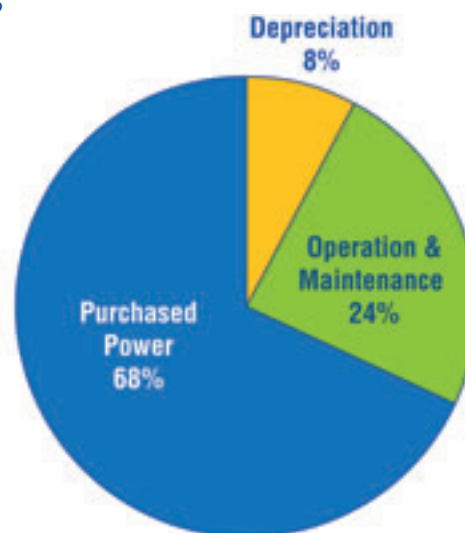


OPERATING EXPENSES

2014 – Operating expenses decreased \$0.8 million (0.6%) in 2014, due primarily to a decrease in purchased power and generation fuel from lower retail kilowatt-hour and wholesale sales. Salaries decreased slightly, offset by a small increase in materials, supplies and outside services. The primary driver of operating expenses for the Electric Utility continues to be purchases of power from SMPA and from the MISO market, which comprised 68% of total 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.

Electric Operating Expenses



IN-LIEU-OF-TAX PAYMENTS

2014 – 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. In 2014, the payment to the City was slightly lower than in 2013 due to a small decrease in kilowatt-hour sales.

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

CAPITAL CONTRIBUTIONS

2014 – There were no capital contributions in 2014.

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

SPECIAL ITEMS

2014 – There were no special items for 2014.

2013 – There were no special items for 2013.

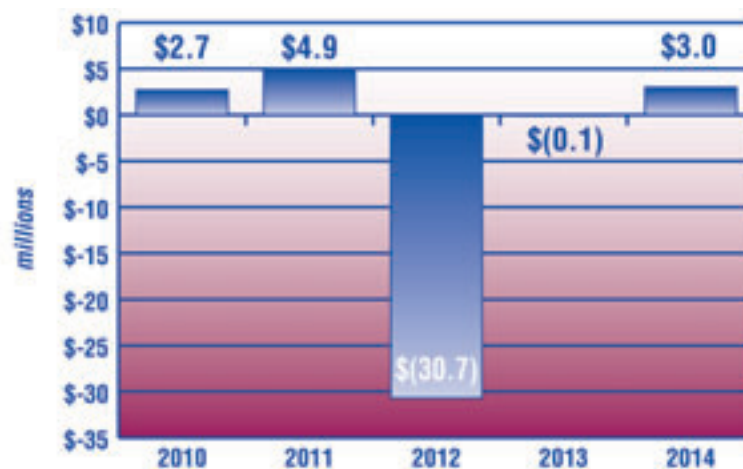
CHANGE IN NET POSITION

2014 – The increase in net position for 2014 was \$3.0 million, an improvement of \$3.1 million over the \$0.1 million decrease in net position recorded in 2013. This is due primarily to an increase in retail revenues and decreased operating expenses.

2013 – The decrease in net position for 2013 was \$0.1 million, an improvement of \$30.6 million over the \$30.7 million decrease in net position recorded in 2012. This is due primarily to flat retail revenues and increased operating expenses, along with the \$35.5 million asset impairment to the Silver Lake Plant assets recorded in 2012 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

2014 – The ending unrestricted cash and investments balance for 2014 was \$38.7 million, \$4.0 million less than 2013. Other current assets for 2014 were \$19.3 million, \$1.8 million higher than at the end of 2013. This increase was due primarily to an increase in accounts receivable and accrued revenues. Other noncurrent assets for 2014 were \$34.2 million, \$11.4 million lower than at the end of 2013. This was due to bond proceeds spent on the CapX2020 transmission project.

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 CapX2020 transmission project, as well as the required increase in the debt service reserve account resulting from the 2013 bond issuances.

Electric – Unrestricted Cash & Investments



LIABILITIES

2014 – Current liabilities decreased \$0.6 million in 2014, due primarily to a decrease in the current maturities of long-term debt as a result of paying off two revenue notes.

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

NET POSITION

2014 – Net position invested in capital assets increased \$4.9 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 2014, unrestricted net position decreased \$1.9 million due to the results of operations.

2013 – Net position invested in capital assets increased \$3.9 million.

Unrestricted net position decreased \$4.0 million in 2013 due to the results of operations.

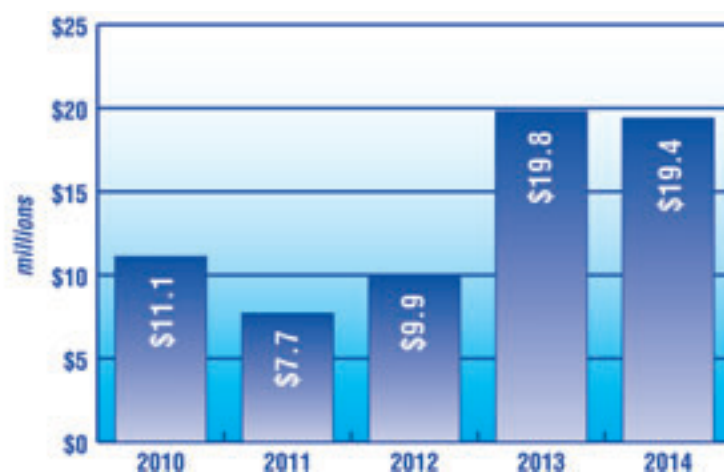
CAPITAL ASSETS

2014 – At December 31, 2014, the Electric Utility had \$167.7 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 \$18.8 million in 2014, reflecting investments in the distribution and transmission systems, a good portion of which was related to the CapX2020 transmission project, and general facilities of the Electric Utility. The increase in capital assets was offset by a \$7.5 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 expenditures and major maintenance expenses stayed fairly steady in 2014, due in large part to continued work on the CapX2020 transmission project.

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 CapX2020 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 expenditures and major maintenance expenses increased by \$9.9 million in 2013, due in large part to work on the CapX2020 transmission project.



