

The accompanying financial statements of the Hibbing Public Utilities Commission as of and for the year ended December 31, 2025, were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 20, 2026

**HDU**  
**HIBBING**  
*PUBLIC UTILITIES*

**Financial Statements and  
Supplementary Information**

**December 31, 2025 and 2024**

# **Public Utilities Commission**

Financial Statements and  
Supplementary Information

December 31, 2025 and 2024

# Public Utilities Commission

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December 31, 2025 and 2024

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## INDEPENDENT AUDITOR’S REPORT

To the Members of the Commission  
Public Utilities Commission  
Hibbing, Minnesota

### Opinions

We have audited the accompanying financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission (the Commission), a component unit of the City of Hibbing, Minnesota, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows for the year then ended in conformity 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission 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.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor’s 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 auditor’s 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 generally accepted auditing standards 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 generally accepted auditing standards 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 Commission's 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

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

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 4 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the related notes disclosures, and the Schedule of Changes in the Commission's OPEB Liability and Related Ratios starting on page 36 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 in the annual report. The other information comprises the introductory section and schedule of department revenues and expenses but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statement 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic 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 20, 2026, on our consideration of the Commission's 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 Commission's 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 Commission's internal control over financial reporting and compliance.



**Abdo**  
Minneapolis, Minnesota  
April 20, 2026



## **Public Utilities Commission**

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Management's Discussion and Analysis  
December 31, 2025 and 2024  
(Unaudited)

Our discussion and analysis of the Hibbing Public Utilities Commission's (HPU) financial performance provides an overview of the Utility's financial activities for the fiscal year ended December 31, 2025 and 2024 with comparison to the prior year where applicable. Please read it in conjunction with the financial statements, which follow in this report.

### **Financial Highlights**

For the 12-month period ended December 31, 2025, HPU continued its infrastructure renewal program and managed customer rates for stable, long-term growth.

- Net Utility Property Plant & Equipment totaled \$117.3 million as of December 31, 2025 as capital investments exceeded capital depreciation by \$29.4 million for the year as the Commission continues to replenish and improve core utility infrastructure. In 2025, capital asset increases including 16.7 to replace aging water infrastructure. Improvements to the electric generation plant totaled 5.7 million. Electric distribution systems upgrades totaled 6.3 million and an electric transmission project was initiated to provide increased reliability and efficiency to commission ratepayers.
- Other noncurrent assets totaled \$4.7 million as of December 31, 2025 reflecting a decrease of \$593 thousand for the year.
- Current Assets totaled \$27.1 million as of December 31 reflecting a decrease of \$11.1 million for the year due to a balanced approach to finance capital outlays. The decrease includes internal funding of water infrastructure until permanent financing through the Public Finance authority is finalized. Funding is expected in the third quarter of 2026.

### **Using This Annual Report**

This annual report consists of financial statements for the Hibbing Public Utilities Commission, a component unit of the City of Hibbing, and its blended component unit. The Commission reports its financial activities for the utilities of the City of Hibbing as a single-enterprise proprietary fund. The following analysis will discuss the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position related to this enterprise fund for 2025.

### **Statement of Net Position**

A Statement of Net Position is a statement of the financial position of an entity which states the assets and deferred outflows of resources, liabilities and deferred inflows of resources and equity at a particular point in time. The Statement of Net Position shown on the following page displays the current and previous year's data. These statements reflect the Utility's financial position as of December 31, 2025 and 2024.

## Public Utilities Commission

Management's Discussion and Analysis  
December 31, 2025 and 2024  
(Unaudited)

Table 1 net position (below) is a summary of the Utility's statement of net position.

**Table 1**  
**Net Position**  
**(In Thousands)**

	2025	2024	2023
<b>Assets</b>			
Cash	\$ 4,222	\$ 4,529	\$ 2,961
Other current assets	22,327	33,945	41,716
Restricted assets	1,196	1,316	1,628
Net property, plant and equipment	117,273	87,867	69,566
Other noncurrent assets	4,057	4,650	4,788
<b>Total assets</b>	<b>149,075</b>	<b>132,307</b>	<b>120,659</b>
<b>Deferred Outflows of Resources</b>			
	989	1,706	2,838
<b>Total assets and deferred outflows of resources</b>	<b>150,064</b>	<b>134,013</b>	<b>123,497</b>
<b>Liabilities</b>			
Current liabilities	8,915	8,514	4,388
Long-term liabilities	36,284	24,348	21,087
<b>Total liabilities</b>	<b>45,199</b>	<b>32,862</b>	<b>25,475</b>
<b>Deferred Inflows of Resources</b>			
	4,192	5,775	6,065
<b>Deferred Inflows Net Position</b>			
Invested in capital assets, net of debt	96,929	81,015	68,989
Restricted	641	615	162
Unrestricted	3,103	13,746	22,806
<b>Total net position</b>	<b>100,673</b>	<b>95,376</b>	<b>91,957</b>
<b>Total liabilities, deferred Inflows of resources and net position</b>	<b>\$ 150,064</b>	<b>\$ 134,013</b>	<b>\$ 123,497</b>

- Long-Term Bonds and Notes have increased by \$13.5 million due to the issuance of additional Notes through the Public Facilities Authority Drinking Water Fund (PFA) for the rehabilitation of the treatment plant and watermain improvement projects.
- Total Net Position has increased by \$5.3 million. The primary contributor to the increase was an inflow of \$4 million in grant revenue in 2025 as HPU delivers on its three-pronged approach to funding capital additions including low interest loans, grant funding and internal cash.

## Public Utilities Commission

Management's Discussion and Analysis  
December 31, 2025 and 2024  
(Unaudited)

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

The Statements of Revenues, Expenses and Changes in Net Position display revenues, expenses and change in net position over a given period of time (calendar years 2025, 2024, and 2023).

Table 2 is an Income Statement Summary of the Statements of Revenues, Expenses and Changes in Net Position.

**Table 2**  
**Income Statement Summary**  
**(In Thousands)**

	<u>2025</u>	<u>2024</u>	<u>2023</u>
<b>Operating</b>			
Revenue	\$ 31,915	\$ 30,856	\$ 30,866
Expense	<u>(31,934)</u>	<u>(30,276)</u>	<u>(31,445)</u>
Operating Income (loss)	<u>(19)</u>	<u>580</u>	<u>(579)</u>
<b>Nonoperating</b>			
Revenue	1,767	1,652	2,039
Expense	<u>(483)</u>	<u>(162)</u>	<u>(582)</u>
Nonoperating income	<u>1,284</u>	<u>1,490</u>	<u>1,457</u>
Capital contributions	<u>4,031</u>	<u>1,350</u>	<u>640</u>
Increase in net position	<u>\$ 5,296</u>	<u>\$ 3,420</u>	<u>\$ 1,518</u>

- Operating revenues totaled \$31.9 million reflecting an increase of \$1.1 million from 2024 as responsible increases in rates balance lower utility usage due to a warmer winter.
- Operating expenses totaled \$32.0 million reflecting an increase of \$1.7 million from 2024 as the utility manages expenses. Depreciation expense increased \$1 million over the prior year due to significant capital investments in past three years. Purchase power expense due to changing dynamics in the MISO market cost resulted in increased purchase power expense of \$800 thousand year over year.
- The total change in net position totaled \$5.3 million reflecting \$1.9 million more gained than 2024 as the Commission manages rates for long term stability and infrastructure renewal.

