ROCHESTER

PUBLIC UTILITIES

WE PLEDGE, WE DELIVER™

2025 ANNUAL REPORT

TABLE OF CONTENTS

Independent Auditors' Report 3

Required Supplementary Information

Management's Discussion & Analysis (unaudited) 6

Financial Statements

Electric Utility Statement of Net Position 26

Electric Utility Statement of Revenues, Expenses, and Changes in Net Position 27

Electric Utility Statement of Cash Flows 28

Water Utility Statement of Net Position 29

Water Utility Statement of Revenues, Expenses, and Changes in Net Position 30

Water Utility Statement of Cash Flows 31

Notes to Financial Statements 32

Required Supplementary Information - Public Employees Retirement Association of Minnesota

Schedules of Employer Contributions (unaudited) 56

Schedules of Proportionate Share of Net Pension Liability (unaudited) 57

Notes to the Required Supplementary Information (unaudited) 58

Operating and Financial Statistics (unaudited) 62

RPU Leadership & Contact Information 63

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

- RPU General Manager Tim McCollough and Rochester Mayor Kim Norton join Smokey Bear in recognizing poster contest winners at the annual Arbor Day Celebration.
- RPU lineworkers perform maintenance on an overhead electric line.
- RPU employees volunteer with Little Bit Better, supporting community cleanup efforts.
- RPU Water Operator Adam Hovden demonstrates how a fire hydrant works during the 2025 Drinking Water Week event at the Apache Water Tower and Wellhouse.

Independent Auditors' Report

To the Public Utilities Board of
Rochester Public Utilities

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Rochester Public Utilities, enterprise funds of the City of Rochester, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Rochester Public Utilities as of December 31, 2025, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rochester Public Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Rochester, Minnesota, as of December 31, 2025, and the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Rochester Public Utilities' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2026 on our consideration of the Rochester Public Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rochester Public Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rochester Public Utilities' internal control over financial reporting and compliance.

Baker Tilly US, LLP

Madison, Wisconsin
April 3, 2026

MANAGEMENT'S DISCUSSION & ANALYSIS
(unaudited)

The following discussion and analysis of the financial results of Rochester Public Utilities (RPU or Utilities) provides an overview of the Utilities' financial activities for the year ended December 31, 2025, with a comparative analysis to the year ended December 31, 2024. This Management's Discussion & Analysis (MD&A) presentation is designed, and is intended to be used, in conjunction with the financial statements and notes that follow this section.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

Financial Statements

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

Notes to Financial Statements

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

Required Supplemental Information

The required supplemental information provides historical information about RPU's defined benefit pension plans including changes in the net pension liabilities, annual contributions made to the pension plans, and changes in plan provisions and actuarial assumptions.

See accompanying *Independent Auditors' Report.*

HIGHLIGHTS

- Electric retail revenues increased $8.5 million (4.9%) from 2024. Kilowatt-hour sales increased 24.7 million kWh (2.2%). An increase to the general rate of 4.0% effective January 1, 2025 was a contributing factor to the improvement of revenue. Wholesale power cost increases or decreases are also passed through to customers through the Power Cost Adjustment (PCA). Wholesale power costs increased $0.6 million (0.6%) in 2025, contributing to the increase in revenue, as well as expense. The annual system peak demand of 260.0 megawatts was set in July, which is lower than the peak demand of 290.5 megawatts in 2024. The all-time system peak demand of 294.8 megawatts occurred in 2023.

- Water retail revenues of $13.9 million reflect an 8.2% increase from 2024. Sales volume of 5.7 million ccf (hundred cubic feet) for 2025 represents a slight decrease of 28,000 ccf (0.5%) from 2024. The decrease in sales volume was combined with a general rate increase of 5.5%, plus a $1.32 customer charge increase, effective January 1, 2025.

- A cost-of-service study was completed in 2023 for the Electric Utility and in 2025 for the Water Utility, with recommended rate adjustments proposed for the next five years. In October and December 2025, the Utilities' Board and Rochester City Council approved a two-year budget for 2026 and 2027, as well as general rate increases for both years. For 2026, an increase of 4.0% was approved for the Electric Utility, and an increase of 9.0% was approved for the Water Utility.

- Rates for purchased power from Southern Minnesota Municipal Power Association (SMMPA), the Electric Utility's primary wholesale electricity provider, did not change in 2024. Effective 2025, SMMPA increased the base rate of power used in the calculation of the electric cost adjustment (ECA) by 1.6%, which resulted in a decrease to the ECA. This decrease to the ECA, offset by an increase in kWh sales of 2.2% and other market factors, resulted in an increase to purchased power expense of $0.6 million. Purchased power costs from SMMPA and the Midcontinent Independent System Operator (MISO) market represented 62.5% of electric operating expenses for 2025.

- The water distribution system consists of 630 miles of water main infrastructure. As the water system continues to age, one of RPU's primary goals is to maintain its level of service in a cost-effective way through strategic water main replacement projects. In 2025, RPU completed important infrastructure rehabilitation projects in conjunction with the Rochester Public Works Department, replacing 8,200 feet of water main within four project segments. A total of 54,100 feet of new water main was added to the water distribution system in 2025. Capital improvement planning work is underway to increase the water main replacement rate based on a developing asset management program. To accomplish this, RPU has adopted a risk-based approach to assess and manage water main assets and prioritize their replacement.

- In July 2019, the RPU Board voted unanimously to pursue meeting 100% of the City's energy needs from renewable sources by 2030. The resource plan includes the procurement of sufficient renewable energy to match Rochester's annual energy consumption. As part of this strategy, on August 26, 2025 the Utility Board authorized the 20 MW Adams Wind Project, the 40 MW Dodge Center and 180 MW North Hills wind projects. Approval was received by the City Council for the Adams Wind Project during their regularly scheduled

See accompanying *Independent Auditors' Report.*

council meeting on September 22, 2025 with the Dodge Center and North Hills wind projects receiving approval on October 6, 2025. These long-term agreements provide a significant portion of RPU's future energy needs while helping to lock in stable, predictable energy pricing and reduce exposure to market volatility. In addition, RPU has entered into Battery Energy Storage Agreements with Lightshift Energy to provide accredited capacity, further strengthening the utility's ability to meet its renewable energy and reliability objectives. The 50 MW Mt Simon gas turbine facility is also an important component of the resource plan.

- In 2020, the Utilities acquired the land and design work started on a new substation located in southeast Rochester. This project, referred to as the Marion Road Substation, will be constructed to accommodate a total of four 37.5 mega-volt amperes (MVA) transformers, with two of the four being installed with the initial buildout and the other two added as future needs arise. This project will include an approximately two-mile multiple conduit manhole and duct system installed from this new substation to terminal points in the downtown area. Initial construction on the substation began in late 2021, and construction on the manhole and duct system began in 2022. The substation and RPU feeders were energized in 2024. The duct system was completed in 2025.

- In May 2021, the Board communicated interest in moving forward with the next steps of an AMI business case which included retaining professional services from a firm that could assess RPU's needs and requirements, assist with writing the Request for Proposal, vendor selection, procurement, and contract support on RPU's electric and water systems. In June 2023, the Board approved the AMI project as a two-phased approach. The first phase, which focuses on the meter-to-cash application, includes the implementation of AMI Meter Data Management (MDM) systems, meters, meter installation services, business system integration, and data lake implementation. Following completion of the first phase, the RPU team will return to the Board to seek approval and additional funding for the second phase, which would consist of additional use cases and application integrations for the AMI solution. These would include integration into RPU applications such as outage management, Geographic Information System (GIS), and Supervisory Control and Data Acquisition (SCADA), as well as developing advanced data use cases for transformer and system analytics.

- RPU surpassed the aggressive demand side management goal for 2025 of 17,219 megawatt-hours in energy savings. Actual energy savings of 17,417 megawatt-hours were achieved through helping commercial and residential customers install energy efficient equipment and technologies. This represented an estimated 17,417 tons of carbon reduction and amounted to 1.5% of annual retail energy sales. Water conservation rates, customer education, leak detection and rebates offered on clothes washers, high efficiency toilets, rain barrels and other items resulted in savings of 10.5 million gallons of water. This was an increase of 6.5 million gallons from 2024, and approximately 299.3% of the 2025 goal of 3.5 million gallons.

- In December 2024, RPU and a large customer executed an addendum to the existing steam supply agreement from the Silver Lake Plant. Since 2015, when the Silver Lake Plant ceased electrical generation capability, the facility has used natural gas to supply steam to the customer through a long-term steam supply agreement. The addendum to the steam supply agreement terminates the agreement on December 31, 2027, unless the customer

See accompanying *Independent Auditors' Report.*

asks to extend the agreement by either 6 or 12 months before December 31, 2026. The execution of the amendment led to a write down of assets at the Silver Lake Plant in 2024 to reflect the termination of steam supply.

- In November 2025, RPU successfully launched its new Customer Portal, delivering a significantly enhanced digital experience for customers. The upgraded platform provides a range of new self-service features designed to improve convenience, accessibility, and account management. Customers can now more easily view usage history, enroll in paperless billing, manage automatic payments, set up account alerts, and access real-time account information. Customer response and participation have been overwhelmingly positive. As of mid-December, approximately 58,336 customers had registered for the portal, demonstrating strong early adoption. Engagement with key features has also been robust, with 37,099 customers enrolled in autopay alerts and 41,958 enrolled in eBill alerts. Notably, since the portal's go-live date, 2,191 new autopay alerts and 1,643 new eBill alerts have been added, reflecting continued growth in customer participation and a clear preference for digital account management tools.

- In late 2024, RPU was awarded a $321,000 state benchmarking grant to support compliance with newly enacted state legislation requiring commercial buildings of 100,000 square feet or larger to upload their energy usage data directly into the ENERGY STAR® Portfolio Manager by June 1, 2025. Grant funding was used to hire a limited-term Commercial Energy Advisor who provided direct outreach, technical assistance, and education to affected building owners and property managers. This role was instrumental in helping customers understand the new requirements, navigate the benchmarking process, and resolve data access or reporting challenges. In addition, RPU implemented the MyMeter benchmarking software, which was successfully launched in March 2025. The software streamlined data aggregation and automated the transfer of energy usage information to ENERGY STAR® Portfolio Manager, significantly reducing administrative burden for customers and improving reporting accuracy. Of the 137 buildings subject to the requirement, 62.8% achieved compliance with the State's June 1st deadline.

- The Water Utility initiated a two-part planning effort in 2025 to evaluate long-term water supply options and identify infrastructure needs to support continued growth in Rochester. The Minnesota Department of Natural Resources has placed restrictions on the development of new groundwater wells pending completion of an RPU-directed regional study to assess sustainable groundwater use and potential surface water sources. In response, updated demand forecasts have been prepared, and a regional groundwater study is underway. A water system master plan was also initiated in 2025 to define capital improvement needs for transmission mains, booster stations, and storage facilities to support projected growth through 2065. Both the Master Plan and Groundwater study are scheduled to be completed by April 2027.

- Public water systems across the United States have pursued a product liability class action lawsuit involving impacts from per- and polyfluoroalkyl substances (PFAS) due to their potential contamination of source water and health risks. Collective legal action has focused on four chemical manufacturers, including 3M, DuPont, Tyco, and BASF. RPU is among several thousand other public water systems involved in this litigation. Total settlements from these lawsuits are anticipated to be approximately $12 billion,

See accompanying *Independent Auditors' Report.*

allocated to individual water systems based on an Adjusted Base Score determined by the potential presence of PFAS substances and impacts to individual water supplies. In March 2025, RPU approved the designation of all PFAS settlement funds to be placed in a special capital reserve for future PFAS related expenses. RPU began receiving settlement payments in late 2025.

- RPU initiated its first year of the Lead Service Line Replacement Program (LSLR) in January 2025. The project includes replacement of 48 lead and galvanized water services, following field investigation of 87 unknown services determined not to contain lead or galvanized pipes. Construction is progressing, with 20 replacements completed to date and 28 remaining under the contract for completion during the 2026 construction season. Due to the growing state and federal funding shortfall, the Minnesota Department of Health recently notified public water utilities that the State may need to substantially restructure available funding distributions for lead water service line replacement. Under the State's potential changes, annual LSLR funding for each utility may be capped, generally based on the average cost of replacing 10 percent of identified lead and galvanized services. If implemented, RPU's available 2026 funding would be reduced to approximately $1.5 million. Construction plans are being developed for the 2026 season based on the revised funding availability.