Electric – Capital & Major Maintenance Expenditures



LONG-TERM DEBT

2014 – At the end of 2014, the Utility had \$111.4 million in revenue bonds and no revenue notes outstanding. No new debt was issued during the year and \$4.3 million was retired in 2014.

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 CapX2020 transmission project. In addition to the new debt issued, \$8.9 million was retired in 2013.

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, 2014, 2013 and 2012

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

		Restated	Restated	Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Operating Revenues	\$8.3	\$8.3	\$8.6	-	\$(0.3)
Operating Expenses	8.7	8.6	8.2	0.1	0.4
Operating Income	(0.4)	(0.3)	0.4	(0.1)	(0.7)
Other Income & Expense	-	-	0.1	-	(0.1)
Nonoperating Income (Expense)	-	-	0.1	-	(0.1)
Income Before Transfers and Capital Contributions	(0.4)	(0.3)	0.5	(0.1)	(0.8)
Transfers Out (In-Lieu-Of-Tax Payments)	(0.3)	(0.3)	(0.4)	-	0.1
Capital Contributions	2.1	2.6	0.8	(0.5)	1.8
Change in Net Position	1.4	2.0	0.9	(0.6)	1.1
Net Position - Beginning of Year	94.2	92.2	91.3	2.0	0.9
Net Position - End of Year	\$95.6	\$94.2	\$92.2	\$1.4	\$2.0

Statements of Net Position

	Restated	Restated	Change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Cash and Investments	\$5.8	\$6.6	\$8.0	\$(0.8)	\$(1.4)
Other Current Assets	0.6	0.6	0.7	-	(0.1)
Capital Assets, Net	91.4	88.8	85.5	2.6	3.3
Total Assets	\$97.8	\$96.0	\$94.2	\$1.8	\$1.8
Current Liabilities	\$1.7	\$1.2	\$1.7	\$0.5	\$(0.5)
Noncurrent Liabilities	0.1	0.2	0.2	(0.1)	-
Total Liabilities	1.8	1.4	1.9	0.4	(0.5)
Deferred Inflows of Resources	0.4	0.4	0.1	-	0.3
Investment in Capital Assets	91.4	88.8	85.5	2.6	3.3
Unrestricted	4.2	5.4	6.7	(1.2)	(1.3)
Net Position	95.6	94.2	92.2	1.4	2.0
Total Liabilities, Deferred Inflows of Resources and Net Position	\$97.8	\$96.0	\$94.2	\$1.8	\$1.8

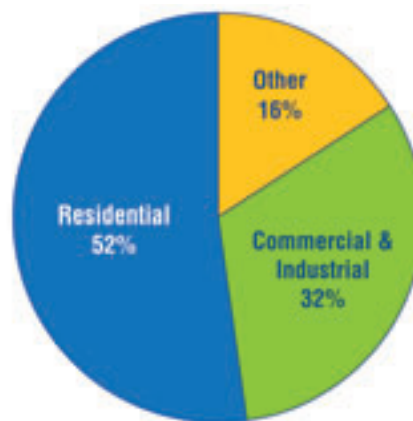


OPERATING REVENUES

2014 – Operating revenues stayed steady in 2014. A rate increase of 1.5% effective January 1, 2014 helped offset the impact of lower sales volume for the year.

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.

Water Operating Revenues



Number of Water Customers



Water Retail Sales

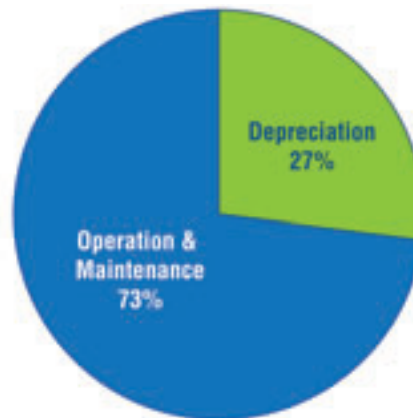


OPERATING EXPENSES

2014 – Operating expenses stayed steady in 2014.

2013 – Operating expenses increased by \$0.4 million (5.9%) 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.

Water Operating Expenses



IN-LIEU-OF-TAX PAYMENTS

2014 – 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. In 2014, the payment to the City was slightly lower than in 2013 due to a small decrease in ccf sales.

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



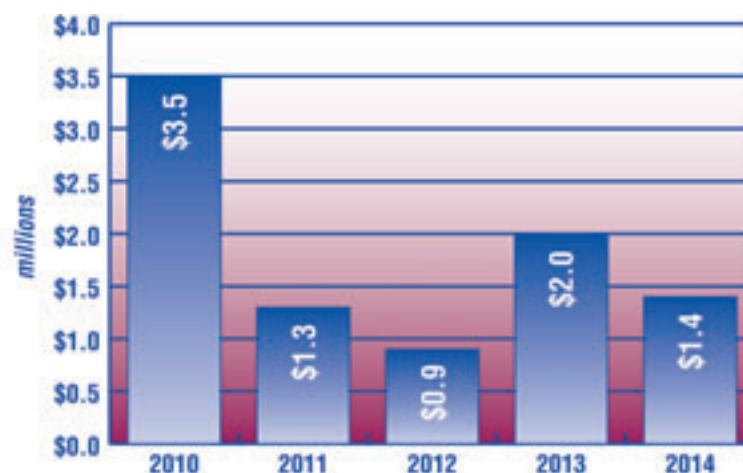
CAPITAL CONTRIBUTIONS

- 2014** – Capital contributions decreased \$0.5 million in 2014. These are assets, primarily 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, the Utility took over the responsibility of paying for new water towers and reservoirs out of its own funds. The City collects a Water Availability Charge (WAC) specifically for this purpose, and these funds will be used to reimburse the Water Utility for all or part of the cost of constructing new towers and reservoirs.
- 2013** – Capital contributions increased \$1.8 million in 2013. The majority of this increase consisted of \$1.5 million in reimbursements from the City's WAC funds to pay for part of the cost of constructing the St. Mary's reservoir.

CHANGE IN NET POSITION

- 2014** – The increase in net position for 2014 was \$1.4 million, \$0.6 million lower than in 2013. This is due to the decrease in capital contributions in 2014.
- 2013** – The increase in net position for 2013 was \$2.0 million, \$1.1 million higher than in 2012. This is due to the increase in capital contributions in 2013.

