

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a discretely presented component unit).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 53 percent, 50 percent, and 80 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities, or the DMCC (a discretely presented component unit). Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds and the DMCC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of December 31, 2016, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 18, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 and other auditors 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Honorable Mayor and Members
of the City Council
City of Rochester, Minnesota
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the City of Rochester, Minnesota'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rochester, Minnesota's internal control over financial reporting and compliance.

Smith, Schepu and Associates, Ltd.

Rochester, Minnesota
June 28, 2017

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CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rochester, Minnesota, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended December 31, 2016, with comparative data for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$1,191,282,921 (*net position*). Of this amount, \$170,876,748 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$47,216,945.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$146,965,317, a decrease of \$30,744,301 in comparison with the prior year. Approximately 22 percent of this total amount, or \$31,741,322, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of fund balance) for the general fund was \$32,706,649 or approximately 46 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester increased total outstanding long term debt obligations by \$7,409,668 during the current fiscal year.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Rochester's basic financial statements. The City of Rochester's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Additional explanation of these sections of the financial statements follows.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Rochester's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Rochester's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Rochester is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Rochester that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Rochester include general government, public safety, public works, airport, transit, culture, park and recreation/Mayo Civic Center, economic development/tourism, and community reinvestment. The business-type activities of the City of Rochester include parking, electric utility, water utility, sewer utility, and the storm water utility. The electric and water utilities, comprising the Rochester Public Utilities (RPU), are under the direction of the Board of Public Utilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate entity (DMCC) for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The DMCC issues separate financial statements.

The government-wide financial statements can be found on pages 19-21 of this report.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rochester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Rochester can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Rochester maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided with the *combining statements* on pages 92-101 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 26-27) and the special revenue funds (pages 96-101) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 22-27 of this report.

Component Unit. The City has determined that the Destination Medical Center Corporation, established by the City under authority of Minnesota Statute, meets the criteria to be a discretely-presented component unit of the City and therefore reflects this organization's financial activities in a separate column of the government-wide financial statements of the City.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City of Rochester maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rochester uses enterprise funds to account for its parking, electric, water, sewer, and storm water utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Rochester's various functions. The City of Rochester uses internal service funds to account for its fleet of vehicles, its risk management program, and for its management information systems. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the parking, electric, water, sewer and storm water utilities, all of which are considered to be major funds of the City of Rochester. Conversely, all three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28-35 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-86 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds, individual nonmajor fund information, and internal service funds can be found on pages 92-106 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$1,191,282,921 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (82 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Rochester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Rochester's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 211,336,420	\$ 246,299,984	\$ 178,724,743	\$ 173,224,887	\$ 390,061,163	\$ 419,524,871
Capital assets	734,430,143	670,878,392	576,756,596	538,483,762	1,311,186,739	1,209,362,154
Total assets	945,766,563	917,178,376	755,481,339	711,708,649	1,701,247,902	1,628,887,025
Deferred outflows of resources	77,020,078	9,443,763	11,913,240	4,342,010	88,933,318	13,785,773
Total assets and deferred outflows of resources	1,022,786,641	926,622,139	767,394,579	716,050,659	1,790,181,220	1,642,672,798
Long-term liabilities						
outstanding	145,436,229	138,839,187	249,410,889	249,830,628	394,847,118	388,669,815
Other liabilities	138,565,720	66,607,757	44,257,208	30,967,260	182,822,928	97,575,017
Total liabilities	284,001,949	205,446,944	293,668,097	280,797,888	577,670,046	486,244,832
Deferred inflows of resources	14,290,411	6,642,606	6,937,842	5,719,384	21,228,253	12,361,990
Total liabilities and deferred inflows of resources	298,292,360	212,089,550	300,605,939	286,517,272	598,898,299	498,606,822
Net position:						
Net investment in capital assets	614,090,646	583,012,721	357,816,339	322,172,020	971,906,985	905,184,741
Restricted	48,171,271	52,805,659	327,917	1,007,633	48,499,188	53,813,292
Unrestricted	62,232,364	78,714,209	108,644,384	106,353,734	170,876,748	185,067,943
Total net position	\$ 724,494,281	\$ 714,532,589	\$ 466,788,640	\$ 429,533,387	\$ 1,191,282,921	\$ 1,144,065,976

An additional portion of the City of Rochester's net position (4.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$170,876,748) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Rochester is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the City of Rochester's net position by \$9,961,692. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions and Mayo Civic Center expansion). Additional net position growth resulted from increased program revenues over budget and unused contingency.

Business-type activities. Business-type activities increased the City of Rochester's net position by \$37,255,253. This increase is due to contributions of assets in the storm water, sewer and water utilities as well as program revenues which exceeded expenses in all business activities.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A condensed version of the Statement of Activities follows:

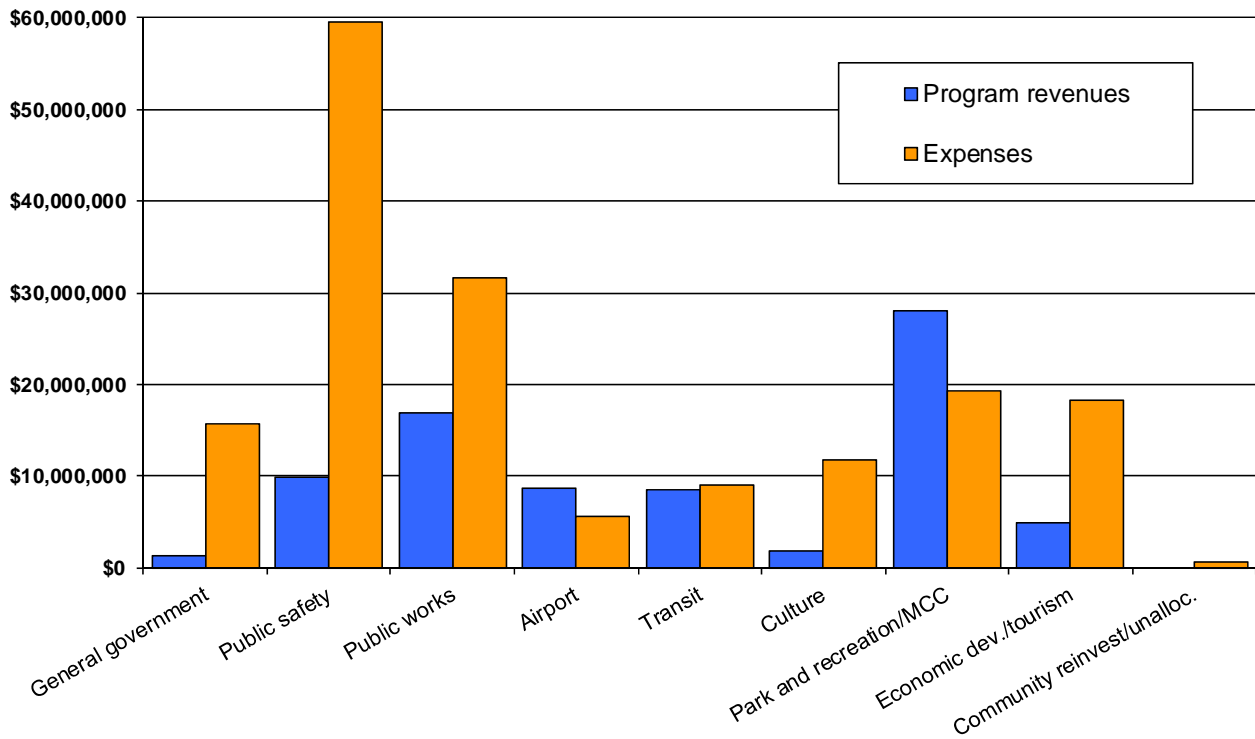
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenue:						
Program revenues:						
Charges for services	\$ 24,732,331	\$ 23,252,895	\$ 206,838,603	\$ 194,912,122	\$ 231,570,934	\$ 218,165,017
Operating grants and contributions	12,228,509	10,178,769			12,228,509	10,178,769
Capital grants and contributions	42,954,009	32,254,866	10,256,977	2,903,373	53,210,986	35,158,239
General revenues:						
Property taxes	57,241,529	54,064,041			57,241,529	54,064,041
Other taxes	29,921,694	24,155,002			29,921,694	24,155,002
Grants and contributions not restricted to specific programs						
Local government aid	7,190,925	7,148,299			7,190,925	7,148,299
Other	1,639,258	215,854	13,567	9,796	1,652,825	225,650
Miscellaneous	3,776,066	3,679,116	1,353,411	1,084,372	5,129,477	4,763,488
Total revenues	<u>179,684,321</u>	<u>154,948,842</u>	<u>218,462,558</u>	<u>198,909,663</u>	<u>398,146,879</u>	<u>353,858,505</u>
Expenses:						
General government	15,735,647	11,743,255			15,735,647	11,743,255
Public safety	59,557,300	49,527,459			59,557,300	49,527,459
Public works	31,641,886	31,528,109			31,641,886	31,528,109
Airport	5,661,137	5,736,407			5,661,137	5,736,407
Transit	8,989,779	8,291,571			8,989,779	8,291,571
Culture	11,808,852	10,506,555			11,808,852	10,506,555
Park and recreation/Mayo Civic Center	19,242,390	17,998,905			19,242,390	17,998,905
Economic development/tourism	18,342,528	19,326,705			18,342,528	19,326,705
Community reinvestment/unallocated	623,834	592,918			623,834	592,918
Interest on long-term debt	3,950,561	3,181,305			3,950,561	3,181,305
Parking			4,449,758	4,300,007	4,449,758	4,300,007
Electric			136,810,576	132,233,524	136,810,576	132,233,524
Water			9,166,574	8,674,276	9,166,574	8,674,276
Sewer			20,952,914	22,065,001	20,952,914	22,065,001
Storm water			3,996,198	3,795,630	3,996,198	3,795,630
Total expenses	<u>175,553,914</u>	<u>158,433,189</u>	<u>175,376,020</u>	<u>171,068,438</u>	<u>350,929,934</u>	<u>329,501,627</u>
Increase in net position before transfers	4,130,407	(3,484,347)	43,086,538	27,841,225	47,216,945	24,356,878
Transfers	5,831,285	6,698,770	(5,831,285)	(6,698,770)		
Increase in net position	9,961,692	3,214,423	37,255,253	21,142,455	47,216,945	24,356,878
Net position, beginning	714,532,589	711,318,166	429,533,387	408,390,932	1,144,065,976	1,119,709,098
Net position, end of year	<u>\$ 724,494,281</u>	<u>\$ 714,532,589</u>	<u>\$ 466,788,640</u>	<u>\$ 429,533,387</u>	<u>\$ 1,191,282,921</u>	<u>\$ 1,144,065,976</u>

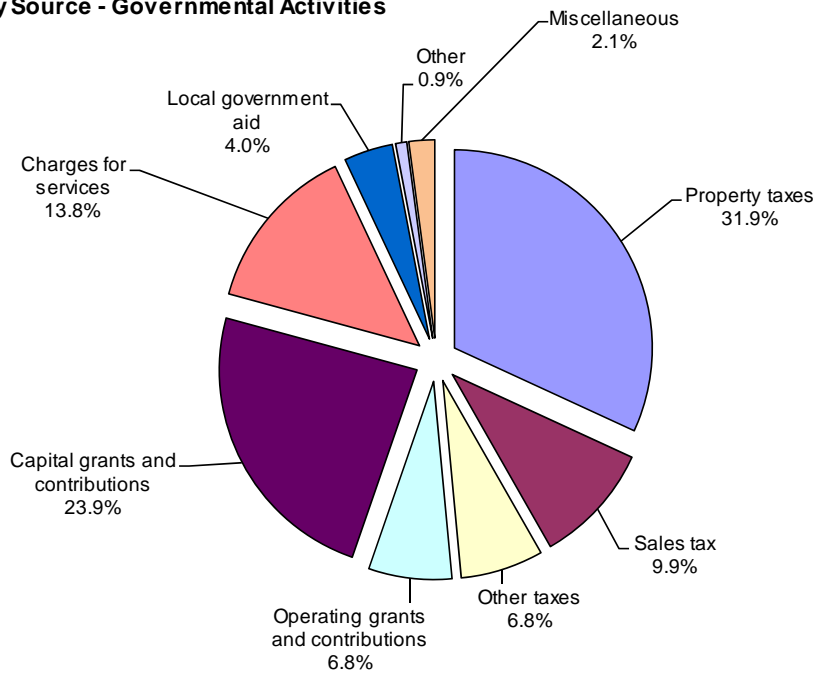
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues - Governmental Activities