- Cascade Creek GT1 was disabled by a fire on June 1, 2025, initially raising the possibility of a total loss; however, subsequent investigation indicates that the main turbine and other primary components are likely recoverable, supporting a potential return to service at a cost significantly lower than that of a new generation asset. The authorized exploration phase, not to exceed $2 million, includes disassembly, inspection, engineering assessment, and procurement scoping to confirm restoration feasibility, cost, and schedule. While damage remains substantial, preliminary evaluations suggest refurbishment and repackaging of GT1 could be completed for less than $10 million, compared to approximately $60 million included in the 2026–2027 recommended capital budget for a full site rebuild and new firm capacity installation. Power Resources staff, with the help of outside contractors, are finalizing the discovery phase of GT1. The unit has been completely disassembled with nearly all testing and component disposition finished. RPU is waiting for field reports and repair estimates before making a decision on returning the unit to service. Although a timeline has not been established, engineering, part procurement, structural repairs, and reassembly will likely not be completed until the end of 2026 at the earliest.

- In 2025, RPU and City Facilities staff pursued opportunities under the Minnesota Solar on Public Buildings grant program, which had approximately $7 million in available funding at the time of application in December 2025. The combined City and RPU team submitted 20 projects for funding, representing approximately 1,106 megawatt-hours of annual generation, with a total estimated investment of $2.9 million. The program covers up to 70% of installation costs, with projects potentially eligible for an additional 30% federal investment tax credit. As projects move forward, the City will fund two installations while RPU will fund the remaining projects. RPU's total construction funding will be $2.6 million for the 18 projects and will be reimbursed through the state grant program and the direct pay provision of the federal tax credits, although recovery of the tax credits is not guaranteed. Without the tax credits, RPU's total estimated investment is approximately $0.87 million, with a projected payback period of under two years. RPU has executed an agreement with the City to receive the value of the energy from the solar installations up to the value of the tax credits. Once

See accompanying *Independent Auditors' Report.*

RPU's costs are fully recovered, the energy will offset purchases by the City from RPU. Collectively, these projects will expand renewable energy generation across public facilities, supporting sustainability goals while reducing long-term operating expenses.

- The Silver Lake Dam Modification Project is intended to reduce long-term operation and maintenance costs, improve safety and accessibility, enhance environmental conditions (including aquatic habitat), and expand recreational opportunities; these project objectives are led by the City's Public Works Department, with RPU participating as a funding partner. On June 17, 2025, the City Council approved completion of final design and authorized negotiation of a $2.368 million grant from the State of Minnesota's Outdoor Heritage Fund for fish passage improvements. RPU has committed funding based on prior Board direction, including a $1.24 million allocation approved in 2020 with the understanding that future dam costs would not be borne by ratepayers; this estimate was based on 2019 dollars without escalation or contingency. A routine five-year dam inspection was completed in 2024, which included updated long-term cost projections and contributed to the revised estimate of RPU's total project contribution of approximately $2.0 million. The project is transitioning to a multi-year effort, with expenditures anticipated to extend into 2026/27 based on updated cost assumptions.

- The RPU Board authorized a Secondary Firm Natural Gas Supply Agreement on September 30, 2025, receiving approval of the City Council on October 20, 2025, to enhance fuel supply reliability and operational flexibility for the utility's generation portfolio. This agreement provides access to an additional firm source of natural gas during periods of peak demand or supply disruption, reducing exposure to market volatility and curtailment risk. While the agreement introduces a fixed demand charge and associated reservation costs, these are expected to be offset by improved price stability and reduced reliance on higher-cost spot market purchases during constrained conditions. The arrangement is not anticipated to have a material adverse impact on overall financial results because the additional costs are recovered through a power cost adjustment factor in the tariff. The agreement also supports more predictable fuel expense management. By diversifying supply arrangements, RPU strengthens system resilience and aligns with its strategy of delivering reliable, cost-effective energy to customers.

- The City of Rochester and Rochester Public Utilities have jointly undertaken a multi-year assessment of our processes and enterprise software with the assistance of the Government Finance Officers Association (GFOA) to identify operational needs, modernize core financial and human resources processes, and prepare for replacement of several aging systems. The City's existing Enterprise Resource Planning (ERP) software is 26 years old and approaching end of life. RPU's existing ERP software was deployed in 1999 and requires replacement or upgrading as extended support for the current environment ends in 2030. These timelines present a rare opportunity to align on a single modernized ERP platform capable of serving both organizations for the next 20 or more years. The Rochester City Council approved execution of the ERP agreements on December 8, 2025 and authorized the overall project financing plan, which includes modifying RPU's 2026 to 2027 Electric Utility budget to reflect RPU's share of the implementation cost. This action was approved by the RPU Board on December 16, 2025. The approved amendment increases the Electric Utility's ERP project allocation from $11,946,112 dollars to $15,491,241 dollars for the 2026 to 2027 budget cycle. This adjustment aligns RPU's budget with the finalized ERP implementation scope, contingency structure, and the shared cost model developed jointly by City and RPU staff.

See accompanying *Independent Auditors' Report.*

FINANCIAL ANALYSIS – ELECTRIC UTILITY

Condensed Financial Information – Electric Utility
December 31, 2025 and 2024

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2025	2024	Change 2025 vs. 2024
Operating Revenues	$209.5	$192.8	$16.7
Operating Expenses	160.5	157.5	3.0
Operating Income	49.0	35.3	13.7
Other Income & Expense	7.9	6.1	1.8
Interest Charges	(5.0)	(5.2)	0.2
Nonoperating Income (Expense)	2.9	0.9	2.0
Income Before Transfers and Capital Contributions	51.9	36.2	15.7
Transfers Out (In Lieu of Tax Payments)	(11.4)	(10.9)	(0.5)
Capital Transfer to Water	-	-	-
Capital Contributions	6.1	11.6	(5.5)
Income Before Special Item	46.6	36.9	9.7
Special Item	-	(1.3)	1.3
Change in Net Position	46.6	35.6	11.0
Net Position - Beginning of Year	310.9	275.3	35.6
Net Position - End of Year	**$357.5**	**$310.9**	**$46.6**

Statements of Net Position

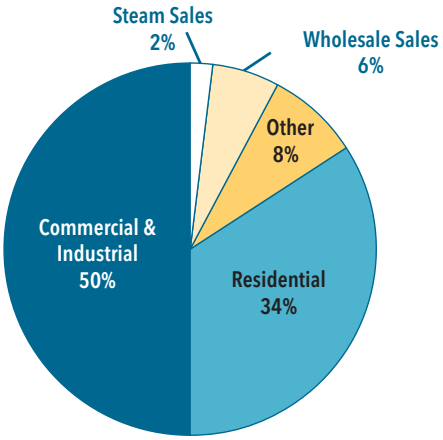
	2025	2024	Change 2025 vs. 2024
Cash and Investments – Unrestricted	$146.0	$130.4	$15.6
Cash and Investments – Restricted	1.1	1.1	-
Other Current Assets	36.5	35.2	1.3
Capital Assets, Net	336.1	310.9	25.2
Other Noncurrent Assets	29.4	30.2	(0.8)
Total Assets	549.1	507.8	41.3
Deferred Outflows of Resources	3.0	3.0	-
Total Assets and Deferred Outflows of Resources	**$552.1**	**$510.8**	**$41.3**
Current Liabilities	$37.3	$32.1	$5.2
Long-Term Debt	131.2	140.5	(9.3)
Other Noncurrent Liabilities	12.2	12.5	(0.3)
Total Liabilities	180.7	185.1	(4.4)
Deferred Inflows of Resources	13.9	14.8	(0.9)
Investment in Capital Assets	208.7	174.7	34.0
Restricted – Debt Service	0.7	0.7	-
Unrestricted	148.1	135.5	12.6
Net Position	357.5	310.9	46.6
Total Liabilities, Deferred Inflows of Resources and Net Position	**$552.1**	**$510.8**	**$41.3**

See accompanying *Independent Auditors' Report.*

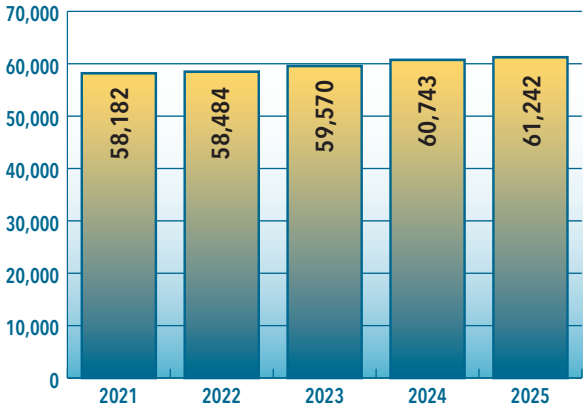
OPERATING REVENUES

Operating revenues increased by $16.7 million (8.7%) in 2025. Retail revenues increased $8.5 million (4.9%) due to a 4.0% general rate increase effective January 1, 2025. Also contributing to the higher revenues was an increase in the PCA due to higher wholesale power costs. Wholesale and steam revenues increased $6.0 million (56.2%). Generation from Cascade Creek and Westside Energy Station was offered into the wholesale energy markets. Westside generation for 2025 was up 53.4% from 2024, while Cascade Creek generation was up 12.9% from 2024. Steam revenues are directly correlated with fuel costs, which averaged 19.0% higher than 2024. Other operating revenues increased $2.5 million from 2024, approximately half of which was due to the accrual of a $1.1 million distribution of excess cash reserves from SMMPA late in the year which was received in January 2026.

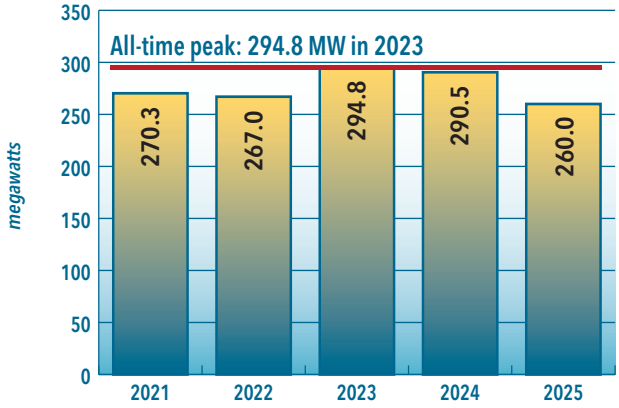
Electric Operating Revenues



Number of Electric Customers

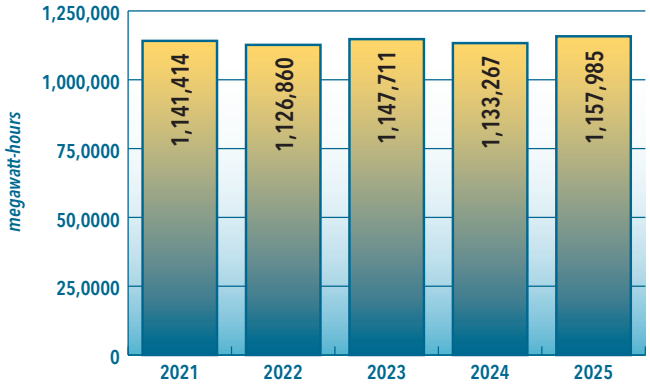


Electric System Peaks

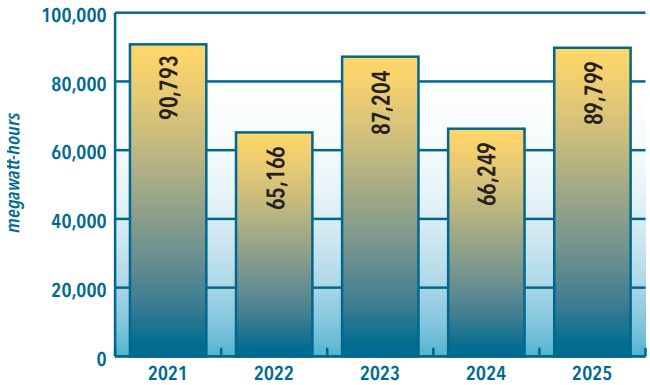


See accompanying *Independent Auditors' Report.*

Electric Retail Sales



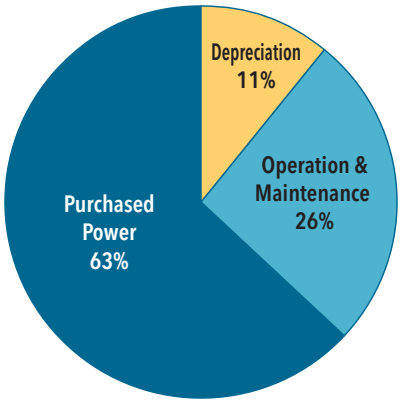
Electric Wholesale Sales



OPERATING EXPENSES

Operating expenses increased $3.0 million (1.9%) in 2025, due in large part to an increase in generation fuel of $1.9 million along with increases of $0.6 million in purchased power, $3.4 million in salaries and benefits and $1.6 million in outside services. These increases were offset by reductions in materials and supplies of $2.1 million and deferred costs associated with the employee pension plan of $2.4 million. The primary driver of operating expenses for the Electric Utility continues to be power purchased from SMMPA and the MISO market, which comprised 62.5% of total operating expenses.