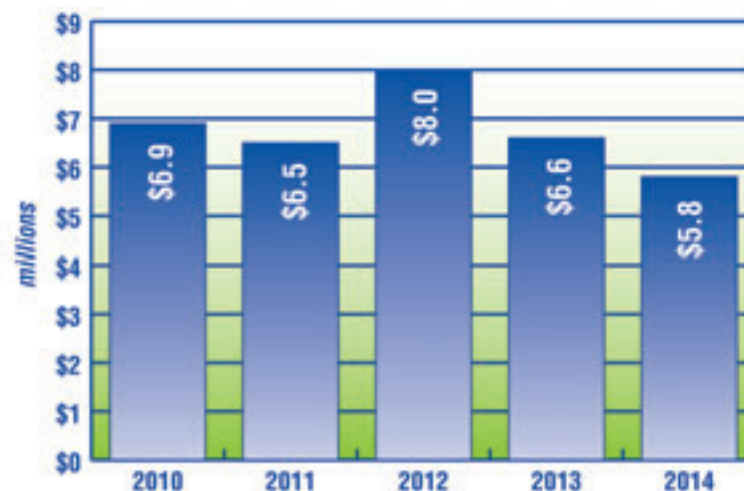
Water – Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

- 2014** – The ending unrestricted cash and investments balance for 2014 was \$5.8 million, \$0.8 million lower than 2013.
- 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.

Water – Unrestricted Cash & Investments



LIABILITIES

- 2014** – Current liabilities increased \$0.5 million in 2014 due to an increase in the amount owed to the City at the end of 2014.
- 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.

NET POSITION

- 2014** – Net position invested in capital assets increased \$2.6 million. This increase reflects additions to capital assets. 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 2014, unrestricted net position decreased \$1.2 million due to the results of operations.

- 2013** – Net position invested in capital assets increased \$3.3 million. This increase reflects additions to capital assets, the majority of which was the new reservoir constructed in 2013.

Unrestricted net position decreased \$1.3 million in 2013 due to the results of operations.

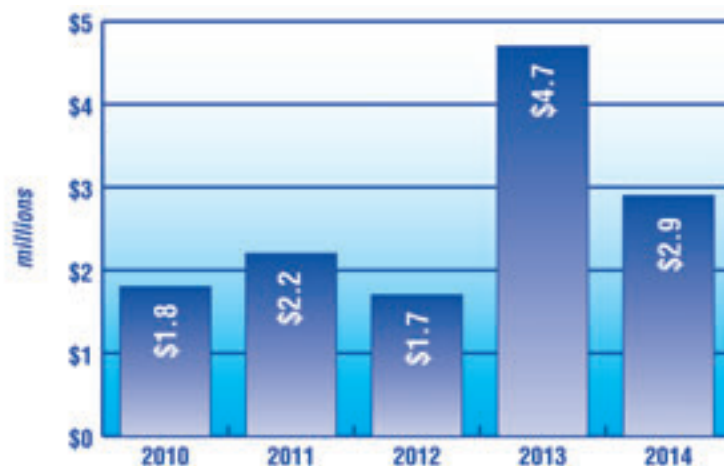


CAPITAL ASSETS

2014 – At December 31, 2014, the Water Utility had \$91.4 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 \$4.8 million in 2014, 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 \$2.2 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 expenditures and major maintenance expenses decreased by \$1.8 million in 2014 because of higher spending in 2013 with the addition of the new reservoir. Some of the major expenditure components in 2014 were finish work on the new reservoir, City projects, drilling of a new well, SCADA replacement, water storage facility maintenance, well maintenance, two new vehicles, a water sustainability study, and metering.

2013 – At December 31, 2013, the Water Utility had \$88.8 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 \$5.7 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 \$2.4 million increase in accumulated depreciation. Additional details regarding the Utility's total assets (electric and water) may be found in Note 5 to the financial statements. Capital expenditures and major maintenance expenses increased by \$3.0 million in 2013, due primarily to the addition of the new reservoir. Some of the major expenditure components 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 metering.

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 November 2013, the Utility Board approved a 3.0% rate increase for 2014 for the Electric Utility and a 1.5% rate increase for the Water Utility. The Electric Utility had not had a rate increase since 2009, while the Water Utility had not had an increase since 2007. A major contributing factor in allowing the Electric Utility to hold rates steady for several years has been that SMMPA, its major power supplier, has not had a rate increase since 2010. Careful planning and aggressive cost control measures were also an important factor in holding rates steady, allowing RPU to support the Rochester community during difficult economic conditions. Rate increases were finally necessary to support operating, maintenance, and capital activities. 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>
2015*	2.0%	3.5%	3.5%
2014	1.6%	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%
Annualized Average	2.1%	1.3%	1.0%

*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.

The housing market has continued to gain strength. In 2014 there were 375 building permits totaling \$85.5 million issued for single-family homes as compared to 342 permits totaling \$77.7 million in 2013. Commercial building activity has also gained strength. While the number of commercial building permits stayed steady from 2013, the dollar value increased significantly. Commercial permits numbered 41 for 2014 totaling \$73.9 million as compared to 41 commercial permits valued at \$56.5 million in 2013.

According to the US Department of Labor Bureau of Labor Statistics, the December 2014 unemployment rate of 3.1% for the area remains well below the state and national rates of 3.7% and 5.6%, respectively. The employment data shows that, on average, there were slightly more people working in the Rochester area than the previous year. During the past 12 months, the average unemployment rate for Rochester was 3.7%.



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, which 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. As noted in the Highlights section, a cost-of-service study was completed in 2014 for the Electric Utility. This resulted in the Board and Council approving a three-year rate track with rate increases of 3.5%, 1.7% and 1.7%, respectively for 2015-2017. For the Water Utility, management recommended, and the Board and City Council approved a rate increase of 3.5% for 2015.