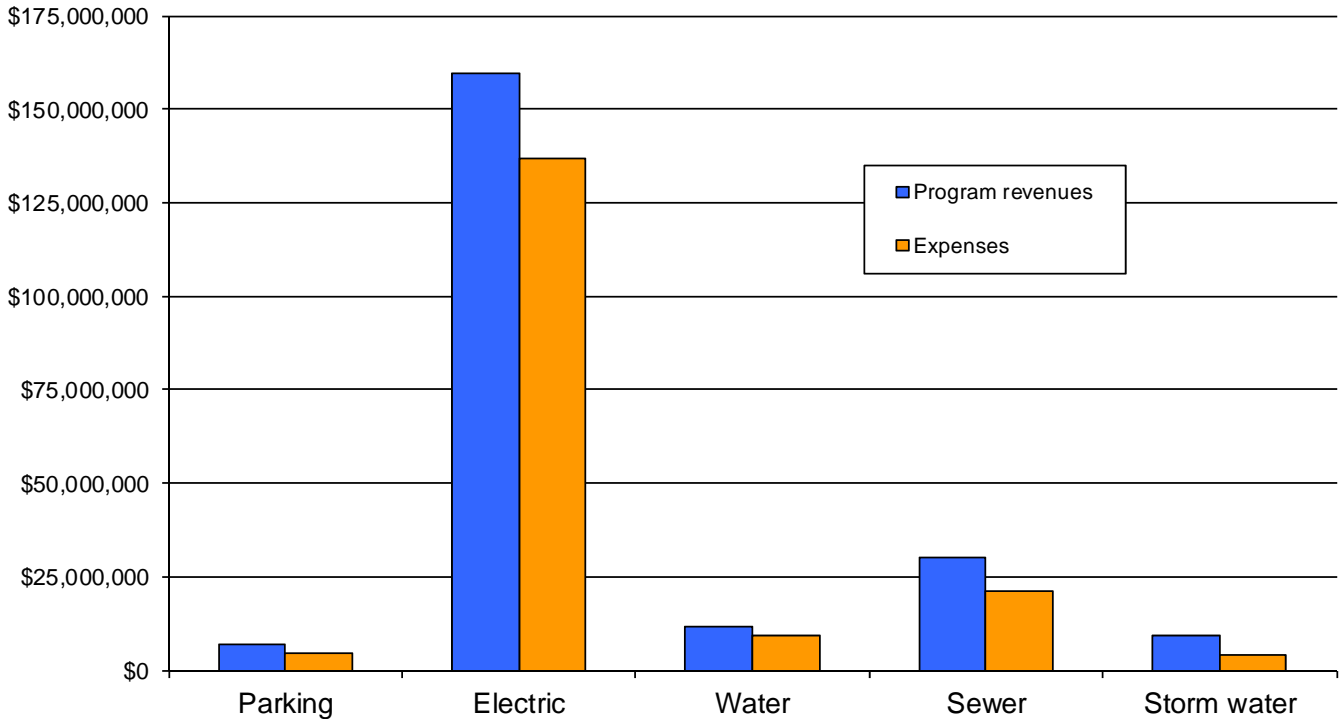
Revenues by Source - Governmental Activities



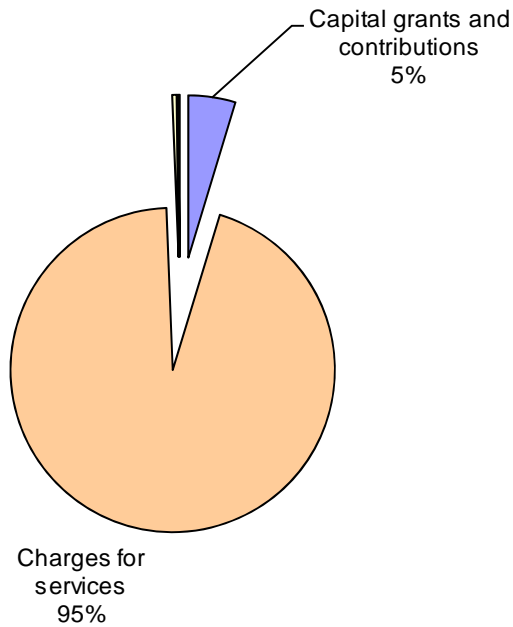
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since all five of these activities require significant physical assets to operate, any excess revenues are held for planned capital improvements to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Government's Funds

As noted earlier, the City of Rochester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Rochester's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Rochester's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balances are classified as follows:

Nonspendable – represents the portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – resources that have external constraints placed upon their use.

Committed – resources committed for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – amounts the City intends to use for a specific purpose. The Council has authorized the City Administrator to assign fund balance.

Unassigned – amount available for any purpose. However, only the General Fund may report a positive unassigned fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

Detailed information regarding the fund balance classifications is found in Note 3 in the Notes to Financial Statements.

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$146,965,317, a decrease of \$30,744,301 from the prior year. The general fund increased fund balance by \$1.2 million, while the construction improvement fund decreased fund balance by \$34.6 million, largely due to the Mayo Civic Center expansion. Additionally, all other governmental funds reflected a net increase of \$2.6 million in fund balance, largely showing up in the Airport and Transit funds.

Approximately 22 percent of the total fund balance, or \$31,741,322, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$947,743 is considered to be nonspendable (prepaid or inventory), \$44,654,373 has been restricted by grantors, donors, debt covenants, or regulation, \$58,790,608 has been committed by council action for CIP projects, and \$10,831,271 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental funds (continued).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$1,200,291 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$31,745,754 while total fund balance amounted to \$33,641,893. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 45 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 42 percent.

The library fund increased its fund balance by \$139,312 for the year after transferring \$22,446 to the capital projects fund for future equipment purchases. Much of this gain was the result of new gift appropriations. Additionally, operational expenditures were held \$139,693 below the approved budget. The municipal recreation fund increased its fund balance by \$479,877 as a net gain in the Park Operation, National Volleyball Center, and Recreation Center programs more than offset losses in the Golf and Graham Arena programs. The Mayo Civic Center fund increased its fund balance by \$190,502. The airport fund increased its total fund balance by \$848,782 for the year to \$1,961,149 due to an increase in fee revenues. Additionally, Council provided \$405,108 in budgeted tax levy for the airport in 2016 and capital project transfers were held to just \$89,394 all in an effort to restore fund balance in this area. The transit fund saw an increase in fund balance of \$905,825 due to an increase in grant revenue and lower than expected supply costs. Minnesota Bio Science Center fund increased fund balance by \$1,331 as the facility has maintained a consistently high occupancy level.

Debt service fund balances increased by \$72,302.

The construction improvement fund decreased fund balance by \$34,585,171 due in large part to the Mayo Civic Center expansion and the Recreation Center project.

Proprietary funds. The City of Rochester's *proprietary funds* statements found on pages 28-35 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Parking - \$22,229,457 Electric - \$39,477,010, Water - \$3,843,868, Sewer - \$30,251,244 and Storm water - \$10,650,655. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$9.3 million increase in net position for the year as revenues improved from prior year due to scheduled rate increases. The Sewer Utility's rates were increased based up a rate study completed during 2015, and the city council adopted a six-year schedule of rate adjustments through 2021. In addition, the "plant investment fee" was increased to \$3,100 in 2016. The schedule of rate increases was necessary as sewer flows continued to fall below plan.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Proprietary funds (continued).

The Water Utility's net position increased \$2.8 million in 2016. This utility's rates were increased by 6.0% in January of 2016 and 6.0% in January of 2017. A water utility cost of service study was completed during 2015, with the Utility Board and City Council accepting a three year schedule of rate adjustments.

The Electric Utility net position growth of \$15.2 million occurred after rates were increased 1.7% in January of 2016. They were further increased by 3.7% for 2017 based on a cost of service study accepted by the RPU board and city council in November of 2014.

The Parking Enterprise growth in net position of \$2.1 million was largely due to increased parking revenues. Parking rates were increased in 2015 reflecting a seven-year rate plan adopted in 2008. The plan called for rate increases every other year such that the fourth and final phase of increases was implemented in 2015. Rate increases in 2015 were developed to rebalance based on market demand and ranged from 4% to 20%, but averaged approximately 8.8%. The city council approved another rate increase effective January 1, 2017.

The Storm Water Utility's net position increased \$8.9 million in 2016. Storm Water rates increased 10.75% increase in January 2016 based on a storm water rate study completed in 2015. This rate study approved by the city council created a five-year rate adjustment plan. This utility's last increase was in 2011, an increase of 3% following the rate structure approved by council for years 2008 through 2011.

General Fund Budgetary Highlights

The City approved the 2016 general fund budget anticipating a "balanced budget" or slight increase or decrease in fund balance.

Differences between the original budget and the final budget can be briefly summarized as follows:

- Increase in the Public Safety expenditures due to drug enforcement administration and Fire Hazmat grant appropriations.
- Increase in the City Attorney and Council budget to address unplanned expenditures for legal and lobbying consultants.
- Reductions in unallocated contingency account to offset increases in city attorney, and other smaller unplanned costs.

At the close of the year, general fund total expenditures were \$3,698,607 below final budget while actual revenues were above final budget by \$456,966. These variances to budget can be traced to higher than expected Police and Fire State Aid and savings in police and fire budgets due to a delay in hiring of approved positions.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration

Capital assets. The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$1,311,186,739 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Rochester's reported investment in capital assets for the current fiscal year was \$101,824,585, or 8.4 percent. This increase is a result of significant construction activities in building expansions and infrastructure including streets, underground mains and continued construction of the electric transmission line.

City of Rochester's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 73,297,895	\$ 69,050,651	\$ 21,689,211	\$ 16,532,243	\$ 94,987,106	\$ 85,582,894
Buildings	171,890,435	146,164,271	258,048,506	250,174,462	429,938,941	396,338,733
Improvements other than buildings	25,877,785	26,489,649			25,877,785	26,489,649
Machinery and equipment	30,258,767	29,539,537	251,167,020	227,995,102	281,425,787	257,534,639
Infrastructure	331,925,873	306,056,504			331,925,873	306,056,504
Construction in progress	101,179,388	93,577,780	45,851,859	43,781,955	147,031,247	137,359,735
Total	<u>\$ 734,430,143</u>	<u>\$ 670,878,392</u>	<u>\$ 576,756,596</u>	<u>\$ 538,483,762</u>	<u>\$ 1,311,186,739</u>	<u>\$ 1,209,362,154</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:F. on pages 57-59 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$351,610,418 in bonds and notes outstanding. Of this amount, \$222,212,813 comprises debt backed by the full faith and credit of the government, \$128,265,000 represents bonds and notes secured solely by specified revenue sources, and \$1,132,605 represents an energy loan payable through savings in costs from energy improvements. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds, and Notes Payable

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 6,860,000	\$ 7,224,787	\$	\$	\$ 6,860,000	\$ 7,224,787
General obligation revenue bonds			21,830,000	23,580,000	21,830,000	23,580,000
General obligation lodging tax revenue bonds	41,330,000	42,795,000			41,330,000	42,795,000
General obligation equipment certificates of indebtedness	275,000	355,000			275,000	355,000
General obligation taxable Build America bonds	23,110,000	24,010,000			23,110,000	24,010,000
General obligation sales tax revenue bonds	39,682,813	30,427,617			39,682,813	30,427,617
General obligation revenue crossover refunding bonds			89,125,000	94,801,000	89,125,000	94,801,000
Revenue bonds	13,475,000	13,985,000	114,790,000	105,335,000	128,265,000	119,320,000
Notes payable		21,996				21,996
Energy loan payable	1,132,605	1,665,350			1,132,605	1,665,350
Total	<u>\$ 125,865,418</u>	<u>\$ 120,484,750</u>	<u>\$ 225,745,000</u>	<u>\$ 223,716,000</u>	<u>\$ 351,610,418</u>	<u>\$ 344,200,750</u>

The City of Rochester's total bonds and notes payable increased by \$7,409,668 during the current fiscal year.