## Public Utilities Commission

Management's Discussion and Analysis  
December 31, 2025 and 2024  
(Unaudited)

### Capital Assets and Debt

#### Capital Assets

The total plant in service added by utility in 2025 are as follows:

General Plant	\$	855,630
Water utility		11,675,557
Electric utility		8,926,984
Gas utility		693,194
Steam utility		848,934
		<hr/>
Total	\$	<u>23,000,299</u>

#### Debt

As of December 31, 2025 the Utility had \$20,033,970 in outstanding debt compared to \$6,508,376 as of December 31, 2024 a net increase of \$13,525,594 due to the draws made on the PFA loans issued during the year in line with the utility optimization of capital structure utilizing low cost PFA debt. See table 3 below.

**Table 3**  
**Outstanding Bonds and Notes**  
**(In Thousands)**

	<u>2025</u>	<u>2024</u>
2005 Public Utility revenue note	\$ -	\$ 155
2023A General Obligation Revenue Note (PFA)	7,303	1,665
2024B General Obligation Revenue Note (PFA)	4,839	4,881
2025C General Obligation Revenue Note (PFA)	6,232	-
2025 General Obligation Revenue Note	1,660	-

The Series 2023A General Obligation Revenue Note through the Public Facilities Authority Drinking Water Fund is authorized for total funding of \$9,336,684. As of December 31, 2025, the Commission has received \$8.8 million.

The Series 2025C General Obligation Revenue Note through the Public Facilities Authority Drinking Water Fund is authorized for total funding of \$6,500,000. As of December 31, 2025, the Commission has received \$6.2 million.

The Series 2025B, C, and D General Obligation Revenue Note is authorized for total funding of \$20,000,000 to fund a transmission project. As of December 31, 2025, the Commission has received \$1.6 million.

See Note 5 in the footnotes for additional information on long-term debt outstanding.

## **Public Utilities Commission**

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Management's Discussion and Analysis

December 31, 2025 and 2024

(Unaudited)

### **Economic Factors**

HPU maintained financial and customer rate stability while also balancing a robust utility capital investment. Based on its independent MISO interconnected generation assets at Hibbing Renewable Energy Center, HPU has been able to optimize commodity price exposure for steam and electric utilities.

HPU relied on purchased gas and purchased power rate recovery mechanisms to collect a portion of the increased costs from ratepayers during the year while still maintaining competitive rates for our customers.

HPU continues to plan for future core utility infrastructure improvements and efficiencies of operations, sustainability and governance while balancing affordability and reliability.

### **Contacting The Utility's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Luke J. Peterson, General Manager at the Hibbing Public Utilities Commission, 1902 E 6th Ave, Hibbing, MN 55746 (218 262 7759)

# Public Utilities Commission

## Statements of Net Position

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash	\$ 4,221,939	\$ 4,529,203
Investments	15,086,906	26,119,909
Restricted assets:		
Cash held for fuel assistance recipients	75,978	70,788
Cash held for customer deposits	478,301	461,999
Accounts receivable, net of allowance for doubtful accounts of \$58,000 and \$58,000	2,512,020	2,470,771
Unbilled revenues	2,268,507	2,387,564
Other receivable	173,279	771,830
Current maturities notes receivable, Steam conversion program	35,000	40,000
Current portion of lease receivable	9,778	82,014
Inventories	1,419,670	1,326,496
Prepaid expense	822,066	747,445
	<u>27,103,444</u>	<u>39,008,019</u>
<b>Noncurrent Assets</b>		
Restricted assets:		
Bond reserve account	641,300	783,347
Notes receivable, Steam conversion program	133,203	174,059
Lease receivable	429,896	439,674
Regulatory assets	3,493,964	4,035,931
Capital assets:		
Plant in service	200,527,967	177,893,726
Accumulated depreciation/amortization	(103,298,125)	(98,527,238)
Construction work in progress	20,044,239	8,500,209
	<u>121,972,444</u>	<u>93,299,708</u>
Total noncurrent assets	<u>121,972,444</u>	<u>93,299,708</u>
Total assets	<u>149,075,888</u>	<u>132,307,727</u>
<b>Deferred Outflows of Resources</b>		
Related to net pension liability	740,024	861,143
Related to postemployment benefits liability	121,611	674,169
Related to Laurentian Energy Authority	126,902	170,246
	<u>988,537</u>	<u>1,705,558</u>
Total deferred outflows of resources	<u>988,537</u>	<u>1,705,558</u>
Total assets and deferred outflows of resources	<u>\$ 150,064,425</u>	<u>\$ 134,013,285</u>

See notes to financial statements

# Public Utilities Commission

## Statements of Net Position

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 6,071,238	\$ 5,254,643
Accrued interest	89,267	98,582
Accrued expenses	264,646	266,265
Due to City of Hibbing	571,889	1,162,904
Accrued vacation	401,319	400,080
Current portion of lease liability	207,161	201,246
Current portion of long-term debt, bonds and notes payable	755,000	596,939
Current liabilities payable from restricted assets:		
Third party advances for fuel assistance	75,978	70,788
Customer deposits payable	478,301	461,999
	<u>8,914,799</u>	<u>8,513,446</u>
Total current liabilities		
<b>Noncurrent Liabilities</b>		
Accrued sick leave	978,224	1,077,137
Total postemployment liability	13,690,202	14,541,066
Net pension liability	2,232,991	2,508,776
Long-term debt, bonds and notes payable	19,278,970	5,911,437
Unamortized discount	-	(1,282)
Lease liability	103,999	311,160
	<u>36,284,386</u>	<u>24,348,294</u>
Total noncurrent liabilities		
	<u>45,199,185</u>	<u>32,861,740</u>
Total liabilities		
<b>Deferred Inflows of Resources</b>		
Related to net pension liability	1,423,602	1,672,882
Related to postemployment benefits liability	2,329,319	3,580,052
Related to leases	439,674	521,688
	<u>4,192,595</u>	<u>5,774,622</u>
Total deferred inflows of resources		
<b>Net Position</b>		
Net investments in capital assets	96,928,951	81,015,417
Restricted for debt service	641,300	615,127
Unrestricted	3,102,394	13,746,379
	<u>100,672,645</u>	<u>95,376,923</u>
Total net position		
	<u>\$ 150,064,425</u>	<u>\$ 134,013,285</u>
Total liabilities, deferred inflows of resources and net position		

See notes to financial statements

## Public Utilities Commission

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Operating Revenue</b>		
Charges for services	\$ 31,334,132	\$ 30,250,674
Other	580,896	605,157
Total operating revenues	<u>31,915,028</u>	<u>30,855,831</u>
<b>Operating Expenses</b>		
Operation and maintenance	25,553,508	24,848,067
Depreciation/amortization	6,380,803	5,428,165
Total operating expenses	<u>31,934,311</u>	<u>30,276,232</u>
<b>Operating Income (Loss)</b>	<u>(19,283)</u>	<u>579,599</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	1,767,355	1,352,466
Miscellaneous nonoperating income (expense)	(263,912)	38,730
Gain on sale of fixed assets	-	261,063
Interest expense	(219,161)	(162,473)
Total nonoperating revenues (expenses)	<u>1,284,282</u>	<u>1,489,786</u>
Income before contributions	1,264,999	2,069,385
<b>Capital Contributions</b>	<u>4,030,723</u>	<u>1,350,272</u>
Change in net position	5,295,722	3,419,657
<b>Net Position, Beginning</b>	<u>95,376,923</u>	<u>91,957,266</u>
<b>Net Position, Ending</b>	<u>\$ 100,672,645</u>	<u>\$ 95,376,923</u>