REQUESTS FOR INFORMATION

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



Electric Utility

Statements of Net Position

As of December 31, 2014 and 2013

	2014	2013
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$5,593,450	\$5,178,525
Investments	33,050,807	37,558,555
Accounts Receivable and Accrued Utility Revenues	13,594,723	11,630,103
Inventories	5,667,947	5,761,750
Other Current Assets	22,878	76,640
Total Current Assets	57,929,805	60,205,573
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	15,662,769	25,935,278
Investments	5,623,831	5,588,191
Funds-Held in Trust	667,891	1,841,156
Capital Assets:		
Construction Work in Progress	32,364,447	24,478,297
Land and Land Rights	3,722,539	3,339,902
Depreciable Assets, Net	131,579,386	128,582,180
Net Capital Assets	167,666,372	156,400,379
Other Assets	12,283,656	12,274,586
Total Noncurrent Assets	201,904,519	202,039,590
Total Assets	259,834,324	262,245,163
DEFERRED OUTFLOWS OF RESOURCES	1,140,733	1,272,422
Total Assets Plus Deferred Outflows of Resources	\$260,975,057	\$263,517,585
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$10,673,275	\$10,702,083
Due to the Municipality	2,457,148	2,352,573
Accrued Compensation and Compensated Absences	2,253,875	2,199,669
Customer Deposits	605,249	525,810
Interest Payable	424,211	429,794
Current Maturities of Long Term Debt and Capital Lease	3,765,000	4,558,123
Total Current Liabilities	20,178,758	20,768,052
Noncurrent Liabilities:		
Accrued Compensated Absences	1,083,693	1,265,331
Accrued Claims	62,223	442,859
Long-Term Debt	114,438,372	118,784,540
Total Noncurrent Liabilities	115,584,288	120,492,730
Total Liabilities	135,763,046	141,260,782
DEFERRED INFLOWS OF RESOURCES	556,115	592,535
NET POSITION:		
Net Investment in Capital Assets	72,558,225	67,694,762
Unrestricted	52,097,671	53,969,506
Total Net Position	124,655,896	121,664,268
Total Liabilities, Deferred Inflows of Resources and Net Position	\$260,975,057	\$263,517,585

See accompanying *Notes to Financial Statements*.



Electric Utility

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Retail	\$130,448,277	\$128,864,261
Wholesale	2,848,098	4,786,100
Other	9,664,841	7,327,681
Total Operating Revenues	142,961,216	140,978,042
Operating Expenses:		
Purchased Power	87,392,206	88,020,377
Operations and Maintenance	30,493,542	30,458,057
Depreciation	10,058,878	10,184,577
Amortization of Regulatory Assets	386,745	380,299
Total Operating Expenses	128,331,371	129,043,310
Operating Income	14,629,845	11,934,732
Nonoperating Income (Expenses):		
Investment Income (Loss)	368,718	(79,629)
Interest Expense	(3,390,694)	(3,421,412)
Amortization of Regulatory Assets	(111,006)	(130,487)
Miscellaneous, Net	(241,665)	(145,384)
Total Nonoperating Income (Expenses)	(3,374,647)	(3,776,912)
Income Before Transfers	11,255,198	8,157,820
Transfers Out	(8,263,570)	(8,307,132)
Change in Net Position	2,991,628	(149,312)
Net Position, Beginning of Year	121,664,268	121,813,580
Net Position, End of Year	\$124,655,896	\$121,664,268

See accompanying Notes to Financial Statements.



Electric Utility

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash Received from Customers	\$137,064,579	\$136,769,725
Cash Paid to Suppliers	(105,995,129)	(102,259,618)
Cash Paid to Employees	(13,903,986)	(14,157,368)
Internal Activity - Payments From Other Funds	5,632,408	5,551,114
Service Territory Acquisition	(489,603)	(511,112)
Net Cash Provided By Operating Activities	22,308,269	25,392,741
Cash Flows From Noncapital Financing Activities:		
Operating Transfers to Other Funds	(8,282,206)	(8,242,920)
Cash Flows From Capital and Related Financing Activities:		
Additions to Utility Plant and Other Assets	(20,139,107)	(21,015,100)
Payments on Bonds and Notes Payable Obligations	(9,768,828)	(13,929,884)
Proceeds from Issuance of Bonds	-	48,207,391
Net Cash (Used In) Provided by Capital and Related Financing Activities	(29,907,935)	13,262,407
Cash Flows From Investing Activities:		
Interest Received	378,915	(70,850)
Investment Purchases	(7,849,242)	(29,562,278)
Investment Redemptions	13,494,615	23,983,370
Net Cash Provided by (Used In) Investing Activities	6,024,288	(5,649,758)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,857,584)	24,762,470
Cash and Cash Equivalents, Beginning of Year	31,113,803	6,351,333
Cash and Cash Equivalents, End of Year	21,256,219	31,113,803
Classified As:		
Current Assets	5,593,450	5,178,525
Restricted Assets	15,662,769	25,935,278
Cash and Cash Equivalents, End of Year	\$21,256,219	\$31,113,803

See accompanying Notes to Financial Statements.



	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$14,629,845	\$11,934,732
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,445,623	10,564,876
Bad Debts	174,382	92,177
Service Territory Payments	(489,603)	(511,112)
Miscellaneous Income	(241,665)	(145,384)
Interest Expense, Customer Deposits	(740)	(837)
(Increase) Decrease In:		
Accounts Receivable and Accrued Utility Revenues	(2,139,002)	(299,399)
Inventories	93,803	2,160,967
Other Current Assets	53,763	49,452
Increase (Decrease) In:		
Accrued Liabilities and Accounts Payable	(261,156)	1,592,107
Customer Deposits	79,439	(8,418)
Unearned Lease Revenues	(36,420)	(36,420)
Net Cash Provided by Operating Activities	\$22,308,269	\$25,392,741

See accompanying *Notes to Financial Statements*.



Water Utility

Statements of Net Position

As of December 31, 2014 and 2013

	2014	RESTATED 2013
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$831,871	\$796,044
Investments	4,915,393	5,773,515
Accounts Receivable and Accrued Utility Revenues	489,965	454,819
Materials and Supplies Inventory	146,253	140,588
Total Current Assets	6,383,482	7,164,966
Noncurrent Assets:		
Capital Assets:		
Construction Work in Progress	4,293,389	2,281,436
Land and Land Rights	816,332	816,332
Depreciable Assets, Net	86,304,902	85,709,259
Net Capital Assets	91,414,623	88,807,027
Total Noncurrent Assets	91,414,623	88,807,027
Total Assets	\$97,798,105	\$95,971,993
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$187,953	\$419,199
Due to the Municipality	1,132,492	533,291
Accrued Compensation and Compensated Absences	301,463	275,051
Customer Deposits	84,059	4,771
Total Current Liabilities	1,705,967	1,232,312
Noncurrent Liabilities:		
Accrued Compensated Absences	151,991	208,473
Total Noncurrent Liabilities	151,991	208,473
Total Liabilities	1,857,958	1,440,785
DEFERRED INFLOWS OF RESOURCES	356,214	351,367
NET POSITION:		
Net Investment in Capital Assets	91,414,623	88,807,027
Unrestricted	4,169,310	5,372,814
Total Net Position	95,583,933	94,179,841
Total Liabilities, Deferred Inflows of Resources and Net Position	\$97,798,105	\$95,971,993

See accompanying *Notes to Financial Statements*.