There were two bond issuances by the City during 2016. A Sales Tax Revenue Bond was issued in the amount of \$10,005,196 related to various approved projects, including the Recreation Center expansion, Senior Center, and Fire Station. An Electric Utility Temporary Subordinate Revenue Bond was issued in the amount of \$25,000,000 in the form of a credit facility, or tax-exempt draw-down loan with U.S. Bank, at an average rate of 1.00%. The purpose of this borrowing was to provide temporary financing for the Westside Energy Station until permanent financing could be obtained. When that occurs, the amount drawn down at that date will be rolled into the permanent borrowing. As of December 31, 2016, \$13,350,000 has been drawn down on the loan.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt. A more detailed breakdown of these obligations can be found in Note 3:I., beginning on page 63.

The City of Rochester maintains a AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has Aa3 rating from Moody's Investors Service and an AA- rating from Fitch, reflecting the utility's strong financial performance, good liquidity, and diminishing threat of retail regulation.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

- Rochester's unemployment rate declined by 0.2 percent to 3.7 percent by the end of March 2017. This remains below the state and U.S. averages of 4.4 percent and 4.6 percent respectively. Nonagricultural wage and salary employment for the Rochester MSA increased by 2.6 percent over the last year. The gain of 2,214 jobs brought the total employment figure to 117,742 from the March 2016 level of 115,528.
- Building activity slowed in 2016. Commercial and residential building permits issued for 2016 totaled \$442,846,496. Permit totals were down 8.5 percent from a year ago and up 11.3 percent over 2014. Permit value for the first quarter of 2017 totaled \$74,348,432. This represents decreases of 38.2 percent over first quarter 2016 and 16.4 percent over 2015.
- The DMCC plan adopted by the City Council and the Destination Medical Center Board in 2015 is a strategic business plan to address land use, transportation, infrastructure, business development, marketing and operational strategies over the 20 year period outlining the \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future. This effort has proved results already with 17 private development projects totaling at least \$736.8 million in private investment were either completed, approved, under construction, or in various stages of the approval process in the downtown DMCC district. These do not even count Mayo's investments. The \$200 million investment threshold established in State law has already been met so that State money will now begin to flow to the City by September of 2017.
- This legislation secured State, City and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth. An additional 0.25% local option sales tax dedicated towards the City's share of this funding became effective January 1, 2016. Transportation studies are currently underway and an important first step in securing federal funding that will be needed for the significant transportation projects envisioned in the plan.
- Construction is wrapping up on the Mayo Civic Center expansion project. The total \$84 million project is funded by \$35 million in State bonding monies and \$49 million in City funds raised through an additional 3% lodging tax within the City. The expansion nearly doubled the size of the facility, adding 188,000 square feet, 1,000 jobs in the near term and an estimated \$370 million to the Rochester area economy over the next 10 years. Staff held a grand opening of the expanded space in early 2017.
- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed by early 2017 including the senior center and recreation center expansion space and a number of road projects.
- Construction began in early April of 2017 on a near \$12 million expansion and improvement project to the Rochester International Airport (RST). This project is funded with \$7.3 million in federal funds; \$2.3 million in State bonding funds; \$1.5 million in City of Rochester sales tax monies; and \$790,000 in MnDOT Aeronautics grant funds. The project includes centralized ticketing counters, consolidated baggage claim area and an expanded U.S. Customs area.
- The City's tax levy was increased by approximately \$ 5.2 million or 9.2 percent for pay 2017 to keep pace with a growing community and to fill back demand from prior years when council held down levies due to a lagging economy.
- Interest rates have remained at historical lows since 2010 with only slight increases recently. This continues to make earnings of the City's investment portfolio fall significantly below prior levels.

All of these factors were considered in preparing the City of Rochester's budget for the 2017 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Requests for Information

This financial report is designed to provide a general overview of the City of Rochester's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 201 4th Street SE, Room 204, Rochester, MN 55904.

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CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2016

	Primary Government			Component Unit DMCC
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 3,893,683	\$ 8,543,149	\$ 12,436,832	\$ 905
Investments	162,979,792	100,209,352	263,189,144	
Land held for resale	1,375,000		1,375,000	
Receivables (net of allowance for uncollectibles)	21,022,128	13,593,843	34,615,971	50,000
Internal balances	(4,799,070)	4,799,070		
Due from component unit	51,000		51,000	
Due from other governmental units	14,232,110	6,469	14,238,579	298,507
Accrued utility revenues		5,554,547	5,554,547	
Cash and investments with escrow agent	2,870,366	22,244,821	25,115,187	
Restricted and reserved cash and investments	8,763,668	5,814,549	14,578,217	
Inventory	848,338	5,085,112	5,933,450	
Prepaid items	99,405	50,000	149,405	12,998
Other assets		12,823,831	12,823,831	
Capital assets:				
Nondepreciable	174,477,283	67,541,070	242,018,353	
Depreciable, net	559,952,860	509,215,526	1,069,168,386	
Total Assets	<u>945,766,563</u>	<u>755,481,339</u>	<u>1,701,247,902</u>	<u>362,410</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pension activity	77,020,078	10,063,756	87,083,834	
Unamortized deferred amount on refunding		1,849,484	1,849,484	
Total Deferred Outflows of Resources	<u>77,020,078</u>	<u>11,913,240</u>	<u>88,933,318</u>	
Total Assets and Deferred Outflows of Resources	<u>1,022,786,641</u>	<u>767,394,579</u>	<u>1,790,181,220</u>	<u>362,410</u>
LIABILITIES				
Accounts and contracts payable	7,081,638	17,199,553	24,281,191	298,412
Deposits payable	1,845,245	708,246	2,553,491	
Accrued interest payable	1,565,526	1,716,666	3,282,192	
Accrued compensation and payroll taxes	2,322,514	557,318	2,879,832	
Accrued claims	3,434,712	8,000	3,442,712	
Due to primary government				51,000
Due to other governmental units	1,128,335	52,136	1,180,471	
Unearned revenue	203,938		203,938	12,998
Noncurrent liabilities:				
Due within one year	12,204,812	15,334,305	27,539,117	
Due in more than one year	133,231,417	234,076,584	367,308,001	
Net pension liability	120,983,812	24,015,289	144,999,101	
Total Liabilities	<u>284,001,949</u>	<u>293,668,097</u>	<u>577,670,046</u>	<u>362,410</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pension activity	14,290,411	2,892,523	17,182,934	
Unamortized deferred amount on refunding		2,358,771	2,358,771	
Advance payments on leases		1,686,548	1,686,548	
Total Deferred Inflows of Resources	<u>14,290,411</u>	<u>6,937,842</u>	<u>21,228,253</u>	
Total Liabilities and Deferred Inflows of Resources	<u>298,292,360</u>	<u>300,605,939</u>	<u>598,898,299</u>	<u>362,410</u>
NET POSITION				
Net investment in capital assets	614,090,646	357,816,339	971,906,985	
Restricted for:				
Airport	1,961,149		1,961,149	
CDBG loans	3,516,898		3,516,898	
Economic development loan	329,856		329,856	
Civic music endowment	41,149		41,149	
Park and recreation	110,581		110,581	
Debt service	1,677,095	327,917	2,005,012	
Children's playgrounds	667,065		667,065	
Flood control	20,355,559		20,355,559	
Tax increment financing	3,738,176		3,738,176	
Sales tax authorized projects	15,773,743		15,773,743	
Unrestricted	62,232,364	108,644,384	170,876,748	
Total Net Position	<u>\$ 724,494,281</u>	<u>\$ 466,788,640</u>	<u>\$ 1,191,282,921</u>	<u>\$</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 15,735,647	\$ 527,164	\$ 17,020	\$ 807,795
Public safety	59,557,300	6,928,928	2,889,119	2,840
Public works	31,641,886	475,637	1,240,373	15,126,272
Airport	5,661,137	3,602,094	427,951	4,586,721
Transit	8,989,779	2,615,773	5,818,151	97,738
Culture	11,808,852	350,438	1,432,190	
Park and recreation/Mayo Civic Center	19,242,390	6,772,524	233,622	20,958,174
Economic development/tourism	18,342,528	3,459,773	170,083	1,374,469
Community reinvestment/unallocated	623,834			
Interest on long-term debt	3,950,561			
Total governmental activities	175,553,914	24,732,331	12,228,509	42,954,009
Business-Type activities:				
Parking	4,449,758	7,080,406		
Electric utility	136,810,576	156,434,892		3,062,271
Water utility	9,166,574	9,461,274		1,991,042
Sewer utility	20,952,914	27,796,351		2,253,582
Storm water utility	3,996,198	6,065,680		2,950,082
Total business-type activities	175,376,020	206,838,603		10,256,977
Total	\$ 350,929,934	\$ 231,570,934	\$ 12,228,509	\$ 53,210,986
Component Unit:				
DMCC	\$ 2,288,340	\$	\$ 2,288,339	\$
General revenues:				
General property taxes				
Tax increments collection				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Local government aid				
Other				
Interest earnings				
Gain on disposition of property				
Net decrease in the fair value of investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit DMCC
\$ (14,383,668)	\$	\$ (14,383,668)	\$
(49,736,413)		(49,736,413)	
(14,799,604)		(14,799,604)	
2,955,629		2,955,629	
(458,117)		(458,117)	
(10,026,224)		(10,026,224)	
8,721,930		8,721,930	
(13,338,203)		(13,338,203)	
(623,834)		(623,834)	
(3,950,561)		(3,950,561)	
<u>(95,639,065)</u>		<u>(95,639,065)</u>	
	2,630,648	2,630,648	
	22,686,587	22,686,587	
	2,285,742	2,285,742	
	9,097,019	9,097,019	
	5,019,564	5,019,564	
	<u>41,719,560</u>	<u>41,719,560</u>	
<u>(95,639,065)</u>	<u>41,719,560</u>	<u>(53,919,505)</u>	
			<u>(1)</u>
57,241,529		57,241,529	
2,144,901		2,144,901	
17,748,947		17,748,947	
10,027,846		10,027,846	
7,190,925		7,190,925	
1,639,258	13,567	1,652,825	
2,091,751	961,002	3,052,753	1
87,835		87,835	
(91,490)	(5,705)	(97,195)	
1,687,970	398,114	2,086,084	
5,831,285	(5,831,285)		
<u>105,600,757</u>	<u>(4,464,307)</u>	<u>101,136,450</u>	
9,961,692	37,255,253	47,216,945	
714,532,589	429,533,387	1,144,065,976	
<u>\$ 724,494,281</u>	<u>\$ 466,788,640</u>	<u>\$ 1,191,282,921</u>	<u>\$</u>