See notes to financial statements

## Public Utilities Commission

### Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 31,941,784	\$ 30,805,801
Principal collected from steam conversion loan program	45,856	55,179
Payments to suppliers	(21,147,422)	(19,103,593)
Payments for payroll and benefits	(6,840,616)	(6,026,532)
	<u>3,999,602</u>	<u>5,730,855</u>
<b>Net cash from operating activities</b>		
	<u>3,999,602</u>	<u>5,730,855</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Payments for additions to property, plant and equipment	(34,715,233)	(21,342,479)
Capital contributions received	4,432,716	775,000
Received from the sale of capital assets	-	228,895
Principal and interest paid on leases	(213,447)	(230,343)
Proceeds from debt issue	14,122,533	6,546,060
Principal paid	(596,939)	(337,684)
Interest paid	(257,409)	(62,499)
	<u>(17,227,779)</u>	<u>(14,423,050)</u>
<b>Net cash from capital and related financing activities</b>		
	<u>(17,227,779)</u>	<u>(14,423,050)</u>
<b>Cash Flows From Investing Activities</b>		
Investments income received	1,255,155	1,017,640
Investments matured	17,617,568	22,633,700
Investments purchased	(5,930,318)	(13,533,448)
	<u>12,942,405</u>	<u>10,117,892</u>
<b>Net cash from investing activities</b>		
	<u>12,942,405</u>	<u>10,117,892</u>
<b>Net change in cash</b>	(285,772)	1,425,697
<b>Cash, Beginning</b>	<u>5,061,990</u>	<u>3,636,293</u>
<b>Cash, Ending</b>	<u>\$ 4,776,218</u>	<u>\$ 5,061,990</u>
Cash is presented on the statements of net position as follows:		
Cash	\$ 4,221,939	\$ 4,529,203
Restricted assets	1,195,579	1,316,134
	<u>5,417,518</u>	<u>5,845,337</u>
<b>Total cash and restricted assets</b>		
	<u>5,417,518</u>	<u>5,845,337</u>
Less noncash equivalents included in restricted assets	(641,300)	(783,347)
	<u>\$ 4,776,218</u>	<u>\$ 5,061,990</u>

See notes to financial statements

## Public Utilities Commission

### Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities</b>		
Operating income (loss)	\$ (19,283)	\$ 579,599
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Other nonoperating income (expense)	(263,912)	38,730
Depreciation and amortization	6,380,803	5,428,165
Change in operating assets, deferred outflows or resources, liabilities and deferred inflows of resources:		
Accounts receivable	(41,249)	178,546
Unbilled revenue	119,057	(74,915)
Other receivable	196,558	(196,558)
Inventories	(93,174)	(111,449)
Prepaid expenses	(74,621)	(31,066)
Receivable for steam conversion loan program	45,856	55,179
Lease receivable	82,014	72,636
Regulatory assets	(495,056)	(684,245)
Deferred outflows of resources	673,677	1,088,779
Accounts payable	866,424	1,300,934
Accrued vacation and sick leave	(97,674)	288,711
Accrued expenses	(1,619)	19,960
Due to City of Hibbing	(591,015)	605,197
Third party advances for fuel assistance	5,190	15,222
Customer deposits payable	16,302	4,167
Accrued post employment benefits	(850,864)	(1,586,971)
Net pension liability	(275,785)	(969,378)
Deferred inflows of resources	(1,582,027)	(290,388)
Net cash from operating activities	<u>\$ 3,999,602</u>	<u>\$ 5,730,855</u>
<b>Noncash Investing, Capital and Related Financing Activities</b>		
Unrealized gain on investments	<u>\$ 512,200</u>	<u>\$ 334,826</u>
Capital purchased on account	<u>\$ 2,067,656</u>	<u>\$ 2,117,485</u>
Noncash lease asset additions	<u>\$ -</u>	<u>\$ 80,636</u>
Allowance for funds used during construction	<u>\$ 30,215</u>	<u>\$ -</u>

See notes to financial statements

# Public Utilities Commission

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Notes to Financial Statements  
December 31, 2025 and 2024

## 1. Summary of Significant Accounting Policies

The financial statements of the Public Utilities Commission, City of Hibbing, Minnesota (the Commission) have been prepared in conformity with generally accepted accounting principles as applied to governmental enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

### Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management considered whether the Commission is a component unit of another primary government. The Commission is a business type activity providing water, electric power, natural gas and steam services to the City of Hibbing. The Commission's basic financial statements include the financial position and results of operations of the Commission and its component unit, the Laurentian Energy Authority (the Authority). See Note 10 for additional information related to the Authority. Management has determined that the Commission is appropriately noted as a component unit of the City of Hibbing following criteria set forth in generally accepted accounting principles.

The Public Utilities Commission was established pursuant to Minnesota Laws 1949, Chapter 422, which gave the Commission full and exclusive control over the provision of water, electric power, natural gas and steam services and the facilities used in providing these services to the City of Hibbing. The Commission is composed of five members, all of whom are appointed by the Hibbing City Council and all of whom serve three-year terms.

### Basis of Accounting

The Commission is a single-enterprise proprietary fund and uses the accrual basis of accounting. Proprietary funds are used to account for operations that are financed in a manner similar to private business enterprise in that a periodic determination of revenues earned, expenses incurred and/or changes in net position is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under this method, revenues are recorded when earned and expenses are recognized as soon as they result in liabilities for the benefits provided.

The financial statements are reported using the 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 the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Commission complies with all applicable GASB pronouncements. Effective January 1, 2022, the Commission approved the application of regulated operations as allowed under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for regulated entities. The Commission approved regulatory accounting treatment for certain expenses that will be collected in future rates in order to better match when these expenses will be recovered through the rate-making process.

# Public Utilities Commission

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Proprietary funds 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 a proprietary funds' principle ongoing operations. The principle operating revenues of the Commission are charges to customers in the form of utility rates. Operating expenses include the cost of providing the utility services, administration expenses and depreciation on capital assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

## **Cash and Cash Equivalents**

For purposes of the statement of cash flow, cash equivalents includes amounts on hand as well as in demand deposit accounts.

## **Investments**

State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds or repurchase agreements. All investments are recorded at fair value. The Commission categorizes the fair value measurements of investments in accordance with generally accepted accounting principles, including GASB Statement 72. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement 72 establishes a fair value hierarchy. The hierarchy is based on valuation inputs, categorized at three levels, dependent on whether the inputs to those valuations are observable or unobservable in the marketplace.

## **Accounts Receivable**

Accounts receivable are reported net of allowance for uncollectibles, which were established based on current collection experience. Receivables are comprised of amounts due from customers, and other receivables which represent amounts due from transactions incurred in the normal course of operations.

## **Unbilled Revenues**

Unbilled revenues represent an estimate of December services that were not billed to customers until the following year.

## Public Utilities Commission

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### Inventories

Parts inventory and fuel and bulk supplies are valued at weighted average cost.