Electric Operating Expenses



TRANSFERS OUT

The Electric Utility makes transfers to the City of Rochester's General Fund each month based on retail kilowatt-hours sold (in lieu of tax). Transfers to the City totaled $11.4 million and $10.9 million in 2025 and 2024, respectively. The increase in the in the lieu of tax amount was due to an increase in the in the lieu of tax rate, along with higher kilowatt-hour sales.

See accompanying *Independent Auditors' Report.*

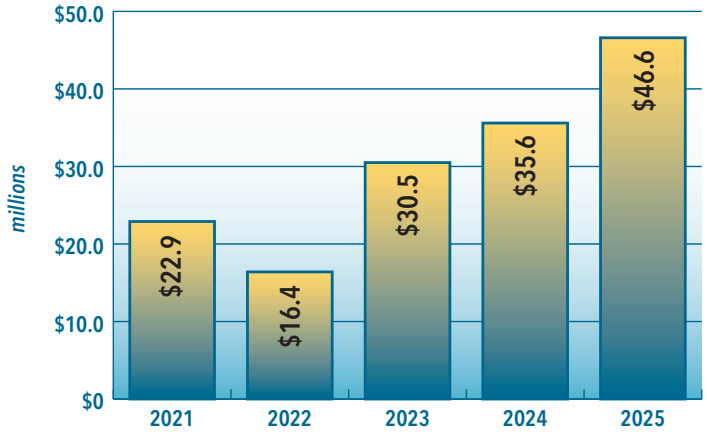
CAPITAL CONTRIBUTIONS

Capital contributions decreased by $5.5 million in 2025 when compared to 2024. One large project, started in 2020, was completed in 2025 that included reimbursement from other parties.

CHANGE IN NET POSITION

The Change in Net Position for 2025 was $46.6 million. This represents an increase of $11.0 million from 2024, which posted a Change in Net Position of $35.6 million. Several factors contributed to this increase. Retail revenues increased $8.5 million from 2024, offset by a $0.6 million increase in purchased power. Wholesale and steam revenues increased by $6.0 million, offset by an increase of $1.9 million in generation fuel from 2024. Materials and supplies decreased by $2.1 million in addition to an increase in other operating revenues of $2.5 million when compared to 2024. Salaries and benefits experienced an increase of $3.4 million, offset by a decrease in deferred costs associated with the employee pension plan of $2.4 million. Capital contributions realized a decrease of $5.5 million from 2024, while interest revenue increased $1.7 million.

Electric Change in Net Position

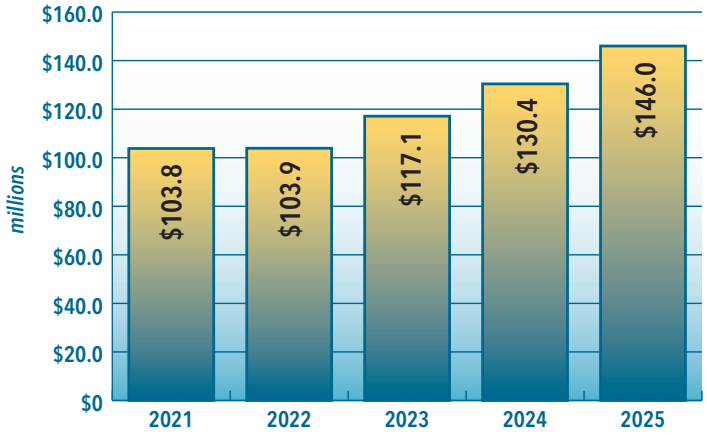


CASH, INVESTMENTS AND OTHER ASSETS

The ending current unrestricted cash and investments balance for 2025 was $146.0 million, which represents an increase of $15.6 million over 2024. The ending current restricted cash and investments balance remained unchanged from 2024 with a balance of $1.1 million at year end. This amount represents funds restricted for debt service payments. Other current assets for 2025 were $36.5 million, which reflects an increase of $1.3 million from 2024. Other noncurrent assets for 2025 were $29.4 million, a decrease of $0.8 million from 2024.

See accompanying *Independent Auditors' Report.*

Electric Unrestricted Cash & Investments



LIABILITIES

Current liabilities for 2025 finished the year at $37.3 million, an increase of $5.2 million from 2024. Accounts payable was the leading contributor to this change, increasing $3.5 million from 2024. Additionally, amounts due to the City experienced an increase of $0.5 million, and accrued compensation and absences increased by $0.4 million.

Noncurrent liabilities remained relatively unchanged from 2024, reflecting a decrease of $0.3 million.

NET POSITION

Net position invested in capital assets reflects additions to capital assets funded through rate-based revenues and fees from customers, net of debt proceeds expended on capital projects. In 2025, net position invested in capital assets increased $34.0 million compared to 2024.

Restricted net position remained unchanged for 2025. This represents funds restricted for payment of debt service.

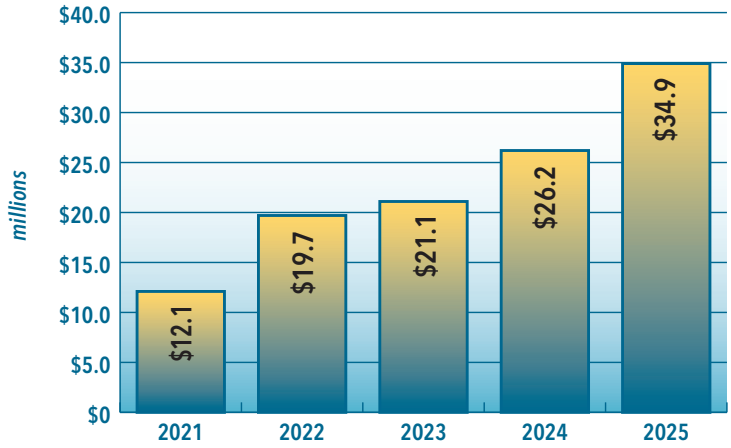
Unrestricted net position is not subject to any constraints by debt covenants or other legal requirements. In 2025, unrestricted net position increased $12.6 million due to the results of operations.

See accompanying *Independent Auditors' Report.*

CAPITAL ASSETS

As of December 31, 2025, the Electric Utility has $336.1 million invested in a broad range of utility capital assets. This investment in capital assets includes a 46-megawatt reciprocating engine generation plant, two gas turbines, a hydroelectric power generation plant, two diesel generators, boiler plant and related equipment to provide steam to a large customer, electric transmission and distribution facilities, and various buildings and equipment. Capital assets increased $40.6 million in 2025, reflecting investments in general facilities and the distribution and transmission systems. The increase in capital assets was offset by a $15.4 million increase in accumulated depreciation and amortization. Additional details regarding the Utilities' total assets (Electric and Water) may be found in Note 6 to the financial statements. Capital expenditures increased by $8.7 million in 2025. Significant capital projects for 2025 included implementation of advanced metering software and hardware along with meter purchases, the completion of a substation and feeder buildout along with construction of a duct bank to the downtown area, Resource Plan development and initial costs for a new generation facility, and information technology hardware replacement.

Electric Capital Expenditures



LONG-TERM DEBT

As of December 31, 2025, the Electric Utility had $131.6 million in revenue bonds outstanding, of which $123.3 million is classified as long-term. In addition, the balance of bond premiums, net of discount at December 31, 2025 was $7.9 million, resulting in a total long-term debt of $131.2 million. No new debt was issued in 2025.

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

See accompanying *Independent Auditors' Report.*

FINANCIAL ANALYSIS – WATER UTILITY

Condensed Financial Information – Water Utility
December 31, 2025 and 2024

(In millions)

Statements of Revenues, Expenses, & Changes in Net Position

	2025	2024	Change 2025 vs. 2024
Operating Revenues	$16.0	$15.0	$1.0
Operating Expenses	12.3	11.8	0.5
Operating Income	3.7	3.2	0.5
Other Income & Expense	2.6	0.9	1.7
Nonoperating Income	2.6	0.9	1.7
Income Before Transfers and Capital Contributions	6.3	4.1	2.2
Transfers Out (In Lieu Of Tax Payments)	(0.5)	(0.5)	-
Capital Transfers in from Electric	-	-	-
Capital Contributions	8.7	2.5	6.2
Change in Net Position	14.5	6.1	8.4
Net Position - Beginning of Year	132.0	125.9	6.1
Net Position - End of Year	**$146.5**	**$132.0**	**$14.5**

Statements of Net Position

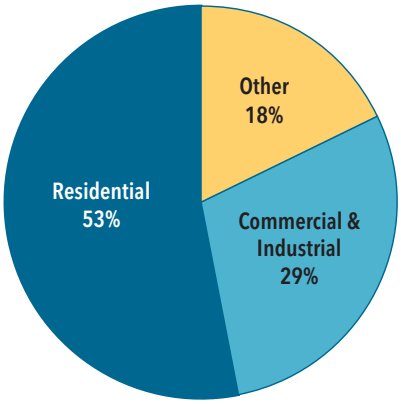
	2025	2024	Change 2025 vs. 2024
Cash and Investments	$16.3	$15.5	$0.8
Other Current Assets	3.1	2.2	0.9
Capital Assets, Net	131.9	117.0	14.9
Lease Receivable Noncurrent	16.1	17.8	(1.7)
Total Assets	167.4	152.5	14.9
Deferred Outflows of Resources	0.3	0.2	0.1
Total Assets and Deferred Outflows of Resources	**$167.7**	**$152.7**	**$15.0**
Current Liabilities	$4.1	$1.7	$2.4
Noncurrent Liabilities	1.2	1.1	0.1
Total Liabilities	5.3	2.8	2.5
Deferred Inflows of Resources	15.9	17.9	(2.0)
Investment in Capital Assets	131.9	117.0	14.9
Unrestricted	14.6	15.0	(0.4)
Net Position	146.5	132.0	14.5
Total Liabilities, Deferred Inflows of Resources and Net Position	**$167.7**	**$152.7**	**$15.0**

See accompanying *Independent Auditors' Report.*

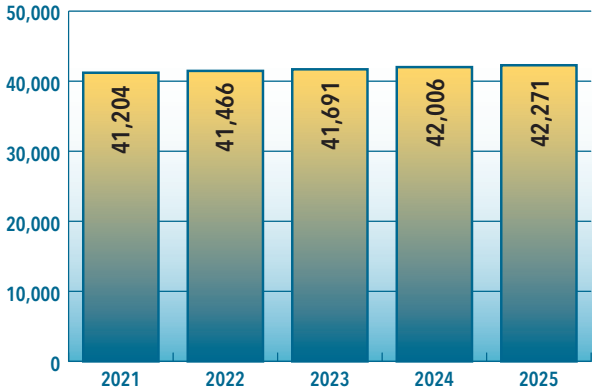
OPERATING REVENUES

Operating revenues increased by $1.0 million (6.7%) in 2025. The main driver of this increase was total retail revenues, which increased $1.1 million (8.2%) over 2024 due to a general rate increase of 5.5%, plus a $1.32 customer charge increase, effective January 1, 2025. Other operating revenues remained virtually unchanged from 2024.

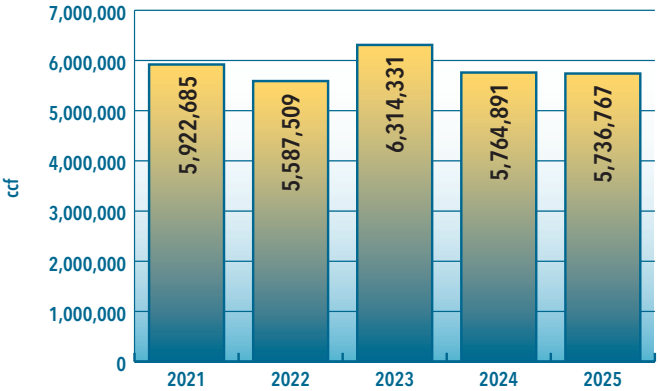
Water Operating Revenues



Number of Water Customers



Water Retail Sales

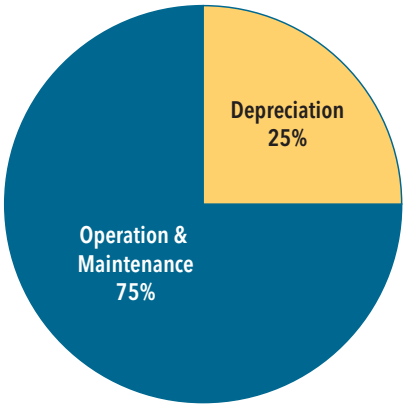


See accompanying *Independent Auditors' Report.*

OPERATING EXPENSES

Operating expenses increased by $0.5 million (4.2%) in 2025 when compared to 2024. The main driver of this was an increase in salaries and benefits of $1.1 million, offset by a decrease in deferred costs associated with the employee pension plan of $0.4 million.