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2016

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$	\$ 1,702,572	\$ 1,918,480	\$ 3,621,052
Investments	33,885,625	83,030,000	10,352,467	127,268,092
Land held for resale		1,375,000		1,375,000
Accrued interest receivable	215,583	264,481	36,622	516,686
Accounts receivable (net of allowance for uncollectibles)	881,293	1,209,891	2,645,101	4,736,285
Loans receivable		483,998	3,516,898	4,000,896
Taxes receivable delinquent	324,874	35,739	124,644	485,257
Special assessments receivable:				
Deferred		10,856,514		10,856,514
Delinquent	31,273	200,995	64,036	296,304
Due from other funds	800,661		306	800,967
Advances to other funds			41,764	41,764
Due from other governmental units	1,312,573	11,283,112	1,632,233	14,227,918
Prepaid items	96,986		2,419	99,405
Restricted cash and investments	41,149	8,663,973	2,928,912	11,634,034
Inventory	797,109		51,229	848,338
TOTAL ASSETS	\$ 38,387,126	\$ 119,106,275	\$ 23,315,111	\$ 180,808,512
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts and contracts payable	\$ 1,460,178	\$ 4,089,179	\$ 553,656	\$ 6,103,013
Deposits payable	284,513	526,378	1,118,891	1,929,782
Accrued compensation and payroll taxes	1,911,865		410,163	2,322,028
Due to other funds	284,578	41,515	147,107	473,200
Advances from other funds		3,317,011	2,934,687	6,251,698
Unearned revenue		6,805	4,695	11,500
Due to other governmental units	447,952	449,524	215,433	1,112,909
Total Liabilities	4,389,086	8,430,412	5,384,632	18,204,130
Deferred Inflows of Resources:				
Unavailable revenue				
Property taxes	324,874	35,739	124,644	485,257
Special assessments	31,273	11,057,509	64,036	11,152,818
Loans receivable		484,092	3,516,898	4,000,990
Total Deferred Inflows of Resources	356,147	11,577,340	3,705,578	15,639,065
Fund Balance:				
Nonspendable	894,095		53,648	947,743
Restricted	41,149	40,307,915	4,305,309	44,654,373
Committed		58,790,608		58,790,608
Assigned	960,895		9,870,376	10,831,271
Unassigned	31,745,754		(4,432)	31,741,322
Total Fund Balance	33,641,893	99,098,523	14,224,901	146,965,317
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 38,387,126	\$ 119,106,275	\$ 23,315,111	\$ 180,808,512

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (page 22)		\$ 146,965,317
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,030,759,022	
Less: Accumulated depreciation	<u>(311,318,951)</u>	719,440,071
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 781,561	
Deferred special assessments and utility connection agreements	10,856,514	
Due from other governments	94	
Loans receivable	<u>4,000,896</u>	15,639,065
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		41,860,079
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	\$ 77,020,078	
Deferred inflows related to pensions	<u>(14,290,411)</u>	62,729,667
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (125,395,418)	
Net pension liability	(120,983,812)	
Compensated absences	(11,063,474)	
Accrued interest	(1,559,162)	
Unamortized bond premium	<u>(3,138,052)</u>	<u>(262,139,918)</u>
Net position of governmental activities (page 19)		<u><u>\$ 724,494,281</u></u>

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 37,861,528	\$ 4,458,189	\$ 14,488,563	\$ 56,808,280
Tax increments collection		1,394,253	752,088	2,146,341
Sales tax		17,748,947		17,748,947
Special assessments		2,885,275		2,885,275
Utility connection and availability		517,430		517,430
Nonproperty taxes	4,816,507	3,670,798	1,540,541	10,027,846
Licenses and permits	3,908,886			3,908,886
Fines and forfeits	544,922			544,922
Intergovernmental revenues	10,885,770	34,575,392	8,277,239	53,738,401
Charges for services	3,855,388	454,781	11,394,668	15,704,837
Interest earnings	217,774	1,458,098	111,331	1,787,203
Net decrease in the fair value of investments	(48,590)	(29,400)	(19,800)	(97,790)
Rental revenues	58,309	795,646	4,175,322	5,029,277
Miscellaneous revenues	296,893	3,613,176	718,789	4,628,858
Total Revenues	62,397,387	71,542,585	41,438,741	175,378,713
EXPENDITURES				
Current:				
General government	9,552,854			9,552,854
Public safety	44,065,030		22,705	44,087,735
Public works	12,490,216			12,490,216
Airport operations			3,509,338	3,509,338
Transit			7,498,056	7,498,056
Culture	2,009,644		7,184,711	9,194,355
Park and recreation/Mayo Civic Center			13,937,857	13,937,857
Economic development/tourism	2,507,425		2,150,681	4,658,106
Community reinvestment and unallocated	623,834			623,834
Debt service			9,003,654	9,003,654
Capital outlay		112,505,622		112,505,622
Total Expenditures	71,249,003	112,505,622	43,307,002	227,061,627
Deficiency of revenues under expenditures	(8,851,616)	(40,963,037)	(1,868,261)	(51,682,914)
OTHER FINANCING SOURCES (USES)				
Issuance of debt		9,921,013	84,183	10,005,196
Transfers in	11,980,633	3,329,096	6,276,133	21,585,862
Transfers out	(1,928,726)	(6,872,243)	(1,851,476)	(10,652,445)
Total other financing sources (uses)	10,051,907	6,377,866	4,508,840	20,938,613
Net change in fund balances	1,200,291	(34,585,171)	2,640,579	(30,744,301)
Fund Balance - beginning	32,441,602	133,683,694	11,584,322	177,709,618
Fund Balance - ending	\$ 33,641,893	\$ 99,098,523	\$ 14,224,901	\$ 146,965,317

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 24) \$ (30,744,301)

Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay-capitalized	\$ 85,992,111	
Depreciation expense	<u>(21,311,121)</u>	64,680,990

Infrastructure is contributed from governmental activities to business-type activities and from developers to governmental activities. The amounts affect governmental net position but do not affect fund balance.

(2,653,142)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

(503)

Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues decreased by this amount this year.

599,622

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences December 31, 2016	\$ (11,063,474)	
Compensated absences December 31, 2015	<u>10,333,330</u>	(730,144)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal retirement on long-term debt	\$ 4,499,528	
Issuance of bond	(10,005,196)	
Change in pension activity	(13,798,915)	
Amortization of bond premium	293,767	
Change in accrued interest	<u>243,618</u>	(18,767,198)

Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities

(2,423,632)

Change in net position of governmental activities (pages 20 and 21) \$ 9,961,692

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 37,807,810	\$ 37,807,810	\$ 37,861,528	\$ 53,718
Nonproperty taxes	4,674,963	4,591,784	4,816,507	224,723
Licenses and permits	3,898,846	3,898,846	3,908,886	10,040
Fines and forfeits	384,000	549,279	544,922	(4,357)
Intergovernmental	10,299,864	10,714,827	10,885,770	170,943
Charges for services	3,342,666	3,879,466	3,855,388	(24,078)
Interest earnings	180,000	180,173	217,774	37,601
Net decrease in the fair value of investments	(50,000)	(50,000)	(48,590)	1,410
Rental revenues	65,031	65,031	58,309	(6,722)
Miscellaneous revenues	281,577	303,205	296,893	(6,312)
Total Revenues	<u>60,884,757</u>	<u>61,940,421</u>	<u>62,397,387</u>	<u>456,966</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	758,421	846,421	807,663	38,758
City Administrator	678,417	678,417	664,720	13,697
Development District Administration	164,857	164,857	163,566	1,291
City Clerk	413,247	413,247	437,187	(23,940)
Elections and Voter Registration	215,897	215,897	208,623	7,274
Finance Department	1,534,751	1,546,804	1,494,425	52,379
Information Systems	1,731,624	1,797,347	1,779,735	17,612
City Attorney	1,480,281	1,899,706	1,965,566	(65,860)
Human Resources	1,554,945	1,591,351	1,460,801	130,550
Planning and Zoning	56,826	56,826	13,730	43,096
City Hall Maintenance	554,278	555,947	556,838	(891)
Total General Government	<u>9,143,544</u>	<u>9,766,820</u>	<u>9,552,854</u>	<u>213,966</u>
Public Safety:				
Police Department	24,861,834	25,263,546	24,331,192	932,354
Fire Department	15,495,582	15,831,770	15,316,695	515,075
Fire Hazmat Response Team		103,195	105,766	(2,571)
Building Safety	3,172,975	3,173,751	3,210,013	(36,262)
Animal Control	340,783	345,419	324,292	21,127
Drug Enforcement Administration		312,293	35,393	276,900
Flood Control	635,393	642,030	464,960	177,070
Emergency Mgmt/Safety Council	279,322	299,928	276,719	23,209
Total Public Safety	<u>44,785,889</u>	<u>45,971,932</u>	<u>44,065,030</u>	<u>1,906,902</u>

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>2016 Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (continued)				
Current:				
Public Works:				
Engineering	\$ 3,047,596	\$ 3,055,596	\$ 2,563,911	\$ 491,685
PWTOC Building/Site Operations	50,782	50,782	51,343	(561)
Traffic Engineer	1,201,137	1,205,468	1,255,378	(49,910)
Infrastructure Maintenance	8,214,385	8,217,367	7,433,027	784,340
City Lighting	1,266,008	1,266,008	1,186,557	79,451
Total Public Works	<u>13,779,908</u>	<u>13,795,221</u>	<u>12,490,216</u>	<u>1,305,005</u>
Culture:				
Art Center/Theatre/Senior Center	618,365	816,865	952,203	(135,338)
Music Department	1,020,000	1,198,388	1,057,441	140,947
Total Culture	<u>1,638,365</u>	<u>2,015,253</u>	<u>2,009,644</u>	<u>5,609</u>
Economic Development/Tourism	<u>2,376,000</u>	<u>2,773,757</u>	<u>2,507,425</u>	<u>266,332</u>
Community Reinvestment and Unallocated	<u>1,522,188</u>	<u>624,627</u>	<u>623,834</u>	<u>793</u>
Total Expenditures	<u>73,245,894</u>	<u>74,947,610</u>	<u>71,249,003</u>	<u>3,698,607</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,361,137)</u>	<u>(13,007,189)</u>	<u>(8,851,616)</u>	<u>4,155,573</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,371,241	12,371,241	11,980,633	(390,608)
Transfers out	<u>(162,993)</u>	<u>(1,875,993)</u>	<u>(1,928,726)</u>	<u>(52,733)</u>
Total other financing sources (uses)	<u>12,208,248</u>	<u>10,495,248</u>	<u>10,051,907</u>	<u>(443,341)</u>
Net change in fund balances	<u>(152,889)</u>	<u>(2,511,941)</u>	<u>1,200,291</u>	<u>3,712,232</u>
Fund Balance - beginning	<u>32,441,602</u>	<u>32,441,602</u>	<u>32,441,602</u>	
Fund Balance - ending	<u><u>\$32,288,713</u></u>	<u><u>\$29,929,661</u></u>	<u><u>\$33,641,893</u></u>	<u><u>\$ 3,712,232</u></u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2016