Inventories consist of the following at December 31:

	<u>2025</u>	<u>2024</u>
Parts	\$ 1,327,348	\$ 1,256,541
Fuel and bulk supplies	92,322	69,955
	<u>\$ 1,419,670</u>	<u>\$ 1,326,496</u>

### Prepaid Expenses

Prepaid balances are for payments made by the Commission in the current year for goods or services benefitting subsequent fiscal years.

### Note Receivable, Steam Conversion Loan Program

In 2020, the Commission established a loan program for those residential customers wishing to convert their heating systems from steam to gas. The customers were required to go through a loan approval process in order to be eligible for the program. The loans were interest free and the loan repayment terms were open as to customer preferences but were not to exceed a 10-year period. The Commission contracted with a local bank to handle the repayment process of the program. As of December 31, 2025 and 2024 the Commission had outstanding loans through the program of \$168,203 and \$214,059, respectively. In 2021 the program was suspended, and no new loans are currently being issued.

### Restricted Assets

Certain proceeds of the general obligation 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 by statute and applicable bond covenants. The bond reserve account is used to segregate resources accumulated for future debt service payments.

The Commission also holds cash that is restricted for the following specific uses:

- Customer deposits - Refundable deposits paid by customers at inception of service.
- Fuel assistance recipients - Amounts received from a third party that are to be applied against utility bills for qualifying low-income utility users.

Third parties also hold assets in escrow accounts on the Commission's behalf in conjunction with debt issues, as discussed in Note 5.

## Public Utilities Commission

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### Capital Assets

Capital assets (including right-to-use lease assets) are stated at cost. The Commission adopted a formal capitalization policy effective for 2010, which was revised in 2018 to increase the capitalization threshold to \$10,000. In 2024, the capitalization threshold was reduced to \$2,000 as part of the utility's alignment with FERC and NARUC accounting best practices. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings and grounds	5-50
Production equipment	20-53
Transmission and distribution equipment	15-77
Furniture and equipment	4-50

Lease assets are typically amortized over the lease term.

### Regulatory Assets

Under GASB 62, the Commission defers expenses for future recognitions as they are recovered or returned through the rate-making process. Regulatory asset balances were as follows at December 31:

	<u>2025</u>	<u>2024</u>
Deferred maintenance costs	\$ 2,003,120	\$ 2,147,528
Power costs	1,214,879	1,888,403
Allowance for funds used during construction	30,215	-
Debt issuance costs	245,750	-
	<u>\$ 3,493,964</u>	<u>\$ 4,035,931</u>

Power costs are being amortized through electric rates over a 5-year period. Deferred maintenance expenses are being amortized over a 5-year period. The allowance for funds used during construction will be amortized over the life of the related transmission project once placed into service. Debt issuance costs will be amortized over the life of the 2025 bonds issued.

### Due to City of Hibbing

The Commission acts as a collection agent for garbage, sewage and storm water services billed by the City of Hibbing. The Commission includes these charges on its own monthly utility billings and remits collection of these charges to the City on a periodic basis.

### Accrued Vacation and Sick Leave

Employees of the Hibbing Public Utilities Commission may accumulate up to 180 days of sick leave. After ten years of service and upon termination of employment, employees are paid one-half of their unused accumulated sick leave. At December 31, 2025 and 2024, the liability for sick leave was \$978,224 and \$1,077,137, respectively.

Employees may also accrue vacation pay up to a maximum of 31 working days per year based on length of employment. A maximum of 10 unused vacation days may be carried past the employee's anniversary date. At December 31, 2025 and 2024, the Commission's liability for vacation pay was \$401,319 and \$400,080, respectively.

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Notes to Financial Statements  
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### Long-Term Obligations

Long-term debt and other obligations are reported as Commission liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line method.

### Leases

The Commission is a lessee because it leases capital assets from other entities. As a lessee, the Commission reports a lease liability and an intangible right-to-use capital asset (known as a lease asset) in the financial statements.

The Commission is a lessor because it leases capital assets to other entities. As a lessor, the Commission reports a lease receivable and corresponding deferred inflow of resources in the financial statements. The Commission continues to report and depreciate capital assets being leased as capital assets.

The Commission has a policy to recognize leases that have cash flows greater than \$100,000 over the life of the contract.

### 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 (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

### Post Employment Benefits

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are reported on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### Deferred Inflows and Outflows of Resources

Deferred outflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an expense until then. A deferred inflow of resources represents an acquisition of net position that applies to future periods and so will not be recognized as revenue until that time.

### Net Position

GASB 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position** - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

### Capital Contributions

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

### Effect of New Accounting Standards on Current Period Financial Statements

The GASB has approved the following:

- Statement No. 103, *Financial Reporting Model Improvements*
- Statement No. 104, *Disclosure of Certain Capital Assets*
- Statement No. 105, *Subsequent Events*

When they become effective, application of these standards may restate portions of these financial statements.

### Comparative Data

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

## 2. Deposits and Investments

### Deposits

Minnesota Statutes require that all deposits, which are not U.S. government securities, be protected by insurance, surety bond or collateral. The market value for collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments, as well as certain first mortgage notes and certain state and local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

Custodial credit risk is the risk that in the event of bank failure, a government's deposits may not be returned to it. The Commission's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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At December 31, 2025 and 2024 the carrying amount of the Commission's deposits were \$4,776,218 and \$5,061,170 and the bank balance was \$7,405,119 and \$6,177,857, respectively. As of December 31, 2025 and 2024, none of the Commission's bank balances were exposed to custodial credit risk.

### Investments

State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds or repurchase agreements.

GASB Statement 72 sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs into three levels as follows:

Level 1 - All securities are valued with the market approach by using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - All securities are valued with the market approach using inputs other than quoted prices included in level I that are observable for the asset or liability, either directly or indirectly. The matrix pricing technique is used to value securities based on the securities' relationship to benchmark quoted prices. Inputs for level 2 include: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets, (3) inputs other than quoted prices that are observable for the asset or liability and (4) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Securities within this hierarchy have unobservable inputs for the asset or liability. These investments primarily consist of assets where the asset is distressed or there is not an active market. Securities are valued using either the cost method where a replacement values is determinable or the income method using the present value technique.

Net Asset Value (NAV) - The fair value of investments in entities that calculate a net asset value per share are determined using the NAV in lieu of the leveling methodology described above.

	<b>December 31, 2025</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents - Minnesota				
Money Market Funds	\$ -	\$ -	\$ -	\$ 15,728,206
	<b>December 31, 2024</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market mutual fund	\$ 168,220	\$ -	\$ -	\$ 168,220
Certificate of deposit	-	10,000,000	-	10,000,000
Cash equivalents - Minnesota				
Money Market Funds				16,735,035
Total				<u>\$ 26,903,256</u>

All investments fall into the one to five maturity category.

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The cash equivalent values were obtained from statements provided by the Minnesota Municipal Money Market Fund. The Fund is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 2a7 and is managed by the Board and Minnesota Statutes. The fair value of the pool is the same as the value of the pool shares. The investment in the Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2025 and 2024, the Commission did not have any investments exposed to custodial credit risk.

The Commission's investment policy requires that an investment must be held by the Commission or its agent in the Commission's name and comply with Minnesota Statutes.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The money market mutual funds were rated AAAM by Standard & Poor's at December 31, 2025 and 2024.