Water Utility

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2014 and 2013

	2014	RESTATED 2013
Operating Revenues:		
Retail	\$7,502,808	\$7,528,460
Other	783,905	753,644
Total Operating Revenues	<u>8,286,713</u>	<u>8,282,104</u>
Operating Expenses:		
Operations and Maintenance	6,384,921	6,038,919
Depreciation	2,325,370	2,611,520
Total Operating Expenses	<u>8,710,291</u>	<u>8,650,439</u>
Operating Income (Loss)	<u>(423,578)</u>	<u>(368,335)</u>
Nonoperating Income (Expenses):		
Investment Income	62,774	80,827
Interest Expense	(6)	(8)
Miscellaneous, Net	(62,323)	(44,836)
Total Nonoperating Income	<u>445</u>	<u>35,983</u>
Income (Loss) Before Transfers and Capital Contributions	<u>(423,133)</u>	<u>(332,352)</u>
Transfers Out	(339,949)	(345,922)
Capital Contributions	2,167,174	2,652,516
Change in Net Position	<u>1,404,092</u>	<u>1,974,242</u>
Net Position, Beginning of Year	<u>94,179,841</u>	<u>92,205,599</u>
Net Position, End of Year	<u>\$95,583,933</u>	<u>\$94,179,841</u>

See accompanying Notes to Financial Statements.



Water Utility

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash Received from Customers	\$7,983,575	\$8,384,685
Cash Paid to Suppliers	(4,490,904)	(4,486,877)
Cash Paid to Employees	(1,700,300)	(1,588,947)
Internal Activity - Payments From Other Funds	196,356	203,329
Net Cash Provided By Operating Activities	1,988,727	2,512,190
Cash Flows From Noncapital Financing Activities:		
Operating Transfers to Other Funds	(340,858)	(344,196)
Cash Flows From Capital and Related Financing Activities:		
Additions to Utility Plant and Other Assets	(2,532,931)	(5,138,377)
Capital Contributions Received	-	1,500,000
Net Cash (Used In) Capital and Related Financing Activities	(2,532,931)	(3,638,377)
Cash Flows From Investing Activities:		
Interest Received	62,767	80,819
Investment Purchases	-	(266,478)
Investment Redemptions	858,122	1,291,930
Net Cash Provided by (Used In) Investing Activities	920,889	1,106,271
Net Increase in Cash and Cash Equivalents	35,827	(364,112)
Cash and Cash Equivalents, Beginning of Year	796,044	1,160,156
Cash and Cash Equivalents, End of Year	\$831,871	\$796,044

See accompanying Notes to Financial Statements.



	2014	RESTATED 2013
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	(\$423,578)	(\$368,335)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,325,370	2,611,520
Bad Debts	14,159	31,165
Other	(62,324)	(44,836)
(Increase) Decrease In:		
Accounts Receivable and Accrued Utility Revenues	(49,305)	129,435
Materials and Supplies Inventory	(5,665)	(5,750)
Increase (Decrease) In:		
Accrued Liabilities and Accounts Payable	105,935	(41,402)
Customer Deposits	79,288	(614)
Unearned Revenue	4,847	201,007
Net Cash Provided by Operating Activities	<u>\$1,988,727</u>	<u>\$2,512,190</u>
Non-Cash Capital and Related Financing Activities:		
Additions to Utility Plant and Other Assets Contributed By:		
City's Governmental Funds	\$760,845	\$87,389
Developers	<u>\$1,406,329</u>	<u>\$1,065,128</u>

See accompanying Notes to Financial Statements.



NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

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.



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 provides an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable has been reduced by an Allowance for Doubtful Accounts of \$200,000 for the Electric Utility and \$20,000 for the Water Utility for December 31, 2014 and 2013.

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>2014</u>	<u>2013</u>
Electric	\$5,484,280	\$4,844,353
Water	\$150,064	\$143,101

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 maintenance contract 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:

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

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



Other Assets – Noncurrent

Other Assets – Noncurrent includes Regulatory Assets consisting of Bond Issue Costs and Service Territory Acquisition Costs.

A summary of changes in electric other assets for 2014 follows:

	<u>Balance 1/1/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/14</u>
Bond issue costs	\$1,482,730	\$32,500	-	\$1,515,230
Less: Amortization of bond issue costs	711,221	111,006	-	822,227
Nonoperating Other Assets	771,509			\$693,003
Regulatory asset-Service territory payments	15,135,168	474,321	-	15,609,489
Less: Amortization of Regulatory asset	3,632,091	386,745	-	4,018,836
Operating Other Assets	11,503,077			11,590,653
Net Other Assets	<u>\$12,274,586</u>			<u>\$12,283,656</u>

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>



Deferred Outflows of Resources

The Electric Utility has issued revenue bonds to finance the advance and current refundings of the outstanding revenue bonds. The refundings resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance as of December 31, 2014 and 2013 is \$1,140,733 and \$1,272,422, respectively.

Accrued Compensation and Compensated Absences

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

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

Customer Deposits

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

Accrued Claims

Under a one-time offer of Retirement/Resignation Incentive Program 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.

Long-Term Debt

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

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, 2014 and 2013 were \$556,115 and \$592,535, respectively.

The Water Utility has received advance payments for leasing antenna space on its water towers. These payments for 2014 and 2013 were \$356,214 and \$351,367, 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, 2014.

Current water rates were approved by the Utility Board and the City Council and placed into effect on January 1, 2014.

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.

Significant Customers

Sales to the Electric Utility's largest customer were \$23,143,647 (\$16,400,041 Retail and \$6,743,606 Other) and \$20,963,647 (\$16,114,097 Retail and \$4,849,550 Other) in 2014 and 2013, respectively. No other customer accounted for more than 10% of the Electric Utility's operating revenues. No single customer accounted for more than 10% of the Water Utility's operating revenues.