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 149,345	\$ 6,641,528	\$ 929,814
Investments	19,225,952	34,111,666	4,775,634
Accrued interest receivable	57,008		
Accounts receivable	190,388	12,253,177	445,340
Accrued utility revenues		5,384,775	169,772
Taxes receivable delinquent			
Inventory, material, supplies and fuel		4,926,547	156,295
Due from other funds			12,707
Advances to other funds	2,934,687		
Due from other governmental units			
Prepaid items			
Restricted and reserved cash		698,421	
Cash and investments with escrow agent			
Other assets		571,797	742
Total Current Assets	<u>22,557,380</u>	<u>64,587,911</u>	<u>6,490,304</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	10,777,280	43,148,699	4,348,456
Depreciable	38,264,812	370,027,895	137,692,610
Less: Accumulated depreciation	<u>(24,199,011)</u>	<u>(202,033,113)</u>	<u>(46,254,030)</u>
Net capital assets	24,843,081	211,143,481	95,787,036
Restricted and reserved cash	114,548		
Restricted investments		5,001,580	
Other assets		12,236,640	
Total Noncurrent Assets	<u>24,957,629</u>	<u>228,381,701</u>	<u>95,787,036</u>
Total Assets	<u>47,515,009</u>	<u>292,969,612</u>	<u>102,277,340</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		1,849,484	
Deferred outflows from pension activity	142,152	7,493,487	880,549
Total Deferred Outflows of Resources	<u>142,152</u>	<u>9,342,971</u>	<u>880,549</u>
Total Assets and Deferred Outflows of Resources	<u>47,657,161</u>	<u>302,312,583</u>	<u>103,157,889</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	27,720	16,127,106	411,980
Deposits payable	53,435	592,163	58,038
Accrued interest payable		430,411	
Accrued compensation and payroll taxes	8,451	381,184	45,637
Accrued compensated absences	35,774	1,528,283	265,841
Due to other funds	280	2,769,873	
Due to other governmental units	47,965		
Unearned revenue			
Accrued claims			
Current maturities of long term debt		3,935,000	
Total Current Liabilities	<u>173,625</u>	<u>25,764,020</u>	<u>781,496</u>
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		119,155,448	
Accrued compensated absences	31,457	1,155,623	172,833
Net pension liability	338,451	17,900,174	2,105,210
Accrued claims		8,000	
Post employment benefit obligation			
Total Noncurrent Liabilities	<u>369,908</u>	<u>138,219,245</u>	<u>2,278,043</u>
Total Liabilities	<u>543,533</u>	<u>163,983,265</u>	<u>3,059,539</u>
DEFERRED INFLOWS OF RESOURCES			
Advance payments on leases		1,473,314	213,234
Deferred charge on refunding			
Deferred inflows from pension activity	41,090	2,146,980	254,212
Total Deferred Inflows of Resources	<u>41,090</u>	<u>3,620,294</u>	<u>467,446</u>
Total Liabilities and Deferred Inflows of Resources	<u>584,623</u>	<u>167,603,559</u>	<u>3,526,985</u>
NET POSITION			
Net investment in capital assets	24,843,081	94,904,097	95,787,036
Restricted			
Debt service		327,917	
Unrestricted	22,229,457	39,477,010	3,843,868
Total Net Position	<u>\$ 47,072,538</u>	<u>\$ 134,709,024</u>	<u>\$ 99,630,904</u>

Amounts reported by business-type activities in the statement of net position (page 18) are different because:
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Net position of business-type activities

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 738,235	\$ 84,227	\$ 8,543,149	\$ 279,191
31,328,500	10,767,600	100,209,352	35,711,700
94,388	32,084	183,480	106,296
338,184	183,274	13,410,363	19,394
		5,554,547	4,496
2,270		5,085,112	
2,202,992	471,292	2,686,991	
		2,934,687	3,275,247
6,469		6,469	4,192
50,000		50,000	
		698,421	
22,244,821		22,244,821	
		572,539	
<u>57,005,859</u>	<u>11,538,477</u>	<u>162,179,931</u>	<u>39,400,516</u>
3,956,283	5,310,352	67,541,070	290,378
330,429,241	75,485,574	951,900,132	36,515,731
(157,380,873)	(12,817,579)	(442,684,606)	(21,816,037)
<u>177,004,651</u>	<u>67,978,347</u>	<u>576,756,596</u>	<u>14,990,072</u>
		114,548	
		5,001,580	
14,652		12,251,292	
<u>177,019,303</u>	<u>67,978,347</u>	<u>594,124,016</u>	<u>14,990,072</u>
<u>234,025,162</u>	<u>79,516,824</u>	<u>756,303,947</u>	<u>54,390,588</u>
		1,849,484	
1,319,464	228,104	10,063,756	
<u>1,319,464</u>	<u>228,104</u>	<u>11,913,240</u>	
<u>235,344,626</u>	<u>79,744,928</u>	<u>768,217,187</u>	<u>54,390,588</u>
209,479	423,268	17,199,553	934,185
4,610		708,246	11,145
1,282,298	3,957	1,716,666	6,365
110,017	12,029	557,318	486
240,416	18,991	2,089,305	
202,555	42,050	3,014,758	
4,017	154	52,136	15,426
			96,755
			1,993,031
9,310,000		13,245,000	135,000
<u>11,363,392</u>	<u>500,449</u>	<u>38,582,982</u>	<u>3,192,393</u>
113,276,923		232,432,371	335,000
275,991	8,309	1,644,213	
3,130,616	540,838	24,015,289	
		8,000	1,441,681
			5,369,285
<u>116,683,530</u>	<u>549,147</u>	<u>258,099,873</u>	<u>7,145,966</u>
<u>128,046,922</u>	<u>1,049,596</u>	<u>296,682,855</u>	<u>10,338,359</u>
		1,686,548	
2,358,771		2,358,771	
383,911	66,330	2,892,523	
<u>2,742,682</u>	<u>66,330</u>	<u>6,937,842</u>	
<u>130,789,604</u>	<u>1,115,926</u>	<u>303,620,697</u>	<u>10,338,359</u>
74,303,778	67,978,347	357,816,339	14,520,072
		327,917	
30,251,244	10,650,655	106,452,234	29,532,157
<u>\$ 104,555,022</u>	<u>\$ 78,629,002</u>	<u>464,596,490</u>	<u>\$ 44,052,229</u>
		2,192,150	
		<u>\$ 466,788,640</u>	

**CITY OF ROCHESTER, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 For the Year Ended December 31, 2016**

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 7,080,406	\$	\$
Sales and charges for services, pledged as security for revenue bonds		144,322,024	8,519,094
Miscellaneous		12,112,868	942,180
Total Operating Revenues	<u>7,080,406</u>	<u>156,434,892</u>	<u>9,461,274</u>
Operating Expenses:			
Purchased power		92,699,804	
Maintenance and operations	3,187,126	29,688,703	6,528,964
Amortization of regulatory assets		412,123	
Depreciation	1,235,127	9,392,360	2,524,656
Total Operating Expenses	<u>4,422,253</u>	<u>132,192,990</u>	<u>9,053,620</u>
Operating Income (Loss)	<u>2,658,153</u>	<u>24,241,902</u>	<u>407,654</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	150,583	256,460	62,791
Net increase (decrease) in the fair value of investments	(24,100)		
Interest and fiscal charges		(3,290,782)	(20)
Amortization of regulatory assets		(215,762)	
Gain on disposal of property			
Other income (expense)	3,478	(367,249)	(17,396)
Total Nonoperating Revenues (Expenses)	<u>130,538</u>	<u>(3,617,333)</u>	<u>45,375</u>
Income (Loss) Before Transfers and Capital Contributions	2,788,691	20,624,569	453,029
Capital contributions		3,062,271	2,755,124
Transfers in			
Transfers out	(702,446)	(8,470,041)	(362,771)
Change in net position	2,086,245	15,216,799	2,845,382
Net Position - Beginning of Year	<u>44,986,293</u>	<u>119,492,225</u>	<u>96,785,522</u>
Net Position - End of Year	<u>\$ 47,072,538</u>	<u>\$ 134,709,024</u>	<u>\$ 99,630,904</u>

Amounts reported by business-type activities in the statement of activities (page 19) are different because:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Change in net position of business-type activities

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$	\$ 5,621,342	\$ 12,701,748	\$ 21,616,678
27,558,937		180,400,055	
237,414	444,338	13,736,800	
<u>27,796,351</u>	<u>6,065,680</u>	<u>206,838,603</u>	<u>21,616,678</u>
		92,699,804	
9,438,350	2,607,785	51,450,928	23,422,034
		412,123	
<u>8,469,846</u>	<u>1,365,207</u>	<u>22,987,196</u>	<u>3,039,687</u>
<u>17,908,196</u>	<u>3,972,992</u>	<u>167,550,051</u>	<u>26,461,721</u>
<u>9,888,155</u>	<u>2,092,688</u>	<u>39,288,552</u>	<u>(4,845,043)</u>
			433,954
9,219	3,771	13,567	2,094
401,637	89,531	961,002	304,552
32,995	(14,600)	(5,705)	6,300
(2,828,598)		(6,119,400)	(15,562)
		(215,762)	
			88,338
<u>394,636</u>	<u>(6,592)</u>	<u>6,877</u>	
<u>(1,990,111)</u>	<u>72,110</u>	<u>(5,359,421)</u>	<u>819,676</u>
7,898,044	2,164,798	33,929,131	(4,025,367)
2,893,996	7,149,883	15,861,274	
305,605	109,104	414,709	660,940
<u>(1,838,740)</u>	<u>(476,293)</u>	<u>(11,850,291)</u>	<u>(158,775)</u>
9,258,905	8,947,492	38,354,823	(3,523,202)
<u>95,296,117</u>	<u>69,681,510</u>		<u>47,575,431</u>
<u>\$ 104,555,022</u>	<u>\$ 78,629,002</u>		<u>\$ 44,052,229</u>
		<u>(1,099,570)</u>	
		<u>\$ 37,255,253</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 7,267,963	\$ 143,107,240	\$ 8,821,066
Cash received from other City funds	50,691	6,050,796	188,074
Cash received from employees			
Cash paid to employees	(377,653)	(14,560,908)	(1,702,069)
Cash paid to suppliers	(2,967,745)	(98,900,186)	(3,788,847)
Service territory acquisition		(386,351)	
Other income	3,478		
Net Cash Provided By (Used In) Operating Activities	<u>3,976,734</u>	<u>35,310,591</u>	<u>3,518,224</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	577		
Transfers in			
Transfers out	(702,446)	(8,455,756)	(361,290)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(701,869)</u>	<u>(8,455,756)</u>	<u>(361,290)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Proceeds from the issuance of bonds		13,350,000	
Principal payments on bonds		(3,895,000)	
Interest and fiscal charges		(4,805,030)	
Repayment of developer agreements			
Acquisition of capital assets	(1,527,013)	(36,612,380)	(2,432,385)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(1,527,013)</u>	<u>(31,962,410)</u>	<u>(2,432,385)</u>
Cash Flows From Investing Activities:			
Investment income	135,037	359,630	62,770
Net (increase) decrease in investments	(1,880,000)	2,306,507	(628,909)
Net Cash Provided By (Used In) Invested Activities	<u>(1,744,963)</u>	<u>2,666,137</u>	<u>(566,139)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,889	(2,441,438)	158,410
Cash and Cash Equivalents, Beginning of Year	261,004	9,781,387	771,404
Cash and Cash Equivalents, End of Year	<u>\$ 263,893</u>	<u>\$ 7,339,949</u>	<u>\$ 929,814</u>
Classified As:			
Cash and Cash Equivalents	\$ 149,345	\$ 6,641,528	\$ 929,814
Restricted and Reserved Cash	114,548	698,421	
Total Cash and Cash Equivalents, End of Year	<u>\$ 263,893</u>	<u>\$ 7,339,949</u>	<u>\$ 929,814</u>

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 27,209,812	\$ 5,652,975	\$ 192,059,056	\$
93,794	199,603	6,582,958	15,732,921
(3,531,915)	(351,249)	(20,523,794)	2,694,394
(5,712,391)	(2,169,864)	(113,539,033)	(20,838,400)
394,636	(6,592)	(386,351)	
		391,522	
18,453,936	3,324,873	64,584,358	(2,411,085)
			432,531
9,219	3,771	13,567	2,094
305,605	109,104	414,709	660,940
(1,838,740)	(476,293)	(11,834,525)	(158,775)
(1,523,916)	(363,418)	(11,406,249)	936,790
			209,968
		13,350,000	
(7,426,000)		(11,321,000)	(125,000)
(4,194,689)	(939)	(9,000,658)	(16,983)
	(96,463)	(96,463)	
(1,900,521)	(1,813,428)	(44,285,727)	(4,792,548)
(13,521,210)	(1,910,830)	(51,353,848)	(4,724,563)
373,636	80,312	1,011,385	296,506
(3,278,905)	(1,127,600)	(4,608,907)	5,833,700
(2,905,269)	(1,047,288)	(3,597,522)	6,130,206
503,541	3,337	(1,773,261)	(68,652)
234,694	80,890	11,129,379	347,843
\$ 738,235	\$ 84,227	\$ 9,356,118	\$ 279,191
\$ 738,235	\$ 84,227	\$ 8,543,149	\$ 279,191
		812,969	
\$ 738,235	\$ 84,227	\$ 9,356,118	\$ 279,191