Water Operating Expenses



OTHER INCOME & EXPENSE

Other income and expense increased $1.7 million over 2024. The majority of this increase is due to funds received from chemical companies as partial settlement in the Aqueous Film-Forming Foam Products Liability Litigation and recorded as non-operating revenues.

IN LIEU OF TAX PAYMENTS

The Water Utility makes transfers to the City of Rochester's General Fund each month based on the retail water volume (ccf - hundred cubic feet) sold. In 2025, $480,000 was transferred to the City. This was an increase of $11,500 from 2024 due to an increase in the in lieu of tax rate, offset by a slight decrease in ccf sales volume.

CAPITAL CONTRIBUTIONS

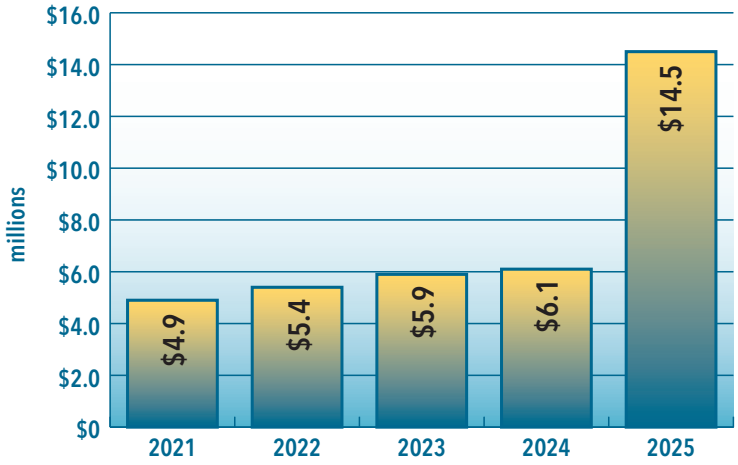
Capital Contributions increased $6.2 million in 2025. These are assets, primarily water mains and fire hydrants, which are contributed to the Water Utility from developers and are valued using a costing database that estimates their approximate construction costs. These also include amounts received from the City as part of a cost-sharing agreement for certain water main replacement projects. Beginning in 2013, the Water Utility assumed the responsibility of paying for new water towers and reservoirs out of its own funds. The City collects a Water Availability Charge (WAC) specifically for this purpose and these funds will be used to reimburse the Water Utility for all or part of the cost of constructing new towers and reservoirs. No WAC funds were received in 2025. In previous years, the Water Utility has reimbursed developers for the additional cost associated with oversizing water main for the benefit of the Utility. Due to some large developments occurring in 2025, this reimbursement was significantly higher than in previous years. The City collects a Water Connection Fee to recover costs of new development. With the increase in costs due to new development, the Water Utility has requested and accrued reimbursement of approximately $839,000 in Water Connection Fee funds. The funds will be received in 2026.

See accompanying *Independent Auditors' Report.*

CHANGE IN NET POSITION

The Change in Net Position for 2025 was $14.5 million, an increase of $8.4 million over the prior year. The primary driver of this positive change in net position was an increase in total retail revenue of $1.1 million, along with increases in capital contributions of $6.2 million and other income and expense of $1.7 million over 2024. This was offset by an increase to salaries and benefits of $1.1 million, reduced by a decrease in deferred costs associated with the employee pension plan of $0.4 million.

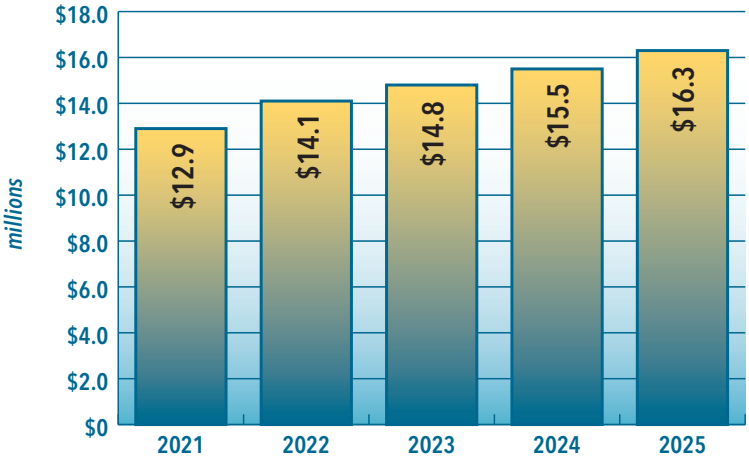
Water Change in Net Position



CASH, INVESTMENTS AND OTHER ASSETS

The ending unrestricted cash and investments balance for 2025 was $16.3 million, an increase of $0.8 million over 2024. Lease receivable noncurrent for 2025 was $16.1 million, a decrease of $1.7 million from 2024. This represents amounts receivable for future lease payments on cellular antenna space rentals on water towers. The reduction is due to the reclassification of amounts receivable in the next year as short-term. Additional details regarding the Utilities' leases (Electric and Water) may be found in Note 12 to the financial statements.

Water Unrestricted Cash & Investments



See accompanying *Independent Auditors' Report.*

LIABILITIES

Current liabilities increased $2.4 million in 2025 due to an increase in accounts payable of $1.5 million and in amounts due to the City of $0.9 million over 2024.

Noncurrent liabilities posted a slight increase of $0.1 million in 2025.

NET POSITION

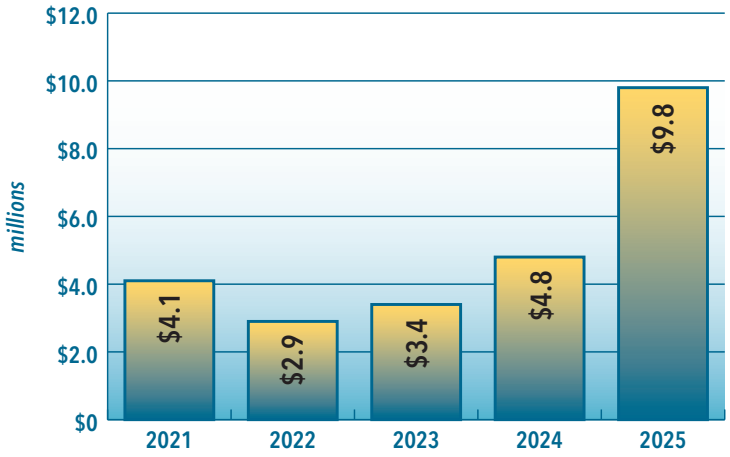
Net position invested in capital assets increased $14.9 million. This increase reflects additions to capital assets funded through rate-based revenues and fees from customers as well as contributed assets.

Unrestricted net position is not subject to any constraints established by debt covenants or other legal requirements. In 2025, unrestricted net position decreased $0.4 million due to the results of operations.

CAPITAL ASSETS

As of December 31, 2025, the Water Utility had $131.9 million invested in a broad range of capital assets. The investment in capital assets includes 20 water storage facilities, 32 wells, water mains, pump station facilities, buildings, and equipment. Capital assets increased $18.0 million in 2025, reflecting capital contributions as well as construction associated with the growth of the City and general facilities of the Water Utility. This increase in capital assets was offset by a $3.1 million increase in accumulated depreciation. Additional details regarding the Utilities' total assets (Electric and Water) may be found in Note 6 to the financial statements. Capital expenditures increased $5.0 million in 2025. Some of the major expenditure components in 2025 were Destination Medical Center (DMC) projects, Advanced Metering Infrastructure (AMI), and water main replacements in conjunction with City street projects.

Water Capital Expenditures



See accompanying *Independent Auditors' Report.*

MISCELLANEOUS INFORMATION

ECONOMIC FACTORS

The City Council has approved Electric and Water rate increases as needed to support the Utilities on a cost-of-service basis. In October and December 2023, the Utilities' Board and Rochester City Council approved a two-year budget for 2024 and 2025, as well as general rate increases for both years. For 2025, an increase of 4.0% was approved for the Electric Utility, with an increase of 5.5%, plus a $1.32 customer charge increase approved for the Water Utility. The rate increases support the financial health of both Utilities, fund capital replacements and the continued growth of the City, while contributing to reserves for future replacement of aging infrastructure. The table below compares historical Electric and Water rate increases with the annual inflation rate, as well as an average for the last five years.

ROCHESTER PUBLIC UTILITIES
ELECTRIC AND WATER RATE CHANGE
VERSUS INFLATION
5 YEAR COMPARATIVE ANALYSIS

Year	Inflation %	Electric Rates %	Water Rates %
2026	3.0%*	4.0%**	9.0%
2025	2.6%*	4.0%**	5.5%***
2024	2.9%*	3.2%**	5.5%***
2023	4.1%	2.5%	5.0%
2022	8.0%	1.5%	2.5%
Annualized Average	4.1%	3.0%	5.5%

*Estimated Yearly Values
**Plus AMI Customer Charge of $1.94 for 2024
***Plus AMI Customer Charge of $1.32 for 2024 and 2025

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

The housing market experienced growth in 2025, with 242 building permits totaling $86.3 million issued for single-family homes and townhomes. This compares to 199 permits totaling $75.2 million in 2024. Commercial building permits for 2025 saw a substantial increase in construction valuations, with 44 permits issued totaling $452.7 million, compared to 26 permits totaling $162.9 million in 2024. The 2025 commercial total includes two permits for factory/industrial construction projects totaling $205.9 million, roughly 45.4% of the commercial total.

According to the US Department of Labor Bureau of Labor Statistics, the December 2025 preliminary unemployment rate of 3.3% for the area remains below the state and national rates of 4.3% and 4.4%, respectively. The employment data shows that, on average, employment for the area was up approximately 4.2% from the previous year.

See accompanying *Independent Auditors' Report.*

The DMC initiative continues development and is projected to have a major impact on the future economic growth of the city. Legislation passed in 2013 required two bodies to be created: the DMC Corporation (DMCC), an oversight body, and the DMC Economic Development Agency (EDA), a private nonprofit agency that contracts with the DMC Corporation Board to act as its staff, working with the City of Rochester and other stakeholders to develop and execute the DMC plans and strategy. These two groups were organized in 2013 and 2014 and now meet regularly. In March 2014, the EDA began work on the DMC Development Plan, which was adopted by the City of Rochester in March 2015 and by the DMC Corporation in April 2015. The EDA, working with stakeholder organizations and the City of Rochester, is now charged with implementing the DMC Development Plan over the next twenty years. Specifically for Rochester, this will mean the creation of thousands of new jobs and an estimated $270 million in additional tax revenue over the next twenty years, along with the creation and retention of new businesses with a focus on biotech companies. In 2017, an important milestone was reached when private investments reached the $200 million mark, triggering the release of over $500 million in state funding for infrastructure investment. For the year ending December 31, 2024, private investments totaled more than $185.5 million, bringing the total private investment in DMC to $1.8 billion and releasing an additional $208.5 million in state funding through 2025. Through December 31, 2025, the City of Rochester and Olmsted County have incurred actual costs of $78.7 million and $25.5 million, respectively. Projects that are in process or have recently been approved by the DMC Corporation Board include:

- Rochester Rapid Transit System – Known as “Link”, a 2.6-mile bus rapid transit route, which will span the length of 2nd Street, connecting downtown Rochester, the Mayo Civic Center, Cascade Lake, Mayo Clinic campuses, and the Rochester-Olmsted Government Center with seven stations.
- West Transit Village – The future site of the West Transit Village, located along 2nd Street SW, will become the western end of the Link Bus Rapid Transit route. The West Transit Village is a crucial part of downtown Rochester’s mobility strategy and aligns with DMC’s vision of being a world-class destination.
- 6th Street Bridge – Identified as a key link in DMC’s Downtown Waterfront and Connectivity Framework, which envisions continuous access and activation along the Zumbro River corridor.

See accompanying *Independent Auditors’ Report.*

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

Based on the ongoing growth and stability of the service area, the impact to ratepayers, and the cost-of-service studies completed in 2025 for the Water Utility and 2023 for the Electric Utility, management recommended, and the RPU Board and Rochester City Council approved in October and December 2025 increases for 2026 of 4.0% for the Electric Utility, and 9.0% for the Water Utility.

RPU continues to provide a customer-focused reliable service to a vibrant and growing Rochester area through efficient, reliable, and responsible operations that work to serve our customers and community.