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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27 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 2014 Comprehensive Annual Financial Report.



NOTE 3: Due to the Municipality

The following is a schedule of balances as of December 31, 2014 and 2013:

<u>Due To</u>	<u>Due From</u>	<u>Principal Purpose</u>	<u>2014 Amount</u>	<u>2013 Amount</u>
Municipality	Electric	General operating	\$38,663	\$20,570
Municipality	Electric	Payments in lieu of tax	673,943	692,579
Municipality	Electric	Sewer and Storm water revenue	2,459,640	2,327,614
Total Electric Due To Municipality			3,172,246	3,040,763
Electric	Municipality	Sewer and Storm water billing fees	99,592	85,788
Electric	Municipality	Utility bills	389,558	412,039
Electric	Municipality	Utility bill collections	22	11,935
Electric	Municipality	General operating	127,485	69,790
Electric	Municipality	Interest on investments	98,441	108,638
Total Electric Due From Municipality			715,098	688,190
Electric Net Due to Municipality			\$2,457,148	\$2,352,573
Municipality	Water	General operating	\$884	\$729
Municipality	Water	Water main reconstruction	940,548	493,403
Municipality	Water	Street opening repairs	178,891	25,482
Municipality	Water	Payments in lieu of tax	22,344	23,253
Total Water Due To Municipality			1,142,667	542,867
Water	Municipality	Utility bills	9,856	9,329
Water	Municipality	General operating	319	247
Total Water Due From Municipality			10,175	9,576
Water Net Due to Municipality			\$1,132,492	\$533,291

The following is a schedule of transfer balances for the years ending December 31, 2014 and 2013:

<u>To</u>	<u>From</u>	<u>Principal Purpose</u>	<u>2014 Amount</u>	<u>2013 Amount</u>
Municipality	Electric	Tax Equivalents	\$8,263,570	\$8,307,132
Municipality	Water	Tax Equivalents	\$339,949	\$345,922

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>2014</u>	<u>2013</u>
Construction Fund	\$15,662,769	\$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.		
Reserve Account	5,623,831	5,588,191
Proceeds deposited to be used to pay principal and interest payments on long-term debt.		
Funds-Held in Trust	667,891	1,841,156
Funds to be used for CapX2020 expenses		
	\$21,954,491	\$33,364,625



NOTE 5: Changes in Capital Assets

ELECTRIC

A summary of changes in electric capital assets for 2014 follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Capital assets, not being depreciated:				
Construction in progress	\$24,478,297	\$16,593,383	\$8,707,233	\$32,364,447
Land and land rights	3,339,902	382,637	-	3,722,539
Total capital assets, not being depreciated	<u>27,818,199</u>	<u>16,976,020</u>	<u>8,707,233</u>	<u>36,086,986</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	34,643,027	297,419	271,788	34,668,658
Installations, equipment and fixtures	268,961,666	13,464,603	2,593,481	279,832,788
Intangible plant assets	367,762	-	367,762	-
Capital lease assets	777,985	-	-	777,985
Total capital assets, being depreciated	<u>304,750,440</u>	<u>13,762,022</u>	<u>3,233,031</u>	<u>315,279,431</u>
Less: Accumulated depreciation	<u>176,168,260</u>	<u>10,058,878</u>	<u>2,527,093</u>	<u>183,700,045</u>
Depreciable Assets, Net	<u>128,582,180</u>			<u>131,579,386</u>
Net Capital Assets	<u>\$156,400,379</u>			<u>\$167,666,372</u>

Accumulated depreciation as of December 31, 2014 includes an impairment loss reserve of \$34,939,028.

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

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated:				
Construction in progress	\$8,485,018	\$19,345,976	\$3,352,697	\$24,478,297
Land and land rights	3,319,092	20,810	-	3,339,902
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>
Less: Accumulated depreciation	<u>166,947,020</u>	<u>10,184,578</u>	<u>963,338</u>	<u>176,168,260</u>
Depreciable Assets, Net	<u>132,770,671</u>			<u>128,582,180</u>
Net Capital Assets	<u>\$144,574,781</u>			<u>\$156,400,379</u>

Accumulated depreciation as of December 31, 2013 includes an impairment loss reserve of \$35,536,828.



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

WATER

A summary of changes in water capital assets for 2014 follows:

	<u>Balance 1/1/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/14</u>
Capital assets, not being depreciated:				
Construction in progress	\$2,281,436	\$3,944,760	\$1,932,807	\$4,293,389
Land and land rights	816,332	-	-	816,332
Total capital assets, not being depreciated	<u>3,097,768</u>	<u>3,944,760</u>	<u>1,932,807</u>	<u>5,109,721</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	15,706,550	1,637,873	-	17,344,423
Installations, equipment and fixtures	109,308,888	1,345,315	169,381	110,484,822
Total capital assets, being depreciated	<u>125,015,438</u>	<u>2,983,188</u>	<u>169,381</u>	<u>127,829,245</u>
Less: Accumulated depreciation	<u>39,306,179</u>	<u>2,325,370</u>	<u>107,206</u>	<u>41,524,343</u>
Depreciable Assets, Net	<u>85,709,259</u>			<u>86,304,902</u>
Net Capital Assets	<u>\$88,807,027</u>			<u>\$91,414,623</u>

In 2014, capital assets totaling \$760,845 were contributed to the Utility by other funds of the City of Rochester, and \$1,406,329 were contributed to the Utility by others.