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2016

Reconciliation of Operating Income (Loss) to Net Cash
Provided By (Used In) Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 2,658,153	\$ 24,241,902	\$ 407,654
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,235,127	9,804,483	2,524,656
Other income (expense)	3,478	(369,131)	(17,396)
Service territory payments		(386,351)	
Bad debts		224,085	26,051
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	37,576	(4,115,971)	150,511
Inventory		(45,407)	(2,941)
Due from other funds			
Due from other governmental units			
Advances due from other funds	200,500		
Prepaid items			(742)
Deferred outflows from pension activity	(110,660)	(5,834,243)	(682,793)
Other assets		(331,949)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(93,572)	5,194,361	(867,052)
Deposits payable	145	9,804	5,545
Accrued expenses and other liabilities	9,069		
Post employment benefit obligations			
Deferred inflows from pension activity	14,449	777,386	90,573
Net pension liability	110,427	6,178,042	1,877,186
Unearned revenues		(36,420)	6,972
Accrued claims			
Due to other funds	27		
Due to other governmental units	(87,985)		
Net Cash Provided By (Used In) Operating Activities	\$ 3,976,734	\$ 35,310,591	\$ 3,518,224
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ (24,100)	\$	\$
Receipt of contributed property			2,241,892
Equipment purchases in accounts payable at year end			

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 9,888,155	\$ 2,092,688	\$ 39,288,552	\$ (4,845,043)
8,469,846	1,365,207	23,399,319	3,039,687
394,636	(6,592)	4,995	
		(386,351)	
		250,136	
(232,398)	(165,254)	(4,325,536)	87,271
1,529		(46,819)	
20,502	(48,638)	(28,136)	
8,681		8,681	(1,387)
		200,500	(3,275,247)
(30,000)		(30,742)	
(1,015,353)	(174,889)	(7,817,938)	
11,582		(320,367)	
136,330	73,218	4,443,285	755,145
(301,000)		(285,506)	(4,541)
(9,965)	(2,273)	(3,169)	34
			779,997
131,749	22,754	1,036,911	
972,403	167,877	9,305,935	9,584
		(29,448)	1,111,015
11,470	790	12,287	
(4,231)	(15)	(92,231)	(67,600)
<u>\$ 18,453,936</u>	<u>\$ 3,324,873</u>	<u>\$ 64,584,358</u>	<u>\$ (2,411,085)</u>
\$ 32,995	\$ (14,600)	\$ (5,705)	\$ 6,300
2,893,996	7,149,883	12,285,771	22,808

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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies

The financial statements of the City of Rochester, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Rochester, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1904.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Rochester. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Rochester.

The accompanying financial statements present the primary government and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus blended component units are appropriately presented as funds of the primary government. Discretely presented component units are presented in a separate column in the government-wide financial statements.

The City of Rochester has two component units, the Rochester Economic Development Authority (REDA) and the Destination Medical Center Corporation (DMCC). The REDA was created to account for development allowable only under specific State statutes. The board of directors of the REDA is comprised of City Council members and the REDA directly provides all of its services to the City. There were no activities in the REDA in 2016 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The REDA is reported as a blended component unit. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. The Corporation was established to benefit the City, and more broadly, Olmsted County and the State of Minnesota by researching, preparing, and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center. The DMCC is fiscally dependent on the City as the DMCC is required to have its annual budget approved by the City Council. Also, the City has a financial benefit or burden relationship with the DMCC as it is the beneficiary and sole member of the DMCC and the recipient of all residual assets upon liquidation.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Separate audited financial statements for the year ended December 31, 2016 are available from the DMCC. The DMCC is discretely presented to emphasize its legal separation from the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the primary government (the City) and its component unit (DMCC). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, hotel-motel taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *construction improvement fund* accounts for the financial resources to be used for streets and infrastructure other than that financed by proprietary funds.

The City reports the following major proprietary funds:

The *parking fund* accounts for the operation of the parking enterprise.

The *electric utility fund* accounts for the operations of the City owned electric utility system.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operations of the City owned water reclamation plant.

The *storm water utility fund* accounts for the storm water management services of the City.

Additionally, the City reports the following fund types:

Internal service funds account for insurance, data processing equipment and fleet management services provided to other departments of the City on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the basic financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

2. Cash and investments with escrow agent

Certain resources set aside for repayment of crossover refunding bond payments are classified as cash and investments with escrow agent on the statement of net position because their use is limited by applicable bond covenants.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

3. Receivables, payables, and deferred inflows of resources

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property tax levies are set by the City Council in December of each year and are certified to Olmsted County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures. Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years with interest charges ranging from 5.0% to 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

4. Other Assets

Other Assets includes regulatory assets consisting of bond issue costs and service territory acquisition costs.

5. Inventory

The materials and supplies inventories are valued at the lower of moving average cost or market. Fossil fuel inventories in the Enterprise Funds are valued at the lower of cost on a last-in, first-out basis, or market. Purchases are reported as expenditures when the inventory items are consumed (consumption method).

6. Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The City has two items that qualify for reporting in this category. It is the deferred charge on advance refunding of revenue bonds and deferred outflows from pension activity. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the interest method.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

7. Capital assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	<u>Useful Life in Years</u>
Buildings	10 - 40
Infrastructure	15 - 80
Other Improvements	5 - 40
Machinery and Equipment	2 - 20

8. Utility connection charges

The City enters into utility connection agreements with certain residential property owners that elect to convert to City utilities. Under these agreements, property owners may elect to pay connection charges in full or make payments to the City as special assessments over ten years as reimbursement for City made improvements. Utility connection charges are based on a flat rate per frontage foot and are limited to a maximum amount per lot based on lot size. Revenue from utility connection agreements is recognized when the City enters into agreements with property owners in the government-wide financial statements and as the charges become collectible in the governmental funds of the fund financial statements.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

9. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liabilities only if they have matured, for example, as a result of employee's resignations and retirements.

The City compensates employees upon termination, for 40% of their unused sick leave, after meeting certain qualifications based upon length of service. The compensation is computed at the employee's rate of pay at the time of termination, and is deposited in a healthcare savings plan. The sick leave liability is estimated based on the City's past experience of making termination payments for sick leave.

Unused vacation pay in excess of two times the annual vacation accrual rate expires each December after the last pay date. Under certain conditions vacation pay will be paid upon termination in good standing. Most employees are also allowed to accumulate compensatory overtime up to a maximum of 80 hours per anniversary period. Certain other employees are allowed to accumulate compensatory overtime up to a maximum of 240 hours.

10. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the electric utility fund, bond issuance costs are recorded as a regulatory asset and amortized over the term of the bond issue.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

11. Deferred Inflow of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents receipt of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The City has received advance payments on leases and deferred inflows from pension activity that qualifies for reporting in this category. The lease revenues are being recognized ratably over the lease term.

The Electric Utility is currently constructing a substation to meet the specifications of a large customer. Under the terms of an agreement to build the substation according to those specifications, the customer is making a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and also for substation capacity in excess of current needs. The customer can earn a refund of a portion of the CIAC for excess capacity based on their load requirements over the term from 2018 through 2027. As of December 31, 2016, \$990,039 of the CIAC the customer had made had been recorded as a Deferred Inflow of Resources representing the amount of the potential refund for construction costs related to excess capacity incurred as of that date. Starting in 2018, an annual determination will be made of whether or not the load requirement met the terms defined in the agreement to earn a refund. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. The amount of Deferred Inflow of Resources will be reduced each year through the ten year term, having either been refunded to the customer if load requirement has been met, or recorded as a Contribution in Aid of Construction if not met. The substation was still under construction as of December 31, 2016, and is expected to be in service in May, 2017.

12. Fund equity

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Inflows, Deferred Outflows, and Net Position (continued)

12. Fund equity (continued)

In accordance with Governmental Accounting Standards, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – includes fund balance amounts restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are committed for specific purposes that are internally imposed by the City Council through formal action (resolution) and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The City Council, by resolution, has delegated the power to assign fund balances to the city administrator.

Unassigned – includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts when expenditures are made.

The City Council has formally adopted a fund balance policy for the general fund requiring a minimum unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of fund balance) of 5 months or 42% of annual operating expenditures.

E. Transactions between the City and its Component Unit

The City conducts transactions with its component unit. Significant balances between the City and its component unit are described in footnote 3:D. Also, for the year ended December 31, 2016, the revenues of the DMCC were primarily provided by the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

F. 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.

G. Implementation of New Accounting Principles

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. This statement generally requires investments to be measured at fair value and requires disclosures to be made about fair value measurements including the level of fair value hierarchy and the valuation techniques utilized by the City.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the order and priority of pronouncements and other sources of accounting and financial reporting guidance that governments should apply. This statement did not impact the preparation of these financial statements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. This statement requires the disclosure of information related to tax abatement agreements entered into by the City such as the financial statement impact, amount of taxes the City has promised to forego, and commitments made, under the agreements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No.67, No.68 and No.73*. The objective of this statement is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised during implementation of the three standards listed above. One of the significant changes included in this statement clarifies the presentation of covered payroll in the required supplementary information to reflect the amount of payroll on which contributions made to the pension plan are based.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 1: Summary of Significant Accounting Policies (continued)

G. Implementation of New Accounting Principles (continued)

GASB has approved GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations* and Statement No. 84, *Fiduciary Activities*. When they become effective, application of these standards may restate portions of these financial statements.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General and Special Revenue Funds with the exception of the Community Development Projects Fund and the Minnesota Bio Science Center Fund, which adopt project length budgets.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Funds because effective budgetary control is alternately achieved through general obligation bond indenture provisions. Budgetary control for the Capital Project Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 28, the budget is legally enacted through the passage of a budget resolution.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds

A. Budgetary Information (continued)

4. Any changes to the budget at the functional level must be by formal resolution of the City Council. Generally, budget amendments result in utilization of contingency appropriations and do not alter the total expenditure budget of the City. Monitoring of budgets is maintained at the department level by departments or divisions. However, expenditures in excess of the departmental budget require administrative approval.
5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

B. Deposits and Investments

The City maintains a pooled cash and investment portfolio that is used by substantially all City funds using the pooled deposit and investment concept. This concept provides the City with the ability to maximize earnings on idle fund monies while ensuring the liquidity needs of each fund are met and the integrity of the cash balances of each fund are preserved. This pool is governed by an investment policy established by the City Council.

Investment income derived from the pooled funds is allocated to respective funds on the basis of applicable cash balance participation by each fund.

Deposits

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

B. Deposits and Investments (continued)

Authorized collateral includes certain state or local government obligations and legal investments described in the following paragraphs. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

The City's deposits in banks at December 31, 2016 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

Investment Policy

The City has an adopted investment policy, conforming to all applicable laws of the State of Minnesota, which serves as the guide to the deposit and investment of operating funds which are managed within the City's pooled cash and investment portfolio.

This policy sets forth the City's investment objectives as well as authorized and suitable deposits and investments, and serves as a guide for proper diversification, maturity constraints, internal controls, and performance measurement. The foremost objective of the City's investment program as set forth by the investment policy is preservation of capital and protection of investment principal. Investment decisions are made under the assumption that, except under limited circumstances, all investments within the pooled cash portfolio will be held to maturity.

Separate investment policies or agreements may exist to address proceeds from certain bond issues or debt service funds in accordance with arbitrage rebate requirements.