REQUESTS FOR INFORMATION

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

See accompanying *Independent Auditors' Report.*

Electric Utility
Statement of Net Position
As of December 31, 2025

	2025
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$39,668,690
Investments	106,330,935
Accounts Receivable, Net and Accrued Utility Revenues	25,847,016
Inventories	8,212,245
Other Current Assets	2,421,742
Restricted Assets:	
Cash and Cash Equivalents	1,140,947
Total Current Assets	183,621,575
Noncurrent Assets:	
Restricted Assets:	
Investments	12,959,165
Capital Assets:	
Construction Work in Progress	39,990,818
Land and Land Rights	12,956,327
Depreciable Assets, Net	283,123,037
Net Capital Assets	336,070,182
Other Noncurrent Assets	16,487,181
Total Noncurrent Assets	365,516,528
Total Assets	549,138,103
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Bond Refunding	1,056,691
Pension Related	1,858,063
Total Deferred Outflows of Resources	2,914,754
Total Assets and Deferred Outflows of Resources	$552,052,857
LIABILITIES:	
Current Liabilities:	
Accounts Payable	$17,797,355
Due to the Municipality	3,585,340
Accrued Compensated Absences	2,585,525
Accrued Compensation	1,299,300
Customer Deposits	2,645,262
Current Liabilities Payable from Restricted Assets	
Interest Payable	448,864
Current Maturities of Long-Term Debt	8,305,000
Other Current Liabilities	635,267
Total Current Liabilities	37,301,913
Noncurrent Liabilities:	
Accrued Compensated Absences	1,495,443
Pre-1968 Pensions Liability	6,000
Net Pension Liability	7,693,355
Unearned Revenues	1,799,669
Long-Term Debt	131,210,308
Other Noncurrent Liabilities	1,237,692
Total Noncurrent Liabilities	143,442,467
Total Liabilities	180,744,380
DEFERRED INFLOWS OF RESOURCES:	
Deferred Revenue	8,733,442
Pension Related	4,853,978
Solar Choice	185,033
Total Deferred Inflows of Resources	13,772,453
NET POSITION:	
Net Investment in Capital Assets	208,699,143
Restricted	
Debt Service	692,083
Unrestricted	148,144,798
Total Net Position	357,536,024
Total Liabilities, Deferred Inflows of Resources and Net Position	$552,052,857

See accompanying *Notes to Financial Statements.*

Electric Utility

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2025

	2025
Operating Revenues:	
Retail	$180,765,827
Wholesale	11,534,138
Other	17,198,907
Total Operating Revenues	209,498,872
Operating Expenses:	
Purchased Power	101,614,337
Operations and Maintenance	41,170,421
Depreciation and Amortization	17,704,715
Total Operating Expenses	160,489,473
Operating Income	49,009,399
Nonoperating Income (Expenses):	
Investment Income (Loss)	8,122,880
Interest Expense and Amortization	(5,005,325)
Amortization of Regulatory Assets	(88,136)
Miscellaneous, Net	(150,693)
Total Nonoperating Income	2,878,726
Income Before Transfers and Capital Contributions	51,888,125
Transfers Out	(11,429,314)
Capital Transfer to Water	(8,833)
Capital Contributions	6,138,192
Change in Net Position	46,588,170
Net Position, Beginning of Year	310,947,854
Net Position, End of Year	$357,536,024

See accompanying *Notes to Financial Statements.*

Electric Utility
Statement of Cash Flows
For the Year Ended December 31, 2025

	2025
Cash Flows From Operating Activities:	
Cash Received from Customers	$202,607,570
Cash Paid to Suppliers	(120,222,832)
Cash Paid to Employees	(24,397,647)
Internal Activity - Payments From Other Funds	7,245,307
Service Territory Acquisition	(173,544)
Net Cash Provided By Operating Activities	65,058,854
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	(11,373,718)
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(37,922,353)
Capital Contributions Received	6,669,289
Principal Payments on Bonds and SBITAs	(8,665,583)
Interest Payments on Bonds and SBITAs	(5,750,084)
Net Cash Used In Capital and Related Financing Activities	(45,668,731)
Cash Flows From Investing Activities:	
Interest Received	6,113,781
Investment Purchases	(1,174,101)
Net Cash Provided By Investing Activities	4,939,680
Net Increase in Cash and Cash Equivalents	12,956,085
Cash and Cash Equivalents, Beginning of Year	27,853,552
Cash and Cash Equivalents, End of Year	40,809,637
Classified As:	
Current Nonrestricted Assets	39,668,690
Restricted Assets	1,140,947
Cash and Cash Equivalents, End of Year	$40,809,637

	2025
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$49,009,399
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	17,704,715
Bad Debts	545,193
Service Territory Payments	(173,544)
Decrease (Increase) In:	
Accounts Receivable and Accrued Utility Revenues	(1,445,510)
Inventories	582,437
Prepayments	(76,787)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	1,251,637
Customer Deposits	48,702
Deferred Revenues	(40,269)
Unearned Revenues	(245,160)
Pension Deferred Outflow/Inflow	(2,055,701)
Solar Choice Deferred Inflow	(46,258)
Net Cash Provided by Operating Activities	$65,058,854

Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By Others	$245,160
Amortization of Bond Premiums, Discounts, and Refunding	(836,411)
Amortization of Bond Issue Costs	88,136
Unrealized Gain on Investments	1,979,100
SBITA additions	1,190,127
Capital Purchases in Accounts Payable	5,871,215

See accompanying *Notes to Financial Statements.*

Water Utility
Statement of Net Position
As of December 31, 2025

	2025
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$4,437,028
Investments	11,893,344
Accounts Receivable, Net and Accrued Utility Revenues	2,575,670
Inventories	327,695
Other Current Assets	188,397
Total Current Assets	19,422,134
Noncurrent Assets:	
Capital Assets:	
Construction Work in Progress	25,048,919
Land and Land Rights	742,667
Depreciable Assets, Net	106,144,447
Net Capital Assets	131,936,033
Lease Receivable Noncurrent	16,089,897
Total Noncurrent Assets	148,025,930
Total Assets	167,448,064
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Related	239,845
Total Assets and Deferred Outflows of Resources	$167,687,909
LIABILITIES:	
Current Liabilities:	
Accounts Payable	$2,043,930
Due to the Municipality	1,431,732
Accrued Compensated Absences	354,189
Accrued Compensation	175,188
Customer Deposits	151,710
Total Current Liabilities	4,156,749
Noncurrent Liabilities:	
Accrued Compensated Absences	180,124
Net Pension Liability	1,001,990
Total Noncurrent Liabilities	1,182,114
Total Liabilities	5,338,863
DEFERRED INFLOWS OF RESOURCES:	
Pension Related	632,187
Lease Related	15,184,225
Total Deferred Inflows of Resources	15,816,412
NET POSITION:	
Net Investment in Capital Assets	131,936,033
Unrestricted	14,596,601
Total Net Position	146,532,634
Total Liabilities, Deferred Inflows of Resources and Net Position	$167,687,909

See accompanying *Notes to Financial Statements.*

Water Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2025

	2025
Operating Revenues:	
Retail	$13,931,382
Other	2,086,751
Total Operating Revenues	16,018,133
Operating Expenses:	
Operations and Maintenance	9,139,376
Depreciation	3,202,868
Total Operating Expenses	12,342,244
Operating Income	3,675,889
Nonoperating Income (Expenses):	
Investment Income	991,321
Interest Expense	(3,546)
Miscellaneous, Net	1,640,168
Total Nonoperating Income	2,627,943
Income Before Transfers and Capital Contributions	6,303,832
Transfers Out	(480,282)
Capital Transfer In from Electric	8,833
Capital Contributions	8,687,218
Change in Net Position	14,519,601
Net Position, Beginning of Year	132,013,033
Net Position, End of Year	$146,532,634

See accompanying *Notes to Financial Statements.*

Water Utility
Statement of Cash Flows
For the Year Ended December 31, 2025

	2025
Cash Flows From Operating Activities:	
Cash Received from Customers	$14,593,917
Cash Paid to Suppliers	(5,066,913)
Cash Paid to Employees	(3,076,702)
Internal Activity - Payments From Other Funds	326,032
Net Cash Provided By Operating Activities	6,776,334
Cash Flows From Noncapital Financing Activities:	
Operating Transfers to Other Funds	(479,207)
Cash Received From Settlements	1,640,470
Cash Paid for Grant Funded Projects	(905,017)
Net Cash Provided By Noncapital Financing Activities	256,246
Cash Flows From Capital and Related Financing Activities:	
Additions to Utility Plant and Other Assets	(8,717,563)
Capital Contributions Received	1,508,820
Net Cash Used In Capital and Related Financing Activities	(7,208,743)
Cash Flows From Investing Activities:	
Interest Received	987,775
Investment Purchases	445,927
Net Cash Provided By Investing Activities	1,433,702
Net Increase in Cash and Cash Equivalents	1,257,539
Cash and Cash Equivalents, Beginning of Year	3,179,489
Cash and Cash Equivalents, End of Year	$4,437,028

	2025
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$3,675,889
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	3,202,868
Bad Debts	40,740
Miscellaneous Expense	905,017
Decrease (Increase) In:	
Accounts Receivable and Accrued Utility Revenues	(1,073,651)
Inventories	(76,870)
Prepaid and Other Current Assets	(27,061)
Increase (Decrease) In:	
Accrued Liabilities and Accounts Payable	286,260
Customer Deposits	(9,183)
Pension Deferred Outflow/Inflow	(123,142)
Lease Deferred Inflow/Receivable	(24,533)
Net Cash Provided by Operating Activities	$6,776,334

Noncash Financing and Investing Activities:	
Additions to Utility Plant and Other Assets Contributed By:	
City's Governmental Funds	$4,438
Developers	7,182,793
Capital Purchases in Accounts Payable	2,867,805
Grant Receivable	905,017

See accompanying *Notes to Financial Statements.*

NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2025

NOTE 1: Summary of Significant Accounting Policies

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

The significant accounting principles and policies utilized by the Utilities are described below.

REPORTING ENTITY

The Utilities are comprised of two proprietary funds, the Electric and the Water Enterprise Funds of the City of Rochester, Minnesota (municipality). The Electric Utility is engaged in the generation, transmission, and distribution of electric power and energy, and related activities. The Water Utility is engaged in the supply, purification, and distribution of water, and related activities. The Utilities provide electric and water service to properties concentrated geographically in or near the City of Rochester.

The Utilities are a municipal utility governed by a five-member board under the authority of the Home Rule Charter. The equity of the Utilities is vested in the City of Rochester, Minnesota.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Utilities are presented as enterprise funds of the municipality. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from the estimates.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires that a government assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. This standard was implemented January 1, 2025, and had no material impact on the financial statements.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Deposits and Investments

For purposes of reporting cash flows, the Utilities consider all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. The basis of fair values are described in the notes to the City of Rochester's financial statements included in the City's 2025 Annual Comprehensive Financial Report. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Fair values may have changed significantly after year end.

Investments of Utilities' funds are restricted by state statutes. Investments are limited to:

(a) Direct obligations or obligations guaranteed by the United States or its agencies.

(b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.

(c) General obligations of the State of Minnesota or its municipalities.

(d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.

(e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.

(f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker/dealers.

(g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

(h) Guaranteed investment contract (GIC) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance company and with a credit quality in one of the top two highest categories. Agreements or contracts for guaranteed investment contracts with a term of 18 months or less may be entered into provided that the issuer's or guarantor's long-term unsecured debt is rated in one of the three highest rating categories (minimum A- or the equivalent) and the credit quality of the issuer's short-term unsecured debt is rated in the highest category (minimum A-1 or the equivalent).

As funds of the City of Rochester, MN, the Utilities are governed by the investment policy that has been adopted by the Rochester City Council. That policy follows the state statute for allowable investments.

Receivables/Payables and Accrued Utility Revenues

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

The Utilities provides an allowance for losses on receivables, as needed, for accounts considered uncollectible. Accounts receivable has been reduced by an Allowance for Doubtful Accounts of $490,000 for the Electric Utility and $50,000 for the Water Utility for December 31, 2025.

Revenues are recognized on the accrual basis of accounting and include estimated amounts for service rendered but not billed. Accrued revenue amounts are $4,481,405 for the Electric Utility and $198,364 for the Water Utility for the year ended December 31, 2025.

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. Fuel inventory is valued at cost, using the last-in, first-out method.

The Utilities provides an allowance for materials and supplies that may be obsolete. Inventories have been reduced by an Inventory Allowance of $2,606,834 for the Electric Utility and $58,963 for the Water Utility for December 31, 2025.

Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. RPU's general policy is that when both restricted and unrestricted resources are available for use, it is the Utilities' policy to use restricted resources first, then unrestricted resources.