The Commission does not have a policy that specifically addresses credit risk.

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### 3. Capital Assets

A summary of changes in capital assets during 2025 is as follows:

	2025			
	Balance January 1, 2025	Additions	Deletions	Balance December 31, 2025
Capital assets, not being depreciated:				
Land and land rights	\$ 562,428	\$ -	\$ -	\$ 562,428
Construction in progress	8,500,209	11,544,030	-	20,044,239
Total capital assets, not being depreciated	9,062,637	11,544,030	-	20,606,667
Capital assets being depreciated/amortized:				
Intangible asset	2,764,688	-	-	2,764,688
Land improvements	2,272,059	108,236	-	2,380,295
Buildings	11,507,920	4,449,219	-	15,957,138
Production equipment	86,856,071	4,734,220	-	91,590,291
Transmission and distribution system	68,157,631	13,074,532	474,292	80,757,872
Furniture and equipment	4,799,649	742,326	-	5,541,975
Lease assets:				
Vehicles	80,636	-	-	80,636
Substation equipment	892,644	-	-	892,644
Total capital assets being depreciated	177,331,298	23,108,533	474,292	199,965,539
Less accumulated depreciation	98,089,329	5,068,973	522,297	102,636,005
Less accumulated amortization on leased assets	437,909	224,210	-	662,120
Net property, plant and equipment	\$ 87,866,697	\$ 29,359,380	\$ (48,005)	\$ 117,274,081

## Public Utilities Commission

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A summary of changes in capital assets during 2024 is as follows:

	2024			Balance December 31, 2024
	Balance January 1, 2024	Additions	Deletions	
Capital assets, not being depreciated:				
Land and land rights	\$ 562,428	\$ -	\$ -	\$ 562,428
Construction in progress	1,380,976	19,800,365	12,681,130	8,500,209
Total capital assets, not being depreciated	1,943,404	19,800,365	12,681,130	9,062,637
Capital assets being depreciated/amortized:				
Intangible asset	2,764,688	-	-	2,764,688
Land improvements	2,272,059	-	-	2,272,059
Buildings	11,374,537	147,555	14,172	11,507,920
Production equipment	81,339,008	6,070,721	553,658	86,856,071
Transmission and distribution system	60,201,847	9,057,238	1,101,454	68,157,631
Furniture and equipment	4,836,593	433,231	470,175	4,799,649
Lease assets:				
Vehicles	68,911	80,636	68,911	80,636
Substation equipment	892,644	-	-	892,644
Total capital assets being depreciated	163,750,287	15,789,381	2,208,370	177,331,298
Less accumulated depreciation	95,836,313	4,473,489	2,220,473	98,089,329
Less accumulated amortization on leased assets	291,131	215,689	68,911	437,909
Net property, plant and equipment	\$ 69,566,247	\$ 30,900,568	\$ 12,600,118	\$ 87,866,697

#### 4. Leases

##### Lessee - Lease Liabilities

The Commission leases certain vehicles and substation equipment. As required by GASB 87, *Leases*, the Commission records a lease asset and lease liability for its leasing activities. See Note 3, capital assets, for the breakdown and activity of lease assets during the year.

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The Commission has the following lease liabilities:

Date	Description	Final Maturity	Interest Rate	Outstanding Amount December 31, 2025	Outstanding Amount December 31, 2024
06/01/2022	Substation equipment	05/31/2027	2.90	\$ 266,173	\$ 447,592
03/08/2024	Vehicles	03/31/2028	2.90	44,987	64,184

The annual requirements for the lease liability as of December 31, 2025 are as follows:

	Principal	Interest	Total
Years ending December 31:			
2026	\$ 207,161	\$ 6,286	\$ 213,447
2027	100,436	1,011	101,447
2028	3,563	10	3,573
	<u>\$ 311,160</u>	<u>\$ 7,307</u>	<u>\$ 318,467</u>

### Lessor - Lease Receivables

Date	Lease Receivable Description	Final Maturity	Interest Rate	2025
01/01/2023	Pole attachments	12/31/2025	2.00%	\$ -
10/24/2023	Water tower space	02/14/2053	2.00	439,674
	Total			<u>\$ 439,674</u>

The Commission recognized \$82,014 and \$72,636 of lease revenue during 2025 and 2024, respectively. The Commission recognized \$10,418 and \$11,884 of interest income during 2025 and 2024, respectively.

## 5. Long-Term Debt

Bonds and notes payable consist of the following at December 31:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount December 31, 2025
10/27/05	General capital improvements	12/01/25	4.1425%	\$ 2,030,000	\$ -
12/18/23	Water treatment plant upgrades	08/20/43	2.014	9,336,684 <sup>1</sup>	7,302,756
1/16/24	Watermain improvement	08/20/44	1.906	4,880,939	4,839,000
12/04/25	Watermain Improvement	08/20/45	2.251	6,500,000 <sup>1</sup>	6,232,542
8/29/25	Transmission project	04/05/48	4.662	1,659,672 <sup>2</sup>	1,659,672

<sup>1</sup> Long-term obligations identified were issued through the Public Facilities Authority Drinking Water Fund (PFA). The original amount noted above is for the total amount authorized. The outstanding amount reported above has been issued as of December 31, 2025. The repayment schedule is for the amount authorized as that is the only information available. Subsequent to year end, through the date the financial statements were available to be issued, the Commission received \$0 related to the Notes.

<sup>2</sup> On August 29, 2025, the Commission issued 2025B bonds (authorized for \$4,500,000 at 4.662% interest rate, tax-exempt bonds), 2025C bonds (authorized for \$10,000,000 at 7.25% interest rate, taxable), and 2025D bonds (authorized for \$5,500,000 at 7.25% interest rate, taxable). Principal payments on the long-term obligations are expected to commence on April 5, 2028 once the obligations are expected to be fully drawn down. The original amount listed in the table above is what has been drawn on the loans as of December 31, 2025.

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The terms of Revenue Note Series 2005A called for the proceeds of the note to be placed in an escrow account. As funds were expended, the Commission submitted requests to the escrow agent to draw down on the account. The remaining funds are to be held in an escrow account until the maturity date of the bond. As of December 31, 2025 and 2024, the account had a balance of \$0 and \$168,220, respectively.

The escrow account discussed above is reflected as restricted assets in the accompanying statement of net position.