The City is authorized by Minnesota Statutes to invest idle funds as follows:

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

B. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Under the City's investment policy the City is required to mitigate its exposure to interest rate risk as follows:

- purchasing a combination of shorter term and longer term investments
- reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds
- timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operations
- monitoring the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio
- unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase
- the average weighted maturity of the portfolio should not exceed three (3) years

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2016, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2016 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Commercial Paper	\$ 4,987,100	0.54	A-1	P1
Municipal Bonds	4,996,486	N/A	AA+	Aa2
US Government and Agency Securities:				
Federal Farm Credit Bank	56,659,475	3.48	N/A	N/A
Federal Home Loan Bank	83,839,361	3.55	N/A	N/A
Federal Home Loan Mortgage Corporation	28,465,280	4.20	N/A	N/A
Federal National Mortgage Association	28,436,410	3.31	N/A	N/A
Treasury Note	<u>82,181,075</u>	3.38	N/A	N/A
Sub-total Investments	289,565,187			
Cash and Deposits	<u>25,754,193</u>			
Total	<u>\$ 315,319,380</u>			

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

B. Deposits and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments. The investment policy of the City limits their investment options to those authorized by Minnesota Statute as described on the previous page.

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 56,659,475
Federal Home Loan Bank	Federal Agency Securities	83,839,361
Federal Home Loan Mortgage Corporation	Federal Agency Securities	28,465,280
Federal National Mortgage Association	Federal Agency Securities	28,436,410
Treasury Note	United States Treasury Securities	82,181,075

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2016 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

A reconciliation of cash and investments as shown on the Statement of Net Position:

Cash and cash equivalents	\$ 12,436,832
Investments	263,189,144
Cash and investments with escrow agent	25,115,187
Restricted and reserved cash and investments	<u>14,578,217</u>
Total Cash and Investments	<u><u>\$ 315,319,380</u></u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

B. Deposits and Investments (continued)

Fair Value Measurements

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other meansIf the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

D. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2016 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	City of Rochester	Other	Total
General	\$ 90,566	\$ 632,431	\$ 575,074	\$	\$ 14,502	\$ 1,312,573
Special Revenue	1,151,020	322,374	146,076			1,619,470
Capital Project	2,508,495	7,935,309	839,308			11,283,112
Debt Service			12,763			12,763
Enterprise		1,290	5,179			6,469
Internal Service	842		3,350			4,192
Totals	<u>\$3,750,923</u>	<u>\$ 8,891,404</u>	<u>\$1,581,750</u>	<u>\$</u>	<u>\$ 14,502</u>	<u>\$14,238,579</u>
DMCC	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 298,507</u>	<u>\$</u>	<u>\$ 298,507</u>

Amounts due to other governmental units as of December 31, 2016 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	DMCC	Other	Total
General	\$ 1,700	\$ 255,523	\$ 187,841	\$	\$ 2,888	\$ 447,952
Special Revenue	5,434	35,201	159,315		13,283	213,233
Capital Project		8,968	142,049	298,507		449,524
Debt Service		2,200				2,200
Enterprise		761	51,375			52,136
Internal Service		15,426				15,426
Totals	<u>\$ 7,134</u>	<u>\$ 318,079</u>	<u>\$ 540,580</u>	<u>\$ 298,507</u>	<u>\$ 16,171</u>	<u>\$ 1,180,471</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

E. Restricted, Reserved and Cash and Investments with Escrow Agent

Restricted cash are deposits held for specifically required purposes. Reserved cash are deposits reserved by council action for a particular purpose. Cash and investments with escrow agent are deposits into an irrevocable trust with an escrow agent held for specifically required purposes. Descriptions of the items and balances as of December 31, 2016 are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment	\$ 41,149
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Debt Service Funds

Economic Development Authority Bond	2,870,366
Lodging Tax Revenue Bond	58,546

Enterprise Funds:

Parking Fund:

Bioscience Building Debt Service	114,548
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Electric Fund:

Debt Service Fund	698,421
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Restricted Investments -

Enterprise Funds

Electric Fund:

Debt Service Reserve Accounts	5,001,580
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Cash and Investments with Escrow Agent -

Construction Improvement Fund

Mayo Civic Center Project Account	8,663,973
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Enterprise Funds

Sewer Fund:

Waste Water Debt Service and Refunding Account	22,244,821
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Total

\$ 39,693,404

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

F. Capital Assets

Governmental capital asset activity, including internal service fund capital assets, for the year ended December 31, 2016 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 69,050,651	\$ 4,247,747	\$ 503	\$ 73,297,895
Construction in progress	93,577,780	83,575,653	75,974,045	101,179,388
Total capital assets, not being depreciated	<u>162,628,431</u>	<u>87,823,400</u>	<u>75,974,548</u>	<u>174,477,283</u>
Capital assets, being depreciated:				
Buildings	228,304,437	31,662,339	94,500	259,872,276
Improvements other than buildings	49,349,266	1,056,286		50,405,552
Infrastructure	458,236,054	36,129,078		494,365,132
Machinery and equipment	84,931,790	7,317,194	3,804,096	88,444,888
Total capital assets, being depreciated	<u>820,821,547</u>	<u>76,164,897</u>	<u>3,898,596</u>	<u>893,087,848</u>
Less accumulated depreciation for:				
Buildings	82,140,166	5,936,175	94,500	87,981,841
Improvements other than buildings	22,859,617	1,668,150		24,527,767
Infrastructure	152,179,550	10,259,709		162,439,259
Machinery and equipment	55,392,253	6,486,774	3,692,906	58,186,121
Total accumulated depreciation	<u>312,571,586</u>	<u>24,350,808</u>	<u>3,787,406</u>	<u>333,134,988</u>
Total capital assets, being depreciated, net	<u>508,249,961</u>	<u>51,814,089</u>	<u>111,190</u>	<u>559,952,860</u>
Governmental activities capital assets, net	<u>\$ 670,878,392</u>	<u>\$ 139,637,489</u>	<u>\$ 76,085,738</u>	<u>\$ 734,430,143</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

F. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2016 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 16,532,243	\$ 5,156,968	\$	\$ 21,689,211
Construction in progress	43,781,955	40,053,251	37,983,347	45,851,859
Total capital assets, not being depreciated	<u>60,314,198</u>	<u>45,210,219</u>	<u>37,983,347</u>	<u>67,541,070</u>
Capital assets, being depreciated:				
Buildings and improvements	435,036,426	17,173,571	210,000	451,999,997
Machinery and equipment	463,705,477	37,185,272	990,614	499,900,135
Total capital assets, being depreciated	<u>898,741,903</u>	<u>54,358,843</u>	<u>1,200,614</u>	<u>951,900,132</u>
Less accumulated depreciation for:				
Buildings and improvements	184,861,964	9,299,527	210,000	193,951,491
Machinery and equipment	235,710,375	13,687,669	664,929	248,733,115
Total accumulated depreciation	<u>420,572,339</u>	<u>22,987,196</u>	<u>874,929</u>	<u>442,684,606</u>
Total capital assets, being depreciated, net	<u>478,169,564</u>	<u>31,371,647</u>	<u>325,685</u>	<u>509,215,526</u>
Business-type activities capital assets, net	<u>\$ 538,483,762</u>	<u>\$ 76,581,866</u>	<u>\$ 38,309,032</u>	<u>\$ 576,756,596</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

F. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2016 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 659,758
Public safety	3,039,079
Public works	9,294,469
Airport operations	2,113,119
Transit	1,248,182
Culture	1,200,906
Park and recreation/Mayo Civic Center	3,013,044
Economic development/tourism	742,564
Subtotal	21,311,121
Internal Service Funds:	
Equipment revolving	2,855,714
Information technology	183,973

Total depreciation expense - governmental activities	\$ 24,350,808
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Business-Type Activities:

Parking	\$ 1,235,127
Electric utility	9,392,360
Water utility	2,524,656
Sewer utility	8,469,846
Storm water utility	1,365,207

Total depreciation expense - business type activities	\$ 22,987,196
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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

G. Interfund Balances and Transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The amounts due to and due from other funds as of December 31, 2016, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 800,661	\$ 284,578
Construction improvement		41,515
Subtotal	<u>800,661</u>	<u>326,093</u>
Non-Major Governmental Funds:		
Special Revenue -		
Library		6,793
Municipal recreation system		69,657
Mayo Civic Center	306	36,040
Edward Byrne Memorial JAG		4,232
Airport operations		27,001
Transit		262
Community development projects		3,122
Subtotal	<u>306</u>	<u>147,107</u>
Total Governmental Funds	<u>800,967</u>	<u>473,200</u>
Proprietary Funds:		
Enterprise -		
Parking		280
Electric utility		2,769,873
Water utility	12,707	
Sewer utility	2,202,992	202,555
Storm water utility	<u>471,292</u>	<u>42,050</u>
Total Proprietary Funds	<u>2,686,991</u>	<u>3,014,758</u>
Total All Funds	<u>\$ 3,487,958</u>	<u>\$ 3,487,958</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

G. Interfund Balances and Transfers (continued)

The amounts advanced to and from other funds as of December 31, 2016, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Governmental Funds:		
Construction improvement	\$	\$ 3,317,011
FE Williams Estate	41,764	
Economic Development Authority Bond		2,934,687
Proprietary Fund:		
Parking	2,934,687	
Internal Service Fund:		
Self-Insurance	3,275,247	
Total All Funds	<u>\$ 6,251,698</u>	<u>\$ 6,251,698</u>

Transfers during the year ended December 31, 2016 were as follows:

Funds	Transfers In	Transfers Out
General	<u>\$ 11,980,633</u>	<u>\$ 1,928,726</u>
Capital Project	<u>3,329,096</u>	<u>6,872,243</u>
Other Governmental Funds		
Library		22,446
Municipal Recreation System	53,607	514,035
Mayo Civic Center		56,571
Airport Operations		89,394
Minnesota Bio Science Center		1,122,530
Transit		46,500
Airport Hangar Construction Notes	21,995	
Facility Energy Improvements Loan	566,967	
GO Variable Rate Sales Tax Bond	1,107,004	
Lodging Tax Revenue Bond	3,404,030	
Economic Development Authority Bond	1,122,530	
Subtotal Other Governmental Funds	<u>6,276,133</u>	<u>1,851,476</u>
Subtotal Governmental Funds	21,585,862	10,652,445
Enterprise	414,709	11,850,291
Internal Service	660,940	158,775
Totals	<u>\$ 22,661,511</u>	<u>\$ 22,661,511</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

G. Interfund Balances and Transfers (continued)

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amount provided as subsidies or matching funds for various grant programs, 3) payments in lieu of tax from enterprise funds.

In the government-wide statement of net position, transfers in/out are comprised of:

Governmental Funds:	
Transfer in	\$ 21,585,862
Transfers out	(10,652,445)
Internal Service Funds:	
Transfer in	660,940
Transfers out	(158,775)
Capital assets transferred from Govt- Activities to Business-type activities	<u>(5,604,297)</u>
Government-wide Statement of Activities - Transfers in/out	<u><u>\$ 5,831,285</u></u>

H. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Expenditures under these operating leases for the year ended December 31, 2016 totaled \$605,741.

Following is a schedule, by years, of estimated future minimum rental payments, for the Building Safety department's building rental at Olmsted County's campus, required under operating leases that have remaining non-cancelable lease terms in excess of one year. All scheduled rent increases are intended to cover inflationary increases or decreases in costs.