Other Current Assets

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

Capital Assets

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

Subscription-based information technology arrangements (SBITAs) are recorded at the present value of the subscription liability plus payments made at the commencement of the subscription term and implementation costs, less incentives received at the commencement of the subscription term. SBITAs are amortized systematically over the shorter of the subscription term or the useful life of the underlying information technology asset. Refer to Note 13 for additional information on SBITAs.

Capital assets are recorded at cost or the estimated acquisition value at the time of contribution to RPU. Major outlays for capital assets are capitalized as projects are constructed. Capital assets in service are depreciated or amortized using the straight-line method over the following useful lives:

Electric Plant	Years	Water Plant	Years
Generation	10-60	Source of Supply	15-70
Transmission	20-45	Pumping	10-50
Distribution	10-50	Water Treatment	30-80
General	5-50	Transmission and Distribution	50-80
Intangible-SBITAs	1-5	General	5-80

Other Assets – Noncurrent

The Electric Utility Other Assets – Noncurrent includes Regulatory Assets consisting of Bond Issue Costs and Service Territory Acquisition Costs, in addition to Receivables related to long-term capacity sales. Refer to Note 11 for additional information on the Utility's application of accounting for the effect of rate regulation.

A summary of changes in electric other assets for 2025 follows:

	Balance 01/01/25	Increases	Decreases	Balance 12/31/25
Long-Term Capacity Receivables	$8,190,000	$972,000	$1,578,000	$7,584,000
Less amount in Other Accounts Receivable-Current	1,092,000	283,500		1,375,500
Other Accounts Receivable-Noncurrent	7,098,000	688,500	1,578,000	6,208,500
Bond issue costs	2,723,710	-	-	2,723,710
Less: Amortization of bond issue costs	1,860,276	88,136	-	1,948,412
Nonoperating Other Assets	863,434			775,298
Regulatory asset-Service territory payments	18,161,696	174,496	-	18,336,192
Less: Amortization of Regulatory asset	8,371,481	461,328	-	8,832,809
Operating Other Assets	9,790,215			9,503,383
Net Other Assets	$17,751,649			$16,487,181

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

A summary of changes in water other assets for 2025 follows:

	Balance 01/01/25	Increases	Decreases	Balance 12/31/25
Lease Receivable Noncurrent	$17,749,879	$ -	$1,659,982	$16,089,897

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

The Electric Utility has issued revenue bonds to finance the advance and current refunding of the outstanding revenue bonds. The refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the effective interest method. The unamortized balance as of December 31, 2025 is $1,056,691.

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

Accrued Compensation and Compensated Absences

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

The Utilities' sick leave liability is estimated based on the Utilities' past experience of making termination payments for sick leave. Employees are compensated upon termination for 40% of their unused sick leave, after meeting certain qualifications.

Paid time off (PTO), which is payable upon termination, is accrued as it is earned by employees.

Customer Deposits

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

Unearned Revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2018 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2025, $245,160 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2025, $540,720 of the potential refund remained recorded as an Unearned Revenue. The amount of Unearned Revenue will be reduced each year through the remainder of the ten-year term, having either been refunded to the customer if load requirement has been met, or recorded as a CIAC if not met. The substation went in service in May 2017.

As of December 31, 2025, customers have paid the Electric Utility $1,258,949 as advances for construction of utility infrastructure, which is reflected as Unearned Revenue. When the construction has been completed, such amounts will be recorded as Capital Contributions.

Long-Term Debt

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association of Minnesota (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

The Electric Utility rents a portion of its transmission system, known as the North Loop, to SMMPA under a non-cancelable agreement through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of $1,500,000 in 1989 and annual revenues of $36,420 are being recognized ratably over the term of the agreement. The amount deferred as of December 31, 2025 was $155,495.

Beginning in January 2018, the Electric Utility, working through its primary power supplier SMMPA, began a new program offering called SolarChoice whereby customers can subscribe to one or more solar panels from a utility-scale solar installation contracted to SMMPA. Each month customers receive a bill credit for the amount of energy generated by their subscribed panels. The subscription cost of $650 per solar panel was initially recorded as a deferred inflow and is being recognized into revenue ratably over the twelve-year term of the subscription, 2018 through 2029. As of December 31, 2025, deferred remained at $185,033.

At the end of 2025, the Electric Utility had additional deferred amounts of $8,577,947, consisting of the unamortized portion of a long-term capacity sale, along with advanced payments which included the unamortized portion of short-term capacity sales.

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

See Note 12 for additional information regarding lease deferred inflows.

REVENUES AND EXPENSES

The Utilities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded monthly based on metered usage.

Current electric and water rates were approved by the Utility Board and the City Council and placed into effect on January 1, 2025.

Miscellaneous-Net Income

The Water Utility includes proceeds of $1,640,470 from a polyfluoroalkyl substance (PFAS) class action lawsuit settlement and proceeds of a Minnesota State lead service line replacement grant program administered by the Minnesota Public Facilities Authority and Minnesota Department of Health. The grant and offsetting expense totaled $905,017.

Transfers

Transfers include the payment in lieu of taxes to the municipality and outgoing contributions in aid of construction when the payment is between the two utilities that comprise RPU.

Capital Contributions

Cash and capital assets are contributed to the Utilities from customers, the municipality or external parties. The value of property contributed to the Utilities is reported as revenues on the statement of revenues, expenses and changes in net position.

Significant Customers

The top ten users of the Electric Utility represent sales of 337,937 megawatt-hours (mWh) of use, which is 29.2% of the total retail mWh sales in 2025. These users also represent $49,940,446 or 23.8% of the total 2025 operating revenues. The top four users of RPU account for approximately 247,232 mWh of use, which is 21.4% of the total retail mWh sales in 2025 and represents $38,836,606 or 18.5% of the total 2025 operating revenues. Section 13.685 of the Minnesota Statutes does not allow the disclosure of the identity of privately owned companies or individuals and their electric consumption, so the top ten users cannot be disclosed. RPU is not aware of any significant changes by these users that would affect the overall consumption or revenue production by its biggest customers.

The top ten users of the Water Utility represent sales of 1,164,639 hundred cubic feet (ccf) of use, which is 20.3% of the total ccf sales in 2025. These users also represent $1,540,273 or 9.6% of the total 2025 operating revenues. The top four users of RPU account for approximately 900,092 ccf of use, which is 15.7% of the total ccf sales in 2025 and represents $1,221,789 or 7.6% of the total 2025 operating revenues.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved GASB Statements No. 103, *Financial Reporting Module Improvements*, No. 104, *Disclosure of Certain Capital Assets* and No. 105, *Subsequent Events*. When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2: Special Item

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

NOTE 3: Deposits and Investments

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

The Utilities' equity in the City of Rochester cash and investment pool is based on actual cash receipts and disbursements and a monthly allocation of investment earnings on a pro-rata basis. Investments held in the investment pool, associated risks and fair value measurements are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2025 Annual Comprehensive Financial Report.

NOTE 4: Due to the Municipality

The following is a schedule of balances as of December 31, 2025:

Due To	Due From	Principal Purpose	2025 Amount
Municipality	Electric	General operating	$167,553
Municipality	Electric	Electric construction projects	880,039
Municipality	Electric	ERP project	57,500
Municipality	Electric	Payments in lieu of tax	976,320
Municipality	Electric	Sewer and Stormwater revenue	3,551,517
		Total Electric Due To Municipality	5,632,929
Electric	Municipality	Sewer and Stormwater billing fees	155,890
Electric	Municipality	Utility bills	453,302
Electric	Municipality	Utility bill collections	30,850
Electric	Municipality	General operating	4,324
Electric	Municipality	Electric construction projects	226,609
Electric	Municipality	Interest on investments	1,176,614
		Total Electric Due From Municipality	2,047,589
		Electric Net Due to Municipality	$3,585,340
Municipality	Water	General operating	$7,003
Municipality	Water	Water construction projects	2,248,947
Municipality	Water	Watermain replacement	(3,755)
Municipality	Water	Payments in lieu of tax	34,010
		Total Water Due To Municipality	2,286,205
Water	Municipality	Utility bills	14,494
Water	Municipality	Water construction projects	838,941
Water	Municipality	General operating	1,038
		Total Water Due From Municipality	854,473
		Water Net Due to Municipality	$1,431,732

The following is a schedule of transfer balances for the year ending December 31, 2025:

	Transfer From	Transfer To	Principal Purpose	2025 Amount
Electric:	Electric	Municipality	Tax Equivalents	$11,429,314
	Electric	Water	Transfer Out-Capital Contributions	8,833
Water:	Water	Municipality	Tax Equivalents	$480,282
	Electric	Water	Transfer In-Capital Contributions	8,833

NOTE 5: Restricted Assets

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

	2025
Current Assets	
Debt Service Account	$1,140,947
Used to segregate resources accumulated for debt service payments over the next twelve months.	
Noncurrent Assets	
Reserve Account	$12,959,165
Proceeds deposited to be used to pay principal and interest payments on long-term debt.	

NOTE 6: Changes in Capital Assets

ELECTRIC

A summary of changes in electric capital assets for 2025 follows:

	Balance 01/01/25	Increases	Decreases	Balance 12/31/25
Capital assets, not being depreciated:				
Construction in progress	$41,574,397	$23,461,983	$25,045,562	$39,990,818
Land and land rights	12,373,693	763,469	180,835	12,956,327
Total capital assets, not being depreciated	53,948,090	24,225,452	25,226,397	52,947,145
Capital assets, being depreciated:				
Buildings, structures and improvements	74,713,584	878	-	74,714,462
Installations, equipment and fixtures	484,635,513	41,990,876	1,726,188	524,900,201
Intangible assets-SBITAs	2,817,186	1,713,247	355,923	4,174,510
Total capital assets, being depreciated	562,166,283	43,705,001	2,082,111	603,789,173
Less: Accumulated depreciation	304,422,655	16,409,274	1,398,264	319,433,665
Less: Amortization-SBITAs	754,281	834,113	355,923	1,232,471
Depreciable Assets, Net	256,989,347			283,123,037
Net Capital Assets	$310,937,437			$336,070,182

In 2025, noncash capital assets totaling $245,160 were contributed to the Electric Utility by others. Cash contributions in aid of construction were $5,893,032. Accumulated depreciation as of December 31, 2025 includes an impairment loss reserve of $1,277,239 as described in Note 2.

WATER

A summary of changes in water capital assets for 2025 follows:

	Balance 01/01/25	Increases	Decreases	Balance 12/31/25
Capital assets, not being depreciated:				
Construction in progress	$12,247,243	$13,656,993	$855,317	$25,048,919
Land and land rights	742,667	-	-	742,667
Total capital assets, not being depreciated	12,989,910	13,656,993	855,317	25,791,586
Capital assets, being depreciated:				
Buildings, structures and improvements	20,735,794	-	-	20,735,794
Installations, equipment and fixtures	151,159,551	5,375,385	121,567	156,413,369
Total capital assets, being depreciated	171,895,345	5,375,385	121,567	177,149,163
Less: Accumulated depreciation	67,923,114	3,202,868	121,266	71,004,716
Depreciable Assets, Net	103,972,231			106,144,447
Net Capital Assets	$116,962,141			$131,936,033

In 2025, noncash capital assets totaling $4,438 were contributed to the Water Utility by other funds of the City of Rochester, and others contributed $7,182,793 to the Utility. Cash contributions in aid of construction were $1,508,820.

NOTE 7: Long-Term Obligations

ELECTRIC

The following revenue bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/25
02/10/21	Revenue Bond Series 2021A-Advance refund the 2013B issue	12/1/43	1.375-2.30%	$37,170,000	$30,615,000
02/15/17	Revenue Bond Series 2017A-Westside Energy Station, Customer Service Center expansion, transmission and substation work, distribution system expansion, and refund remaining 2007C issue	12/1/47	2.00-5.00%	108,255,000	83,700,000
11/17/15	Revenue Bond Series 2015E-Advance refund a portion of the 2007C issue	12/1/30	3.00-5.00%	39,970,000	17,295,000

Revenue bond debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2026	$8,305,000	$5,386,368	$13,691,368
2027	8,625,000	5,062,768	13,687,768
2028	8,980,000	4,708,968	13,688,968
2029	9,350,000	4,339,668	13,689,668
2030	9,710,000	3,990,217	13,700,217
2031-2035	21,825,000	16,594,907	38,419,907
2036-2040	26,330,000	12,074,907	38,404,907
2041-2045	28,000,000	6,319,700	34,319,700
2046-2047	10,485,000	792,750	11,277,750
	$131,610,000	$59,270,253	$190,880,253

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are paid off. Principal and interest paid for 2025 was $13,686,867, which consisted of scheduled principal and interest payments. Total gross revenues as defined for the same period were $217,621,752. Annual principal and interest payments are expected to require 4.0% of gross revenues on average.