Long-term debt service requirements to maturity follows (repayment schedule is for the total amount authorized for PFA loans and estimated based on outstanding balance and loan terms for the transmission loans):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
2026	\$ 755,000	\$ 408,083	\$ 1,163,083
2027	906,000	474,840	1,380,840
2028	986,235	455,242	1,441,477
2029	1,026,980	432,595	1,459,575
2030	1,046,980	409,379	1,456,359
2031-2035	5,536,900	1,684,216	7,221,116
2036-2040	6,087,900	1,039,945	7,127,845
2041-2045	5,209,900	348,026	5,557,926
2046-2048	186,777	9,914	196,691
Total requirements	<u>\$ 21,742,672</u>	<u>\$ 5,262,240</u>	<u>\$ 27,004,912</u>

A summary of changes in long-term obligations during 2025 is as follows:

	<b>2025</b>				
	<u>Balance January 1, 2025</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2025</u>	<u>Due Within One Year</u>
Long-term debt	\$ 6,508,376	\$ 14,122,533	\$ 596,939	\$ 20,033,970	\$ 755,000
Unamortized bond discount	(1,282)	-	(1,282)	-	-
Accrued sick leave	1,077,137	239,502	338,415	978,224	-
Lease liability	512,406	-	201,246	311,160	207,161
Total	<u>\$ 8,096,637</u>	<u>\$ 14,362,035</u>	<u>\$ 1,135,318</u>	<u>\$ 21,323,354</u>	<u>\$ 962,161</u>

A summary of changes in long-term obligations during 2024 is as follows:

	<b>2024</b>				
	<u>Balance January 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2024</u>	<u>Due Within One Year</u>
Long-term debt	\$ 300,000	\$ 6,546,060	\$ 337,684	\$ 6,508,376	\$ 596,939
Unamortized bond discount	(2,674)	-	(1,392)	(1,282)	-
Accrued sick leave	880,521	652,189	455,573	1,077,137	-
Lease liability	647,459	80,636	215,689	512,406	201,246
Total	<u>\$ 1,825,306</u>	<u>\$ 7,278,885</u>	<u>\$ 1,007,554</u>	<u>\$ 8,096,637</u>	<u>\$ 798,185</u>

See Notes 8 and 9 for additional information related to the net pension liability and total OPEB liability.

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### 6. Risk Management

#### Risk of Loss

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

### 7. Contingencies and Commitments

The Commission has entered into contracts for the purchase of fuel, including biomass and natural gas, for the purposes of meeting its obligations as a Midcontinent Independent System Operator (MISO) Market Participant, electrical generation owner and public gas system operator.

The agreed upon quantities are based upon current and forecasted needs versus current held supply and MISO capacity accreditation requirements.

Effective June 1, 2022, the Commission began a five-year agreement with Minnesota Power to utilize Minnesota Power's 115 KV substation to access the MISO energy and capacity markets. Under the Agreement, the Commission annually accredits the Hibbing Renewable Energy Center through MISO and purchases an additional 6MW of capacity and associated energy from Minnesota Power's Boswell 4 Station.

As of the 2026-2027 MISO Planning Year, MISO implemented a seasonal capacity accreditation construct to determine market participants' capacity shortage and/or excess. For the 2026-2027 Planning Year, the Commission had an average accreditation requirement of 21.6 MW and an average of 33.9 MW capacity available. It is expected that the Commission would maintain its surplus capacity position for the remainder of the term.

The Commission purchases gas and pays for the transportation of the actual gas purchased under a transportation tariff approved by the Federal Energy and Regulatory Commission on Northern Natural Gas' pipeline system. Future gas commitments for the Commission from 2026 to 2029 total \$5.9 million at fixed prices. Based on the current market prices on March 16, 2026 this represents a savings to rate payers of \$1.4 million. The Commission purchased gas from World Fuel Services, Inc.

The Commission has incurred expenses in the past related to the cleanup of its former gas plant site. Costs related to complete the cleanup at this time are not known but management does not believe that the Commission will have any significant additional costs based on municipal liability limits of \$400,000. The Minnesota Pollution Control Agency has indicated it is in agreement with the Commission assessment of the maximum limit and is planning remediation in the next few years.

### 8. Deferred Benefit Pension Plan - Statewide

#### Plan Description

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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All full-time and certain part-time employees of the Commission are covered by the General Employees plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

### 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.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

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% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2024, legislation repealed the statute delaying increases for members retiring before full retirement age.

### Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal years 2025 and 2024 and the Commission was required to contribute 7.5% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2025 and 2024 were \$457,704 and \$430,738, respectively. The Commission's contributions were equal to the required contributions as set by state statute.

### Pension Costs

At December 31, 2025 and 2024, the Commission reported a liability of \$2,232,991 and \$2,508,776, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State is considered a nonemployer contributing entity and the State's contribution meets the definition of a special funding situation. The State's proportionate share of the net pension liability associated with the Commission totaled \$53,867 and \$64,872 at December 31, 2025 and 2024, respectively.

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

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 Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024 through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The Commission's proportionate share was 0.0674% at the end of the measurement period and 0.0679% for the beginning of the period.

	<u>2025</u>	<u>2024</u>
Commission's proportionate share of the net pension liability	\$ 2,232,991	\$ 2,508,776
State of Minnesota's proportionate share of the net pension liability associated with the commission	<u>53,867</u>	<u>64,872</u>
Total	<u>\$ 2,286,858</u>	<u>\$ 2,573,648</u>

For the year ended December 31, 2025, the Commission recognized pension expense (revenue) of \$248,122 for its proportionate share of the General Employees Plan's pension expense.

At December 31, 2025, the Commission's proportionate share of the general employees plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 212,755	\$ -
Changes in actuarial assumptions	53,802	513,804
Difference between projected and actual investment earnings	-	888,529
Contributions and proportionate share of contributions expensed, not deferred	232,826	21,269
Contributions paid to PERA subsequent to the measurement date	<u>240,641</u>	<u>-</u>
Total	<u>\$ 740,024</u>	<u>\$ 1,423,602</u>

At December 31, 2024, the Commission's proportionate share of the general employees plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 235,010	\$ -
Changes in actuarial assumptions	15,839	891,686
Difference between projected and actual investment earnings	-	749,167
Contributions and proportionate share of contributions expensed, not deferred	383,942	32,029
Contributions paid to PERA subsequent to the measurement date	<u>226,352</u>	<u>-</u>
Total	<u>\$ 861,143</u>	<u>\$ 1,672,882</u>

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

The amounts reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>Pension Expense Amount</b>
Years ending June 30:	
2026	\$ (113,432)
2027	(338,909)
2028	(313,153)
2029	(158,725)
2030	-
Total	<u>\$ (924,219)</u>

### 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 asset class. The 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
	<u>100 %</u>	

### Actuarial Methods and Assumptions

The total pension liability in the June 30, 2025 and 2024, actuarial valuations were determined using an individual 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%. This 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 deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

## Public Utilities Commission

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Notes to Financial Statements  
December 31, 2025 and 2024

Mortality rates are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions are reviewed every four years. The most recent four-year experience study was completed 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.

### Discount Rate

The discount rate used to measure the total pension liability was 7.0% in 2025 and 2024. 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 positions of the General Employees Fund 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.

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

### Pension Liability Sensitivity

The following presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<b>1% Decrease in Discount Rate (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase in Discount Rate (8.0%)</b>
Commission's proportion share of the general employees fund net pension liability at December 31, 2025	\$ 5,423,586	\$ 2,232,991	\$ (355,299)
	<b>1% Decrease in Discount Rate (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase in Discount Rate (8.0%)</b>
Commission's proportion share of the general employees fund net pension liability at December 31, 2024	\$ 5,479,571	\$ 2,508,776	\$ 65,027

### Pension Plan Fiduciary Net Position

Detailed information about each 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.rnnpera.org](http://www.rnnpera.org).

### Public Employees Defined Contribution Plan

Commission board members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal. The Plan is closed to new board members. The only board member on the Plan in 2024 was grandfathered in. The employee retired in 2024 and was no longer on the Plan in 2025.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Contributions during 2025 were \$0 for both the employer and for the employee. Contributions during 2024 were \$210 for both the employer and for the employee.