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

	<u>Balance 1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated:				
Construction in progress	\$2,628,888	\$1,885,997	\$2,233,449	\$2,281,436
Land and land rights	816,332	-	-	816,332
Total capital assets, not being depreciated	<u>3,445,220</u>	<u>1,885,997</u>	<u>2,233,449</u>	<u>3,097,768</u>
Capital assets, being depreciated:				
Buildings, structures and improvements	12,504,920	3,201,630	-	15,706,550
Installations, equipment and fixtures	106,496,906	3,065,126	253,144	109,308,888
Total capital assets, being depreciated	<u>119,001,826</u>	<u>6,266,756</u>	<u>253,144</u>	<u>125,015,438</u>
Less: Accumulated depreciation	<u>36,903,705</u>	<u>2,611,520</u>	<u>209,046</u>	<u>39,306,179</u>
Depreciable Assets, Net	<u>82,098,121</u>			<u>85,709,259</u>
Net Capital Assets	<u>\$85,543,341</u>			<u>\$88,807,027</u>

In 2013, capital assets totaling \$87,389 were contributed to the Utility by other funds of the City of Rochester, and \$1,065,128 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 2014 are as follows:

	<u>Balance 1/1/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/14</u>
Computer Equipment	\$777,985	-	-	\$777,985
Less: Accumulated depreciation	6,483	155,598	-	162,081
Totals	<u>\$771,502</u>			<u>\$615,904</u>

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>
Mailing machine	\$18,925	-	\$18,925	-
Computer Equipment, Construction in Progress	689,177	88,808	777,985	-
Computer Equipment	-	777,985	-	777,985
Less: Accumulated depreciation	9,305	6,483	9,305	6,483
Totals	<u>\$698,797</u>			<u>\$771,502</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 12/31/14
5/29/13	Revenue Bond Series 2013B-CapX2020 Southwest Metro to Rochester to La Crosse transmission line project	12/1/43	3.00-5.00%	\$38,370,000	\$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	70,660,000
2/26/13	Revenue Bond Series 2013A-Refund 2002 issue	12/1/17	2.00%	3,960,000	2,395,000

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>
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	4,660,000	4,395,775	9,055,775
2020-2024	26,495,000	18,804,588	45,299,588
2025-2029	33,055,000	12,241,838	45,296,838
2030-2034	13,475,000	5,393,250	18,868,250
2035-2039	8,885,000	3,362,700	12,247,700
2040-2043	8,690,000	1,113,000	9,803,000
	\$111,425,000	\$64,733,851	\$176,158,851

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 2014 and 2013 were \$9,448,012 and \$8,681,844, respectively. Total gross revenues as defined for the same periods were \$143,329,934 and \$140,898,413. Annual principal and interest payments are expected to require 4% of gross revenues on average.



On February 26, 2013, bonds in the amount of \$3.96 million were issued with an average interest rate of 2.00% to refund \$4.595 million of outstanding bonds with an average interest rate of 3.72%. The cash flow requirements on the old bonds prior to the current refunding was \$5,211,575 from 2013 through 2017. The cash flow requirements on the new bonds are \$4,180,300 from 2013 to 2017. The current refunding resulted in an economic gain of \$1,010,378.

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 to or any excess is credited to the debt service payment due June 1st of the subsequent year.

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC

Long-term obligation activity for the years ended December 31, 2014 and 2013 is as follows:

	<u>1/1/14</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Long-term debt	\$115,725,000	-	\$4,300,000	\$111,425,000	\$3,765,000
Bond discount/premium	7,359,540	-	581,168	6,778,372	-
Accrued Compensated Absences:	1,265,331	146,388	328,026	1,083,693	-
Accrued Claims	442,859	-	380,636	62,223	-
Capital Lease	258,123	-	258,123	-	-
Totals	\$125,050,853	\$146,388	\$5,847,953	\$119,349,288	\$3,765,000

	<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



LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the years ended December 31, 2014 and 2013 is as follows:

	<u>1/1/14 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/14 Balance</u>
Accrued Compensated Absences:	\$208,473	\$34,919	\$91,401	\$151,991
Totals	<u>\$208,473</u>	<u>\$34,919</u>	<u>\$91,401</u>	<u>\$151,991</u>

	<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	<u>\$191,357</u>	<u>\$17,116</u>	<u>-</u>	<u>\$208,473</u>

INTEREST EXPENSE – ELECTRIC

	<u>2014</u>	<u>2013</u>
Bond interest expense	\$5,151,942	\$4,521,061
Bond premium & discount amortization	(449,479)	(339,089)
Interest expense	21,420	54,773
Allowance for funds used during construction	(1,333,189)	(815,333)
Totals	<u>\$3,390,694</u>	<u>\$3,421,412</u>

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.

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 1.7% 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.

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, 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in both 2014 and 2013. 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 2014 and 2013. The Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$1,066,886, \$1,113,065, and \$1,113,554, respectively. The Utilities' contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers).

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, 2014 and 2013 was \$37,746 and \$40,729, 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 2014 workers' compensation coverage is limited to \$960,000 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 2014 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.



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 end May 31, 2015.

Revenue under these agreements for the years ended December 31, 2014 and 2013 was as follows:

	2014	2013
kWh provided	9,064,329	63,875,273
Payments for availability	\$1,784,295	\$1,904,162
Reimbursed generation costs	-	\$59,314
Market-based sales	\$1,024,607	\$2,774,410

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 16.23 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 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 1,230,433,003 and 1,243,336,412 kilowatt hours totaling \$86,967,411 and \$87,239,794 from SMMPA during the years ended December 31, 2014 and 2013, 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.

CAPX2020

Since 2007, the Utility has participated in the CapX2020 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 CapX2020 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); 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 \$44.4 million. Construction began in 2013 and is expected to be completed in September 2016. 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. RPU had \$667,891 and \$1,841,156 on deposit in the trust account as of December 31, 2014 and 2013, respectively.



OPEN CONSTRUCTION CONTRACTS AND OTHER SIGNIFICANT COMMITMENTS

The Utilities has several active projects and agreements as of December 31, 2014. At year end, the Utilities' significant commitments are as follows:

<u>Electric Projects</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
CapX2020	\$24,753,614	\$20,308,097
Software Consulting	912,923	850,758
Silver Lake Plant Asbestos Removal & Repairs	472,980	305,160
Building Maintenance	30,928	87,516
Data Services	21,798	74,954
Silver Lake Dam Rehabilitation	16,562	57,139
Generator Maintenance	14,634	5,366
Communication Systems	5,110	56,215
Equipment	-	366,885
Software Maintenance	-	320,954
Silver Lake Plant Elevator Maintenance	-	295,750
Stock Materials	-	24,037
Safety	-	19,970
Customer Survey	-	12,000
 <u>Water Projects</u>	 <u>Spent-to-Date</u>	 <u>Remaining Commitment</u>
Engineering & Consulting	\$140,296	\$150,816
Well Pump Replacement	-	52,800
Equipment	-	15,012
Pressure Wash & Clean Towers	-	7,500

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 August 2014, the Utility Board approved and in September 2014 the City Council approved rate schedules to be effective January 1, 2015, 2016 and 2017 for the Electric Utility. The general increase is 3.5%, 1.7% and 1.7%, respectively.