All of the Utility's outstanding revenue bonds contain a provision that upon the occurrence and continuation of an event of default, the bond owners' trustee, or if there is none, the owners of 25.0% in aggregate amount of the parity bonds then outstanding, may, by written notice to the City, declare the entire unpaid principal of the parity bonds due and payable.

LONG-TERM OBLIGATIONS SUMMARY – ELECTRIC

Long-term obligation activity for the year ended December 31, 2025 is as follows:

	01/01/25 Balance	Additions	Reductions	12/31/25 Balance	Due Within One Year
Long-term debt	$139,615,000	$ -	$8,005,000	$131,610,000	$8,305,000
Bond discount/premium	8,914,639	-	1,009,331	7,905,308	-
Accrued Compensated Absences	3,827,513	409,350	155,895	4,080,968	2,585,525
Pre-1968 Pension Liability	6,000	-	-	6,000	-
Net Pension Liability	8,655,220	-	961,865	7,693,355	-
Unearned Revenue	1,268,569	776,258	245,158	1,799,669	-
SBITA	1,342,043	1,190,127	660,583	1,871,587	633,895
Totals	$163,628,984	$2,375,735	$11,037,832	$154,966,887	$11,524,420

LONG-TERM OBLIGATIONS SUMMARY – WATER

Long-term obligation activity for the year ended December 31, 2025 is as follows:

	01/01/25 Balance	Additions	Reductions	12/31/25 Balance	Due Within One Year
Accrued Compensated Absences	$397,150	$149,163	$12,000	$534,313	$354,189
Net Pension Liability	1,003,559	-	1,569	1,001,990	-
Totals	$1,400,709	$149,163	$13,569	$1,536,303	$354,189

INTEREST EXPENSE – ELECTRIC

	2025
Bond interest expense	$5,657,243
Bond premium, discount & refunding amortization	(836,411)
Other interest expense	116,277
Interest expense Subscription-Based Information Technology Arrangements	68,216
Total	$5,005,325

NOTE 8: Net Position

GASB Statement No. 34 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

NET INVESTMENT IN CAPITAL ASSETS

This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources are included in the same net position component (restricted or unrestricted) as the unspent amount.

RESTRICTED

This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

UNRESTRICTED

This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 9: Pension Plans

A. Plan Description

The Utilities, as departments of the City of Rochester, participate in the General Employees Retirement Plan cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

B. Benefits Provided

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

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. The 2025 annual increase was 1.25%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

C. Contributions

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

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the Utilities were required to contribute 7.5% for General Plan members. The Utilities' contributions to the General Employees Fund for the year ended December 31, 2025, were $1,644,176 and $214,904 for the Electric Utility and Water Utility, respectively. The Utilities' contributions were equal to the required contributions as set by state statute.

D. Pension Costs

At December 31, 2025, the Electric Utility reported a liability of $7,693,355, and the Water Utility reported a liability of $1,001,990 as each utility's allocated share of the City of Rochester's proportionate share of $26,063,539 of the General Employees Fund's net pension liability. The City of Rochester's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester totaled $628,734.

City of Rochester's proportionate share of the net pension liability	$26,063,539
State of Minnesota's proportionate share of the net pension liability associated with the City of Rochester	628,734
Total	$26,692,273

The net pension liability was measured as of June 30, 2025 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City of Rochester's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2027, through June 30, 2025, relative to the total employer contributions received from all PERA's participating employers. The City's proportionate share was 0.7865% at the end of the measurement period and 0.7822% for the beginning of the period.

For the year ended December 31, 2025, the Electric Utility and Water Utility recognized pension expense of $(277,189) and $(36,101), respectively, as allocated shares of the City of Rochester's General Employees Plan's pension expense. In addition, the City recognized an additional $125,838 as pension revenue (and grant expense) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At December 31, 2025, the Electric Utility reported its allocated share of the City of Rochester's General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$733,008	$ -
Changes in actuarial assumptions	185,365	1,770,214
Net collective difference between projected and actual investment earnings	-	3,061,260
Changes in proportion	112,610	22,504
Contributions paid to PERA subsequent to the measurement date	827,080	-
Total	$1,858,063	$4,853,978

The $827,080 reported as deferred outflows of resources related to pensions resulting from Electric Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2026	$(838,587)
2027	(1,400,798)
2028	(1,036,756)
2029	(546,854)
Total	$(3,822,995)

At December 31, 2025, the Water Utility reported its allocated share of the City of Rochester's General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$95,468	$ -
Changes in actuarial assumptions	24,142	230,554
Net collective difference between projected and actual investment earnings	-	398,702
Changes in proportion	14,666	2,931
Contributions paid to PERA subsequent to the measurement date	105,569	-
Total	$239,845	$632,187

The $105,569 reported as deferred outflows of resources related to pensions resulting from Water Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2026	$(109,218)
2027	(182,441)
2028	(135,028)
2029	(71,223)
Total	$(497,911)

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Methods and Assumptions

The total pension liability for the cost-sharing defined benefit plan was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3.0% after 27 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the Electric Utility's and Water Utility's allocated shares of the City of Rochester's net pension liability for the General Employees Fund plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what each utility's allocated share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Electric Utility's allocated share of the General Employees Fund net pension liability:	$18,685,953	$7,693,355	($1,224,115)
Water Utility's allocated share of the General Employees Fund net pension liability:	$2,433,677	$1,001,990	($159,430)

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

J. Other Pension Plans

The Utilities had maintained an unqualified supplemental pension plan. The plan was unfunded and was discontinued in 1968. Funds have been deposited with a plan administrator to fund the estimated benefits due under the plan. The pension reserve deposit as of December 31, 2025 was $28,384.

K. Defined Contribution Plan (457 Plan)

The City of Rochester offers a 457 plan (Plan) to all eligible employees who elect to make contributions to the Plan. The City intends to maintain the Plan as an eligible deferred compensation plan within the meaning of section 457(b) of the Internal Revenue Code. Participation in the Plan is voluntary and not a requirement of employees. The Plan is participant-directed and available to all City of Rochester employees which permits them to defer a portion of their salary until future years. The City of Rochester does not provide contributions to the Plan. The City contracts with three deferred compensation plan vendors to offer retirement plan benefits. These vendors are Empower Retirement, Mission Square Retirement, and Minnesota State Retirement System.

NOTE 10: Risk Management

The Utilities are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions. These risks are covered through the purchase of commercial insurance, with deductibles up to $1,000,000 depending on the covered asset. Settled claims have not exceeded the commercial liability in any of the past two years. There were no significant reductions in coverage compared to the prior year.

The City of Rochester has established a self-insurance program for group health coverage and workers' compensation. RPU participates in this self-insurance program. The group health program is limited to losses of $400,000 per claim with a variable annual aggregate, and the workers' compensation coverage is limited to $1,000,000 per occurrence, both through the use of stop-loss policies. The City recognizes a liability on individual claims when a loss is probable and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on claims that have been incurred but not yet reported. Additional details regarding the self-insurance program are disclosed in the notes to the City of Rochester's basic financial statements included in the City's 2025 Annual Comprehensive Financial Report.

NOTE 11: Accounting for the Effects of Rate Regulation

The Utilities are subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the rate-making process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Utilities record these future economic benefits and obligations as regulatory assets and deferred inflows of resources, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Deferred inflows of resources represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities' costs of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the entities' costs can be charged to and collected from customers.

Based upon the Utilities' management evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Utilities believe that GASB Statement No. 62 continues to apply.

NOTE 12: Leases

As a lessor, the Electric Utility has entered into pole attachment agreements which provide for the leasing of space on its electric utility poles. These agreements generally include original terms of five years with an unspecified number of autorenewal options for the lessee to extend the term for a period of one year each. Upon expiration of the pole attachment agreements, the Electric Utility has included one autorenewal term of one year as the lease term and has recognized the agreements as short-term leases. The payment terms generally include a variable annual payment per pole attachment paid in advance based on the number of pole attachments in existence at the beginning of each calendar year of the lease term. The Electric Utility determined that portions of the variable annual payments were considered fixed in substance and could be reliably measured. Therefore, these payment amounts were included in the measurement of short-term lease revenues. Incremental annual payments received, or annual payments not received relative to the number of pole attachments factored into the measurement of short-term lease revenues are classified as variable payment amounts because they are not considered fixed in substance. The Electric Utility recognized short-term lease revenues of $464,698 during the year ended December 31, 2025.

As a lessor, the Water Utility has entered into antenna placement agreements which provide for the leasing of antenna space on its water towers. These agreements generally include original terms of five years with three autorenewal options for the lessee to extend the term for a period of five years each. The Water Utility has included in the lease term the remaining autorenewal terms as provided for in the lease under the assumption that these terms are reasonably certain of being exercised by the lessee. The payment terms generally include a fixed annual payment paid in advance that escalates by a fixed percentage each year of the term. During 2025, the Water Utility recognized total lease-related revenues of $1,654,786 related to the antenna placement agreements, of which $1,231,125 and $423,661 were classified as lease revenues and interest, respectively. The Water Utility also recognized short-term lease revenues of $14,632 during the year ended December 31, 2025.

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

The Utilities include the current and noncurrent portions of the lease receivables in accounts receivable, net and accrued utility revenues and other noncurrent assets, respectively. At December 31, 2025, the Water Utility included $596,728 and $16,089,897 for the current and noncurrent portions of the lease receivables in accounts receivable, net and accrued utility revenues and other noncurrent assets, respectively.

NOTE 13: Subscription-Based Information Technology Arrangements

The Utilities have SBITAs that are used primarily for various software and related licenses which meet the capitalization criteria specified by generally accepted accounting principles. Therefore, RPU has recorded the SBITAs at the present value of the future minimum payments as of the inception date using its own estimated incremental borrowing rate (see Note 12). The SBITAs generally include original terms of one to five years. Certain SBITAs also include an unspecified number of autorenewal options for the Utilities to extend the term for a period of one year each. The Electric Utility has excluded from the SBITA term any potential autorenewal terms as provided for in the SBITA since the non-cancelable period of any autorenewal term would be less than one year.

During 2025, the Electric Utility recognized amortization expense and interest expense of $834,113 and $68,216, respectively, related to SBITA agreements. During 2025, the Utilities recognized short-term expense of $202,059 related to SBITA agreements with respect to payments that were not included in the measurement of the SBITA right-to-use assets and liabilities. The cost and accumulated amortization of the assets under the Electric Utility's SBITAs included in capital assets totaled $4,174,510 and $1,232,471, respectively, as of December 31, 2025. The Electric Utility's SBITA obligation included in current liabilities and noncurrent liabilities totaled $633,895 and $1,237,692, respectively, as of December 31, 2025.

The Electric Utility has entered into five SBITAs for software and related licenses prior to December 31, 2025, whereby the subscription term has not yet commenced as of the year ended December 31, 2025. The initial terms of the SBITAs are between approximately one to five years, with an estimated commencement of each SBITA during 2025 and future years. Certain of the SBITAs also include an autorenewal option for the Electric Utility to extend the term for a period of one year each. The total estimated subscription payment amounts for the terms of the SBITAs (excluding autorenewal option periods that are not reasonably certain to be exercised) are approximately $10,851,931. Additionally, the total estimated implementation costs for the SBITAs are approximately $17,475,386. The Electric Utility will measure and record the SBITAs according to GASB Statement No. 96 at the date of SBITA commencement.

NOTE 14: Commitments and Contingencies

RESOURCE MANAGEMENT AGREEMENT

The Electric Utility has a Resource Management Agreement with The Energy Authority, Inc. as its market participant in the Midcontinent Independent System Operator (MISO) energy and operating reserves market for the Cascade Creek combustion turbines and Westside Energy Station reciprocating engines.

SERVICE TERRITORY SETTLEMENTS

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt-hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 16.37 mills (tenths of a cent) per kWh to 30.21 mills per kWh. These commitments expire over various periods with a

maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over forty years.

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY

The Electric Utility is a voting member of SMMPA. The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery (CROD). This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a CROD that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,182,728,649 kilowatt-hours totaling $98,997,056 from SMMPA during the year ended December 31, 2025.

The Utility rents a portion of its electrical transmission system, known as the North Loop, to SMMPA under a non-cancelable agreement through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of $1,500,000 in 1989 and annual revenues of $36,420 are being recognized ratably over the term of the agreement.