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

### 9. Other Postemployment Benefits

#### Plan Description (Pay as You Go Method)

The Commission provides health care and dental insurance benefits for retired Commission employees. Commission employees become eligible for such benefits upon retirement.

During the year ended December 31, 2025 and 2024, the Commission expended approximately \$841,177 and \$903,770, respectively, on benefits. At the January 1, 2025 valuation date, the following employees were covered by the benefit terms:

Inactive employees and beneficiaries currently receiving benefits	97
Active employees	42
Total	<u>139</u>

#### Actuarial Assumptions

The following assumptions were used in the valuation of the total OPEB liability at December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Measurement date	December 31, 2025	December 31, 2024
Actuarial valuation date	January 1, 2025	January 1, 2023
Discount rate	4.83% using 20-year tax exempt municipal bond rate	4.08% using 20-year tax exempt municipal bond rate
Inflation rate	2.50%	2.50%
Salary increases including inflation	2.75%	2.75%

#### Total OPEB Liability

Changes in the total OPEB liability for 2025 and 2024 is as follows:

	<u>Total OPEB Liability</u>
Balance as of December 31, 2023	<u>\$ 16,128,037</u>
Changes for the year:	
Service cost	296,223
Interest cost	520,818
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(1,500,242)
Benefit payments	<u>(903,770)</u>
Net changes	<u>(1,586,971)</u>
Total OPEB Liability, December 31, 2024	<u>\$ 14,541,066</u>

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

	<b>Total OPEB Liability</b>
Changes for the year:	
Service cost	\$ 231,054
Interest cost	584,152
Effect of economic/demographic gains or losses	136,767
Effect of assumptions changes or inputs	(884,344)
Benefit payments	(918,493)
Net changes	<u>(850,864)</u>
Total OPEB Liability, December 31, 2025	<u>\$ 13,690,202</u>

### OPEB Liability Sensitivity

The following presents the Commission's total OPEB liability calculated using the discount rate of 4.83% in 2025 (4.08% in 2024) as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
December 31, 2025	\$ 15,376,778	\$ 13,690,202	\$ 12,279,790
December 31, 2024	16,403,252	14,541,066	12,994,705

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current health cost rate.

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
December 31, 2025	\$ 12,233,656	\$ 13,690,202	\$ 15,464,814
December 31, 2024	12,833,644	14,541,066	16,646,506

### OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2025 and 2024, the Commission recognized OPEB expense (revenue) of \$(630,546) and \$(456,696), respectively. As of December 31, 2025, the Commission reported deferred inflows and outflows related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 101,699	\$ 206,718
Changes of assumptions	19,912	2,122,601
	<u>\$ 121,611</u>	<u>\$ 2,329,319</u>

## Public Utilities Commission

Notes to Financial Statements  
December 31, 2025 and 2024

As of December 31, 2024, the Commission reported deferred inflows and outflows related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 846,361
Changes of assumptions	674,169	2,733,691
	<u>\$ 674,169</u>	<u>\$ 3,580,052</u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Years ending December 31:	
2026	\$ (1,429,936)
2027	(605,256)
2028	(172,516)
2029	-
Thereafter	-

### 10. Joint Venture - Component Unit

The Commission entered into a joint venture with the Virginia Public Utilities Commission to form the Laurentian Energy Authority, LLC (Authority). The Authority is a limited liability company created under Minnesota Statutes, Sections 452.25 and 471.59 and was organized on January 31, 2005, under Minnesota Statutes Chapter 322B. The Authority was created to supply 35 MW of new biomass fueled electricity to Northern States Power Company, an operating subsidiary of Xcel Energy, as well as to supply steam to existing customers of the Hibbing and Virginia Public Utilities Commissions.

In 2018 the Authority entered into a termination agreement with Northern States Power to cease providing bio massed produced power to Northern States Power.

In August 2023, the Commission purchased the remaining 50% ownership interest from the Virginia Public Utilities Commission due to the operational benefit the remaining partnership assets had for the Commission's biomass operations.

As of December 31, 2025 and 2024, the equity of the operations of the Authority are \$731,444 and \$812,882, respectively.

Complete financial statements of the Authority can be obtained from the Commission's Director of Finance. At December 31, 2025 and 2024, the balances of the Authority are blended into the financial statements of the Commission.

## Public Utilities Commission

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Notes to Financial Statements  
December 31, 2025 and 2024

### 11. Subsequent Events

The Commission evaluated subsequent events through April 20, 2026, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

On March 1, 2026, the Commission entered into a gas supply agreement with the Minnesota Municipal Gas Agency, d/b/a Minnesota Community Energy to purchase a defined amount of monthly gas supply beginning November 1, 2026 and continuing through October 31, 2035, unless earlier terminated, at a discount of no less than 36 cents per MMBtu. This transaction is expected to provide gas cost savings to the Commission of approximately \$2.5 million over the first discounted period, November 2026 through July 2035.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Public Utilities Commission

### Schedule of Changes in the Commission's Total OPEB Liability and Related Ratios and Notes

Years Ended December 31, 2025 and 2024

(Unaudited)

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total OPEB Liability</b>								
Service cost	\$ 487,215	\$ 383,407	\$ 561,246	\$ 597,214	\$ 623,529	\$ 276,170	\$ 296,223	\$ 231,054
Interest	714,998	787,841	531,232	456,552	429,946	610,696	520,818	584,152
Effect of plan changes	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or (losses)	-	(3,616,791)	-	(1,100,781)	-	(453,865)	-	136,767
Effect of assumption changes or inputs	(1,844,377)	3,292,183	1,882,985	181,569	(4,289,364)	30,279	(1,500,242)	(884,344)
Benefit payments	(827,000)	(820,675)	(881,213)	(845,235)	(804,734)	(942,596)	(903,770)	(918,493)
Net change in total OPEB liability	(1,469,164)	25,965	2,094,250	(710,681)	(4,040,623)	(479,316)	(1,586,971)	(850,864)
<b>Total OPEB Liability, Beginning</b>	<u>20,707,606</u>	<u>19,238,442</u>	<u>19,264,407</u>	<u>21,358,657</u>	<u>20,647,976</u>	<u>16,607,353</u>	<u>16,128,037</u>	<u>14,541,066</u>
<b>Total OPEB Liability, Ending</b>	<u>\$ 19,238,442</u>	<u>\$ 19,264,407</u>	<u>\$ 21,358,657</u>	<u>\$ 20,647,976</u>	<u>\$ 16,607,353</u>	<u>\$ 16,128,037</u>	<u>\$ 14,541,066</u>	<u>\$ 13,690,202</u>
<b>Payroll for the Measurement Period</b>	\$ 5,440,813	\$ 4,967,680	\$ 4,592,402	\$ 4,407,245	\$ 4,576,939	\$ 5,410,488	\$ 5,549,307	\$ 6,149,487
<b>Total OPEB Liability as a % of Employee Payroll</b>	353.59%	387.79%	464.87%	468.27%	362.85%	298.09%	262.03%	222.62%

#### Note:

The Commission implemented the provisions of GASB Statement No. 75 in the year ending December 31, 2018. This schedule is intended to present a 10-year trend information. Additional years will be added as they become available. Changes to significant assumptions are as follows:

	2018	2019	2020	2021	2022	2023	2024	2025
Changes in assumptions:								
Discount rate	4.10%	2.74%	2.12%	2.06%	3.72%	3.26%	4.08%	4.83%

In 2023, the assumption related to inflation changed from 2.60% to 2.50%.