In November 2014, the Utility Board and the City Council approved a 3.5% overall rate increase for the Water Utility effective January 1, 2015.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through March 27, 2015, the date the financial statements were available to be issued.

NOTE 14: Restatement of Net Position

The management of Rochester Public Utility identified that the amount reported as contributed assets from the City of Rochester for water main replacement during street renovation projects included amounts already paid by Rochester Public Utilities. The effect of this error was to overstate Capital Contributions, Depreciation Expense, Change in Net Position, Depreciable Assets and Net Position as follows:

	<u>Water Utility</u>
Net Position - January 1, 2013 (as reported)	\$93,827,120
Cumulative effect of change in Depreciable Assets, Net	<u>(1,621,521)</u>
Net Position - January 1, 2013 (restated)	<u>92,205,599</u>
Change in Net Position – Year ended December 31, 2013 (as reported)	2,548,464
Contributed asset adjustment	(609,814)
Depreciation Expense adjustment	<u>35,592</u>
Change in Net Position – Year ended December 31, 2013 (restated)	<u>1,974,242</u>
Net Position – December 31, 2013 Restated	<u>\$94,179,841</u>



OPERATING AND FINANCIAL STATISTICS (unaudited)

ELECTRIC

	2014	2013	2012	2011	2010	2005 (ten years ago)
RETAIL CUSTOMERS:						
Residential	46,035	45,651	45,244	44,700	43,614	41,179
General Service	4,759	4,725	4,740	4,701	4,599	4,401
Industrial / Commercial	2	2	2	2	2	2
Other	4	4	4	4	4	4
Total Retail Customers	50,800	50,382	49,990	49,407	48,219	45,586
RETAIL SALES: (mWh)						
Residential	341,452	348,952	342,986	346,088	345,076	327,162
General Service	637,360	641,210	634,692	642,712	643,998	608,760
Industrial / Commercial	212,297	225,082	236,566	236,880	240,438	286,246
Other	15,252	15,442	16,199	15,525	15,310	16,278
Total Retail Sales (mWh)	1,206,361	1,230,686	1,230,443	1,241,205	1,244,822	1,238,446
RETAIL REVENUE:						
Residential	\$42,818,865	\$42,344,833	\$41,924,195	\$42,565,163	\$41,706,952	\$29,724,751
General Service	63,734,518	62,342,255	62,452,007	62,924,479	61,730,430	43,813,580
Industrial / Commercial	18,277,321	18,562,734	19,405,820	19,455,536	19,389,007	15,484,581
Other	5,617,573	5,614,439	5,698,237	5,752,823	5,154,490	1,857,280
Total Retail Revenue	\$130,448,277	\$128,864,261	\$129,480,259	\$130,698,001	\$127,980,879	\$90,880,192
Steam Sales (MLBs)	424,402	451,945	447,579	459,491	453,280	17,934
Steam Revenues	\$6,743,606	\$4,849,550	\$5,427,419	\$5,512,332	\$5,555,370	\$281,966
Annual Peak (Megawatts)	258.7	278.6	287.8	292.1	278.3	263.8
Total mWh Generated	20,770	75,775	38,210	25,375	44,640	317,899
Total mWh Purchased	1,237,135	1,255,701	1,273,851	1,263,798	1,260,920	1,262,310
Year End Restricted/ Unrestricted Cash & Investment Balance	\$60,598,748	\$76,101,705	\$45,760,328	\$45,025,194	\$44,813,640	\$22,396,555

WATER

	2014	2013	2012	2011	2010	2005 (ten years ago)
RETAIL CUSTOMERS:						
Residential	34,871	34,571	34,213	33,827	33,547	31,477
Industrial / Commercial	3,459	3,463	3,454	3,442	3,404	3,284
Total Retail Customers	38,330	38,034	37,667	37,269	36,951	34,761
RETAIL SALES: (ccf)						
Residential	2,792,307	2,863,062	3,170,446	2,931,422	2,817,200	3,002,546
Industrial / Commercial	2,689,861	2,797,590	2,949,060	2,893,886	2,800,228	2,912,014
Total Retail Sales (ccf)	5,482,168	5,660,652	6,119,506	5,825,308	5,617,428	5,914,560
RETAIL REVENUE:						
Residential	\$4,283,618	\$4,286,290	\$4,526,267	\$4,290,475	\$4,170,552	\$3,677,305
Industrial / Commercial	2,118,160	2,684,057	2,808,702	2,741,479	2,672,797	1,804,991
Public Fire Protection	1,101,030	558,113	555,154	549,014	545,114	1,038,165
Total Retail Revenue	\$7,502,808	\$7,528,460	\$7,890,123	\$7,580,968	\$7,388,463	\$6,520,461
Total Pumped (billion gallons)	4.4	4.5	4.8	4.5	4.5	4.7
Year End Restricted/ Unrestricted Cash & Investment Balance	\$5,747,264	\$6,569,559	\$7,959,122	\$6,536,257	\$6,921,137	\$1,523,848





ROCHESTER PUBLIC UTILITIES LEADERSHIP (pictured from left to right)

Bill Cook • Director of Field Services
 Sidney Jackson • Director of Core Services
 Mark Kotschevar • General Manager
 Peter Hogan • Director of Corporate Services
 Walter Schlink • Director of Power Resources/Customer Relations



UTILITY BOARD

(front row left to right)

Dave Reichert • Board Member • Project Manager, Facilities Engineering Manager, IBM
 Michael Wojcik • Board Member & City Council Liaison • Owner, Elite Consulting, Inc.
 Mark Browning • Board Member • Project Manager, Facilities Project Services, Mayo Clinic

(back row left to right)

Roger Stahl • Board Member • Owner and Attorney, RMS Law Firm, PLLC
 Jerry Williams • Board President • Retired

ADVISORS AND CONSULTANTS

Baker Tilly Virchow Krause, LLP • Independent Auditors
 Kennedy & Graven • Bond Counsel
 Springsted Public Finance Advisors • Financial Advisors

UTILITY HEADQUARTERS

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