THE ENERGY AUTHORITY

The Electric Utility has an agreement with The Energy Authority and Missouri Basin Municipal Power Agency for the purchase of capacity. The contract is for 26 MW per month for $3,500 per MW for planning years 2022-2023 through 2031-2032. The total for the ten years of the contract is $10,920,000. The Electric Utility has an agreement with The Energy Authority and AEP Energy Partners, Inc for the purchase of capacity. The contract is for $40,500 per month for June 2025 through May 2027. The total for the two years of the contract is $972,000.

OPEN CONSTRUCTION CONTRACTS AND OTHER SIGNIFICANT COMMITMENTS

The Utilities have several active projects and agreements as of December 31, 2025. At year end, the Utilities' significant commitments are as follows:

Electric Projects	Spent-to-Date	Remaining Commitment
Mt Simon Project	$7,910,327	$31,668,901
AMI meters	4,478,924	4,850,163
AMI-Vendor Provided Services	2,671,476	1,064,854
Professional Services	1,521,437	2,014,466
Vendor Provided Services	624,876	2,847,984
AMI-Professional Services	1,852,282	902,876
Maintenance & Warranty Agreements	789,491	1,480,547
Stock Materials & Tools	292,596	955,646

Water Projects	Spent-to-Date	Remaining Commitment
AMI meters	$2,168,548	$1,729,689
Lead Service Line Replacement	840,355	1,047,310
Water System Master Plan	119,040	394,260
Groundwater Management Study	55,185	440,816
Professional Services	88,436	69,564
Vendor Provided Services	32,721	81,779

CLAIMS AND JUDGMENTS

From time to time, the Utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Utilities' attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Utilities' financial position or results of operations.

NOTE 15: Subsequent Events

In October 2025, the Utility Board approved and in December 2025, the City Council approved rate, fee and tariff adjustments for the Electric Utility reflecting a general overall rate adjustment of 4.0% effective on or about January 1, 2026, and a general overall rate adjustment of 6.0% on or about January 1, 2027.

In October 2025, the Utility Board approved and in December 2025, the City Council approved rate, fee and tariff adjustments for the Water Utility of 9.0% effective on or about January 1, 2026, and 9.0% effective on or about January 1, 2027.

On January 27, 2026, the Utility Board approved and on February 2, 2026, the City Council approved the 2026-2029 Citywide Small Government Enterprise Agreement with Environmental Systems Research Institute, Inc. in the amount of $390,740.

On January 27, 2026, the Utility Board approved the purchase of fuel from HTP Energy up to $500,000 plus applicable taxes.

On February 17, 2026, the Utility Board approved the acceptance of bids from RESCO, IRBY, and Border States Electric for RPU stock medium voltage electrical cable. Furthermore, the Board approved the purchase of the cables subject to allowable tolerances on the total quantity and escalation/de-escalation of unit price at time of delivery from RESCO totaling $521,585 and IRBY totaling $698,742.

On February 17, 2026, the Utility Board approved and on February 18, 2026 the City Council approved the Operations, Maintenance & Capital Replacement Agreement for Electrical Facilities Dedicated to Serving Mayo Clinic.

In preparing these financial statements, Rochester Public Utilities has evaluated events and transactions for potential recognition or disclosure through April 3, 2026, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2025

The Schedule of Employer Contributions shows the employer's required annual contributions from the annual actuarial valuation, compared with the actual contributions remitted over the past ten years.

Schedule of Rochester Public Utilities – Electric Utility Contributions
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2016	$1,047,623	$1,047,623	$ -	$13,968,307	7.5%
December 31, 2017	$1,123,064	$1,123,064	$ -	$14,974,187	7.5%
December 31, 2018	$1,189,801	$1,189,801	$ -	$15,864,013	7.5%
December 31, 2019	$1,258,692	$1,258,692	$ -	$16,782,560	7.5%
December 31, 2020	$1,276,070	$1,276,070	$ -	$17,014,267	7.5%
December 31, 2021	$1,300,148	$1,300,148	$ -	$17,335,302	7.5%
December 31, 2022	$1,382,631	$1,382,631	$ -	$18,435,086	7.5%
December 31, 2023	$1,462,601	$1,462,601	$ -	$19,501,353	7.5%
December 31, 2024	$1,547,978	$1,547,978	$ -	$20,639,703	7.5%
December 31, 2025	$1,644,176	$1,644,176	$ -	$21,922,346	7.5%

Schedule of Rochester Public Utilities – Water Utility Contributions
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years)

Fiscal Year Ending (for the Financial Reporting Period)	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
December 31, 2016	$125,295	$125,295	$ -	$1,670,600	7.5%
December 31, 2017	$131,642	$131,642	$ -	$1,755,227	7.5%
December 31, 2018	$138,727	$138,727	$ -	$1,849,693	7.5%
December 31, 2019	$157,836	$157,836	$ -	$2,104,480	7.5%
December 31, 2020	$161,082	$161,082	$ -	$2,147,760	7.5%
December 31, 2021	$171,947	$171,947	$ -	$2,292,624	7.5%
December 31, 2022	$174,757	$174,757	$ -	$2,330,089	7.5%
December 31, 2023	$188,162	$188,162	$ -	$2,508,822	7.5%
December 31, 2024	$176,079	$176,079	$ -	$2,347,717	7.5%
December 31, 2025	$207,042	$207,042	$ -	$2,760,554	7.5%

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

Schedule of Rochester Public Utilities – Electric Utility Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years)

Fiscal Year Ending (for the Measurement Period)	City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)	RPU Electric Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)	RPU Electric Utility's Covered Payroll (b)	RPU Electric Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.7271%	$17,900,174	$13,124,826	136.38%	68.91%
June 30, 2017	0.7701%	$15,060,666	$13,811,891	109.04%	75.90%
June 30, 2018	0.7471%	$12,826,294	$14,829,552	86.49%	79.53%
June 30, 2019	0.7473%	$12,584,021	$15,488,263	81.25%	80.23%
June 30, 2020	0.7818%	$14,285,386	$16,299,411	87.64%	79.06%
June 30, 2021	0.7838%	$10,106,060	$17,408,524	58.05%	87.00%
June 30, 2022	0.7807%	$19,014,462	$17,771,414	106.99%	76.67%
June 30, 2023	0.7757%	$13,142,567	$19,000,976	69.17%	83.10%
June 30, 2024	0.7822%	$8,655,220	$20,155,509	42.94%	89.08%
June 30, 2025	0.7865%	$7,693,355	$21,268,540	36.17%	90.78%

Schedule of Rochester Public Utilities – Water Utility Proportionate Share of Net Pension Liability
Public Employees General Employees Retirement Fund
Required Supplementary Information (Last Ten Years)

Fiscal Year Ending (for the Measurement Period)	City of Rochester's Proportion (Percentage) of Net Pension Liability (Asset)	RPU Water Utility's Allocated Share (Amount) of the Net Pension Liability (Asset) (a)	RPU Water Utility's Covered Payroll (b)	RPU Water Utility's Allocated Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.7271%	$2,105,210	$1,582,656	133.02%	68.91%
June 30, 2017	0.7701%	$1,756,779	$1,646,190	106.72%	75.90%
June 30, 2018	0.7471%	$1,494,729	$1,696,245	88.12%	79.53%
June 30, 2019	0.7473%	$1,561,107	$1,926,372	81.04%	80.23%
June 30, 2020	0.7818%	$1,807,972	$2,044,475	88.43%	79.06%
June 30, 2021	0.7838%	$1,335,994	$2,267,310	58.92%	87.00%
June 30, 2022	0.7807%	$2,400,013	$2,304,973	104.12%	76.67%
June 30, 2023	0.7757%	$1,665,588	$2,387,371	69.77%	83.10%
June 30, 2024	0.7822%	$1,003,559	$2,439,612	41.14%	89.08%
June 30, 2025	0.7865%	$1,001,990	$2,621,427	38.22%	90.78%

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

As of and for the Year Ended December 31, 2025

NOTE 1: General Employees Fund administered by the Public Employees Retirement Association of Minnesota (PERA)

The amounts determined for each fiscal year were determined as of the calendar year end that occurred within the fiscal year. The City of Rochester is required to present the last ten fiscal years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

2025 CHANGES:

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

See accompanying *Independent Auditors' Report.*

2023 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2022 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There were no changes since the prior valuation.

2021 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There were no changes since the prior valuation.

2020 CHANGES:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.

See accompanying *Independent Auditors' Report.*

- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 CHANGES:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.

See accompanying *Independent Auditors' Report.*

- Postretirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90.0% funding ratio to 50.0% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2016 CHANGES:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

See accompanying *Independent Auditors' Report.*

OPERATING AND FINANCIAL STATISTICS
(unaudited)

ELECTRIC

	2025	2024	2023	2022	2021	2015
RETAIL CUSTOMERS:						*(ten years ago)*
Residential	55,974	55,533	54,402	53,353	53,058	46,961
Industrial / Commercial	5,264	5,206	5,164	5,127	5,120	4,809
Other	4	4	4	4	4	4
Total Retail Customers	61,242	60,743	59,570	58,484	58,182	51,774
RETAIL SALES: (mWh)						
Residential	388,238	369,451	376,656	376,838	381,177	335,708
Industrial / Commercial	757,247	751,554	757,822	738,087	747,692	849,231
Other	12,500	12,262	13,234	11,935	12,545	14,453
Total Retail Sales (mWh)	1,157,985	1,133,267	1,147,711	1,126,860	1,141,414	1,199,392
RETAIL REVENUE:						
Residential	$72,151,810	$66,161,624	$63,527,467	$58,727,873	$56,798,847	$44,025,807
Industrial / Commercial	103,852,164	99,866,866	95,386,143	86,789,758	84,814,704	84,278,271
Other	4,761,853	6,222,801	5,594,050	3,921,265	5,105,482	5,256,387
Total Retail Revenue	$180,765,827	$172,251,291	$164,507,660	$149,438,896	$146,719,033	$133,560,465
Steam Sales (MLBs)	351,419	399,132	406,032	446,334	457,284	441,791
Steam Revenues	$4,998,982	$4,734,711	$5,383,049	$7,870,967	$6,840,976	$5,412,228
Annual Peak (Megawatts)	260.0	290.5	294.8	267.0	270.3	262.0
Total mWh Generated	100,891	76,586	97,415	75,579	99,624	47,384
Total mWh Purchased	1,188,454	1,163,055	1,177,207	1,158,886	1,172,624	1,226,956
Year End Restricted/ Unrestricted Cash & Investment Balance	$160,099,737	$143,990,450	$130,874,546	$117,068,142	$116,987,025	$51,201,139

WATER

	2025	2024	2023	2022	2021	2015
RETAIL CUSTOMERS:						*(ten years ago)*
Residential	38,299	38,093	37,845	37,620	37,514	35,332
Industrial / Commercial	3,972	3,913	3,846	3,846	3,690	3,501
Total Retail Customers	42,271	42,006	41,691	41,466	41,204	38,833
RETAIL SALES: (ccf)						
Residential	2,756,740	2,762,853	3,162,145	2,716,996	3,050,632	2,675,696
Industrial / Commercial	2,980,027	3,002,038	3,152,187	2,870,513	2,872,053	2,763,972
Total Retail Sales (ccf)	5,736,767	5,764,891	6,314,332	5,587,509	5,922,685	5,439,668
RETAIL REVENUE:						
Residential	$8,534,197	$7,742,865	$7,433,640	$6,542,317	$6,615,552	$4,385,870
Industrial / Commercial	4,703,426	4,475,283	4,410,300	3,883,307	3,852,026	2,806,087
Public Fire Protection	693,759	656,118	616,337	600,677	596,318	596,323
Total Retail Revenue	$13,931,382	$12,874,266	$12,460,278	$11,026,301	$11,063,896	$7,788,280
Total Pumped (billion gallons)	4.5	4.5	5.0	4.4	4.6	4.3
Year End Restricted/ Unrestricted Cash & Investment Balance	$16,330,372	$15,518,760	$14,773,752	$14,147,248	$12,902,983	$4,918,129

EXECUTIVE TEAM

Tim McCollough
General Manager

Scott Nickels
Director of
Power Delivery

Peter Hogan
Director of
Corporate Services

Patty Hanson
Director of
Customer Relations

Bill Bullock
Director of
Power Resources

Todd Blomstrom
Director of
Water

James Keltgen
Director of
Information Technology

BOARD OF DIRECTORS

Malachi McNeilus
Board President
(Vice President
of Operations -
Sterling State Bank)

Wendy Turri
Board Vice President
(Public Works Director,
City of Rochester -
Retired)

Brett Gorden,
P.E., M.B.A.
Board Member
(Division Chair –
Facilities Management,
Mayo Clinic)

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

Patrick Keane
Board Member &
City Council Liaison
(City Council Member -
City of Rochester)

ADVISORS AND CONSULTANTS

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

UTILITY HEADQUARTERS

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