The Commission does not have a formal funding policy and does not calculate a Actuarially Determined Contribution (ADC) as such the disclosure of a schedule of contributions is not required.

The Commission does not have funds placed in a trust to offset the total OPEB liability. As such a schedule of investment returns is not required.

See notes to required supplementary information

## Public Utilities Commission

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions and Notes -  
 Public Employees Retirement Association (PERA)  
 Years Ended December 31, 2025 and 2024  
 (Unaudited)

<u>Fiscal Year End</u>	<u>Commission's Proportion of the Net Pension Liability</u>	<u>Commission's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated With the Commission</u>	<u>Total</u>	<u>Commission's Covered Payroll</u>	<u>Commission's Proportionate Share of the NPL (asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
6/30/2025	0.0674%	\$ 2,232,991	\$ 53,867	\$ 2,286,858	\$ 6,149,487	36%	90.80%
6/30/2024	0.0679%	2,508,776	64,872	2,573,648	5,549,307	45%	89.10%
6/30/2023	0.0622%	3,478,154	95,859	3,574,013	4,756,870	73%	83.10%
6/30/2022	0.0585%	4,633,219	135,798	4,769,017	4,449,229	104%	76.70%
6/30/2021	0.0605%	2,538,621	78,965	2,617,586	4,574,751	55%	63.16%
6/30/2020	0.0650%	3,897,047	120,163	4,017,210	4,636,325	84%	79.06%
6/30/2019	0.0696%	3,848,028	119,661	3,967,689	4,925,725	78%	80.23%
6/30/2018	0.0780%	4,327,120	141,834	4,468,954	5,242,301	83%	79.53%
6/30/2017	0.0855%	5,458,264	68,646	5,526,910	5,515,110	99%	75.90%
6/30/2016	0.0907%	7,364,392	96,093	7,460,485	5,425,759	136%	68.91%

Schedule of Employer's Contributions  
 Years Ended June 30, 2025 and 2024

<u>Calendar Year End</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Commission's Covered Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
2025	\$ 469,421	\$ 469,421	\$ -	\$ 6,294,594	7.50%
2024	427,487	427,487	-	5,707,086	7.50%
2023	389,966	389,966	-	5,410,488	7.20%
2022	343,997	343,997	-	4,576,939	7.50%
2021	322,630	322,630	-	4,452,624	7.50%
2020	345,036	345,036	-	4,601,631	7.50%
2019	361,207	361,207	-	4,816,386	7.50%
2018	377,111	377,111	-	5,028,369	7.50%
2017	410,463	410,463	-	5,457,721	7.50%
2016	415,642	415,642	-	5,541,887	7.50%

See notes to required supplementary information

## Public Utilities Commission

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Notes to Required Supplementary Information  
December 31, 2025 and 2024

### Changes in Assumptions and in Benefit Terms

#### 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.

#### 2023 Changes

##### *Changes in Actuarial Assumptions:*

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

## Public Utilities Commission

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Notes to Required Supplementary Information  
December 31, 2025 and 2024

### *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, noncompounding 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 in plan provisions since the previous 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 in plan provisions since the previous valuation.

### **2020 Changes**

#### *Changes in Actuarial Assumptions:*

The price inflation assumption was decreased from 2.5% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.0%.

Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average .25% less than previous rates.

Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.

Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

## Public Utilities Commission

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Notes to Required Supplementary Information  
December 31, 2025 and 2024

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 disable 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 male new retirees electing the 1.00% Joint and 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 options 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 21, 2023 and 0.0% after. Augmentation was eliminated for privatization 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 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 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% to 3%, beginning July 1, 2018.

Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Contribution stabilizer provisions were repealed.

## Public Utilities Commission

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Notes to Required Supplementary Information  
December 31, 2025 and 2024

Annual increases were changed from 1% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost-of Living Adjustment, not less than 1% 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% for vested and nonvested 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 \$16.0 million in 2017 and 2018 and \$6.0 million 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 through 2035 and 2.5% 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 were no changes in plan provisions since the previous valuation.

## **OTHER INFORMATION**

## Public Utilities Commission

### Schedule of Departmental Revenues and Expenses (Unaudited)

Years Ended December 31, 2025 and 2024

#### Year Ended December 31, 2025

	<u>Electric</u>	<u>Steam</u>	<u>Gas</u>	<u>Water</u>	<u>Total</u>
<b>Operating Revenue</b>					
Charges for services	\$ 18,068,907	\$ 2,311,812	\$ 8,125,800	\$ 2,827,613	\$ 31,334,132
Other operating revenues	310,617	98,275	75,035	96,969	580,896
Total operating revenues	<u>18,379,524</u>	<u>2,410,087</u>	<u>8,200,835</u>	<u>2,924,582</u>	<u>31,915,028</u>
<b>Operating Expenses</b>					
Operation and maintenance	16,345,620	2,564,532	5,155,677	1,487,679	25,553,508
Depreciation/amortization	4,074,058	1,054,172	407,583	844,990	6,380,803
Total operating expenses	<u>20,419,678</u>	<u>3,618,704</u>	<u>5,563,260</u>	<u>2,332,669</u>	<u>31,934,311</u>
Operating income (loss)	<u>\$ (2,040,154)</u>	<u>\$ (1,208,617)</u>	<u>\$ 2,637,575</u>	<u>\$ 591,913</u>	<u>\$ (19,283)</u>

#### Year Ended December 31, 2024

	<u>Electric</u>	<u>Steam</u>	<u>Gas</u>	<u>Water</u>	<u>Total</u>
<b>Operating Revenue</b>					
Charges for services	\$ 17,237,531	\$ 2,227,237	\$ 7,706,682	\$ 3,079,224	\$ 30,250,674
Other operating revenues	321,949	98,087	80,623	104,498	605,157
Total operating revenues	<u>17,559,480</u>	<u>2,325,324</u>	<u>7,787,305</u>	<u>3,183,722</u>	<u>30,855,831</u>
<b>Operating Expenses</b>					
Operation and maintenance	15,847,846	2,405,133	4,971,322	1,623,766	24,848,067
Depreciation/amortization	3,335,702	990,250	391,512	710,701	5,428,165
Total operating expenses	<u>19,183,548</u>	<u>3,395,383</u>	<u>5,362,834</u>	<u>2,334,467</u>	<u>30,276,232</u>
Operating income (loss)	<u>\$ (1,624,068)</u>	<u>\$ (1,070,059)</u>	<u>\$ 2,424,471</u>	<u>\$ 849,255</u>	<u>\$ 579,599</u>

**INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE**

To the Members of the Commission  
Public Utilities Commission  
Hibbing, Minnesota

We have audited the accompanying financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission (the Commission), a component unit of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2025, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 20, 2026.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions of the Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of the Commission and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



**Abdo**  
Minneapolis, Minnesota  
April 20, 2026

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Commission  
Public Utilities Commission  
Hibbing, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission (the Commission), a component unit of the City of Hibbing, Minnesota, as of and for the years ended December 31, 2025 and December 31, 2024, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated Need Date.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters which are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Abdo**  
Minneapolis, Minnesota  
April 20, 2026