Years ending December 31:	
2017	\$ 46,095
2018	46,602
2019	47,114
2020	47,633
2021	48,156

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2016, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/16
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 36, Series 2009A	\$ 8,035,000	4.2-6.0%	2033	\$ 6,860,000
General Obligation Lodging Tax Revenue Bonds:				
Bonds, Series 2015A	42,795,000	2.5-5.0%	2035	41,330,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2007A	30,455,000	4.0-4.375%	2026	21,830,000
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	56,340,000
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2026	19,805,000
Revenue Refunding Bonds, Series 2015D	14,156,000	Variable	2026	12,980,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	2.75-5.15%	2036	22,915,000
Direct Pay, Series 2010A - Equipment	425,000	2.75-3.70%	2020	195,000
GO Variable Rate Sales Tax Revenue				
Bonds, Series 2015C	40,432,813	Variable	2025	39,682,813
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	3.0-3.5%	2019	275,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	23,645,000
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	37,010,000
Bonds, Series 2013A	3,960,000	2.0%	2017	815,000
Bonds, Series 2015E	39,970,000	3.0-5.0%	2030	39,970,000
Temporary Subordinate Revenue				
Bonds, Series 2016A	13,350,000	1.90%	2018	13,350,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	8,035,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	5,440,000
Energy Loan Payable	5,715,795	4.10%	2018	1,132,605
Net Pension Liability				144,999,101
Compensated Absences				14,796,992
Post Employment Benefit Obligation				5,369,285
Less: Unamortized premium				23,070,423
Total Long-term Debt				<u>\$ 539,846,219</u>

For governmental activities, compensated absences have been generally liquidated by the general, library, and municipal recreation funds.

The post-employment benefit obligation is generally liquidated by the self-insurance internal service fund.

For governmental activities, the net pension liability has generally been liquidated by the general, library, transit, and municipal recreation funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

In 1997, the City issued Taxable Tax Increment Bonds, District 7 totaling \$2,669,380. These bonds are structured without fixed principal maturities. Payments are equal to the amount of available tax increments received by the City within the six month period preceding each payment date. These bonds are backed by the full faith, credit, and taxing power of the City and are serviced by a Debt Service Fund. In 2009, the City issued \$8,035,000 of Taxable General Obligation Tax Increment Revenue Bonds, Series 2009A. The proceeds of the issue are to assist in the funding of the Minnesota Bio Business Center. The debt is to be repaid using tax increments and lease payments from tenants of the Business Center.

General Obligation Revenue Bonds

General Obligation Revenue Bonds are recorded as liabilities in the Sewer Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Sewer Utility Enterprise Fund and are backed by the full faith, credit and taxing power of the City. In 2012, the Sewer Utility issued \$60,840,000 of General Obligation Waste Water Revenue Crossover Refunding Bonds to refinance the 2004A Waste Water Revenue Bonds. In 2015, the Sewer Utility issued \$19,805,000 of General Obligation Waste Water Revenue Refunding Bonds to refinance the 2007A Waste Water Revenue Bonds and \$14,156,000 of General Obligation Variable Rate Waste Water Revenue Refunding Bonds to refinance the 2007B Variable Rate Demand Revenue Bonds.

Revenue Bonds – Electric Utility

Revenue Bonds are recorded as liabilities in the Electric Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Electric Utility Enterprise Fund.

Revenue Lease Bonds – Economic Development Authority

Revenue Lease Bonds issued in 2007 and 2008 by the Rochester Economic Development Authority (REDA) are payable from lease revenues paid by the City of Rochester to the REDA. The City derives the funds for these payments from subleases of the Bio Science Building that was built, at least partially, with the proceeds of this bond.

Lodging Tax Revenue Bonds

In 2015, the City issued General Obligation Lodging Tax Revenue Bonds. These bonds are backed by the full faith, credit, and taxing power of the City, however, the City does not anticipate the need to levy taxes for repayment of the Series 2015A Bonds. The City will pledge the Lodging Tax Revenues collected for repayment of the bonds, which will be sufficient to pay 105% of the debt service due on the Series 2015A bonds in each year.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt (continued)

Sales Tax Revenue Bonds

In 2015, the City issued General Obligation Sales Tax Revenue Bonds. These bonds are backed by the full faith, credit and taxing power of the City. The City will pledge the Sales Tax Revenues collected for repayment of the Series 2015C bonds.

General Obligation Equipment Certificates of Indebtedness

In 2009, the City issued \$815,000 of General Obligation Equipment Certificates of Indebtedness, Series 2009B. The proceeds of the issue were used to purchase and equip two new fire trucks for the City's Equipment Revolving Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included as part of the totals for governmental activities. The bond is payable from the general tax levy and is backed by the full faith, credit and taxing power of the City.

General Obligation Taxable Build America Bonds

In 2010, the City issued \$26,700,000 of General Obligation Taxable Build America Bonds, Series 2010A. Of the issue, \$26,275,000 was used to construct a combined Public Works/Mass Transit Operations and Maintenance Center and \$425,000 was used to purchase a new fire truck for the City's Equipment Revolving Internal Service Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the totals for governmental activities. General tax levy will provide the resources for the bond repayment. The bonds are backed by the full faith, credit and taxing power of the City. City interest payable on these bonds is reimbursed to the City through a federal grant.

Notes Payable

The airport hangar notes payable are payable from airport hangar rental income.

Energy Loan Payable

In 2006, the City entered into a contract to finance certain energy efficiency improvements in the amount of \$5,715,795. The contract requires semi-annual payments of \$297,810, including interest at 4.1%. The loan matures on September 30, 2018 and is being repaid through the savings in energy costs that the improvements produce.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in compliance with these requirements.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
Taxable Tax Increment Bonds					
District 7, Series 1997	\$ 114,787	\$	\$ 114,787	\$	\$
District 36, Series 2009A	7,110,000		250,000	6,860,000	260,000
GO Lodging Tax Revenue					
Bonds, Series 2015A	42,795,000		1,465,000	41,330,000	940,000
GO Equipment Certificates of Indebtedness,					
Series 2009B	355,000		80,000	275,000	(1) 90,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	23,770,000		855,000	22,915,000	870,000
Direct Pay, Series 2010A - Equipment	240,000		45,000	195,000	(1) 45,000
GO Variable Rate Sales Tax Revenue					
Bonds, Series 2015C	30,427,617	10,005,196	750,000	39,682,813	2,350,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	8,340,000		305,000	8,035,000	320,000
REDA Lease Revenue Bonds, Series 2008	5,645,000		205,000	5,440,000	215,000
Notes Payable:					
Airport Hangar 2006	21,996		21,996		
Municipal Loan Payable:					
Energy Loan	1,665,350		532,745	1,132,605	554,812
Plus: Unamortized Premium on Bonds	3,431,819		293,767	3,138,052	
Other Liabilities:					
Net Pension Liability	47,256,387	73,727,425		120,983,812	
Compensated Absences	10,333,330	6,387,876	5,657,732	11,063,474	6,560,000
Post-Employment Benefit Obligation	4,589,288	1,093,245	313,248	5,369,285	(1)
Governmental Activities Long-term Liabilities	<u>186,095,574</u>	<u>91,213,742</u>	<u>10,889,275</u>	<u>266,420,041</u>	<u>12,204,812</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Bonds, Series 2007A	23,580,000		1,750,000	21,830,000	1,820,000
Revenue Crossover Refunding Series 04A					
Bonds, Series 2012A	60,840,000		4,500,000	56,340,000	4,675,000
Revenue Crossover Refunding					
Bonds, Series 2015B	19,805,000			19,805,000	1,590,000
Revenue Refunding					
Bonds, Series 2015D	14,156,000		1,176,000	12,980,000	1,225,000
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2007C	26,060,000		2,415,000	23,645,000	1,250,000
Series 2013B	37,700,000		690,000	37,010,000	710,000
Series 2013A	1,605,000		790,000	815,000	815,000
Electric Utility Revenue Refunding Bonds-					
Series 2015E	39,970,000			39,970,000	1,160,000
Electric Utility Temp Subordinate Revenue Bonds-					
Series 2016A		13,350,000		13,350,000	
Plus: Unamortized Premium	22,269,416	10,152	2,347,197	19,932,371	
Other Liabilities:					
Net Pension Liability	15,881,892	8,133,397		24,015,289	
Compensated Absences	3,845,212	611,434	723,128	3,733,518	2,089,305
Business-type Activities Long-term Liabilities	<u>265,712,520</u>	<u>22,104,983</u>	<u>14,391,325</u>	<u>273,426,178</u>	<u>15,334,305</u>
Total	<u>\$ 451,808,094</u>	<u>\$ 113,318,725</u>	<u>\$ 25,280,600</u>	<u>\$ 539,846,219</u>	<u>\$ 27,539,117</u>

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt (continued)

The City completed the crossover advance refunding in 2015 to reduce its total debt service payments over the next 14 years by \$8.2 million. The economic gain, reflected as the difference between the present value of the refunded debt requirements and the refunding debt requirements, will be \$6.9 million.

In 2015, the crossover refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,878,134. This difference, reported in the financial statements as a deferred refunding balance, is being amortized and charged to operations over the bond term using the interest method. As of December 31, 2016, the balance totaled \$2,358,771.

On November 17, 2015, electric utility revenue refunding bonds in the amount of \$39.97 million were issued with an average interest rate of 4.11% to advance refund \$42.295 million of outstanding bonds with an average interest rate of 4.57%. The cash flow requirements on the old bonds prior to the advance refunding was \$60,725,925 from 2016 through 2030. The cash flow requirements on the new bonds are \$54,021,746 from 2016 through 2030. The advance refunding resulted in an economic gain of \$5,227,065.

In 2015, the Sewer Utility issued \$19.8 million in Crossover Refunding Revenue Bonds, Series 2015B, to be used for a crossover refunding of the outstanding Series 2007A bonds, which were issued to fund the treatment plant expansion. The net proceeds of \$23 million (after payment of issuance costs) were used to purchase securities of the U.S. Government. Those securities were deposited into an irrevocable trust with an escrow agent to provide for three years of interest payments on the Series 2015B Bonds and the 2016-2026 maturities of the Series 2007A Bonds.

On April 19, 2016, an Electric Utility Temporary Subordinate Revenue Bond was issued in the amount of \$25,000,000 in the form of a credit facility, or tax-exempt draw-down loan with U.S. Bank, at an average rate of 1.00%. The purpose of this borrowing was to provide temporary financing for the Westside Energy Station until permanent financing could be obtained. When that occurs, the amount drawn down at that date will be rolled into the permanent borrowing. As of December 31, 2016, \$13,350,000 has been drawn down on the loan.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

I. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2016, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue		Revenue Bonds		Energy Loan Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2017	\$ 4,555,000	\$ 3,052,640	\$ 535,000	\$ 621,286	\$ 554,812	\$ 40,808
2018	4,765,000	2,962,710	560,000	595,532	577,793	17,827
2019	5,080,000	2,858,744	585,000	568,601		
2020	5,220,000	2,741,781	615,000	540,376		
2021	5,420,000	2,618,149	645,000	510,741		
2022-2026	44,022,813	10,967,709	3,695,000	2,059,546		
2027-2031	21,535,000	6,834,571	4,660,000	1,080,283		
2032-2036	20,660,000	1,963,589	2,180,000	103,724		
Totals	<u>\$ 111,257,813</u>	<u>\$ 33,999,893</u>	<u>\$ 13,475,000</u>	<u>\$ 6,080,089</u>	<u>\$ 1,132,605</u>	<u>\$ 58,635</u>
	General Obligation Revenue Bonds		Utility Revenue Bonds			
	Principal	Interest	Principal	Interest		
<u>Business-Type Activities</u>						
2017	\$ 9,310,000	\$ 4,485,100	\$ 3,935,000	\$ 4,529,542		
2018	9,725,000	4,092,425	17,655,000	4,292,450		
2019	10,090,000	3,681,700	4,510,000	4,084,550		
2020	10,550,000	3,246,938	4,730,000	3,869,363		
2021	10,975,000	2,791,650	4,950,000	3,647,212		
2022-2026	60,305,000	6,585,594	28,345,000	14,664,688		
2027-2031			28,575,000	8,279,637		
2032-2036			7,860,000	4,391,500		
2037-2041			9,670,000	2,578,350		
2042-2043			4,560,000	344,750		
Totals	<u>\$ 110,955,000</u>	<u>\$ 24,883,407</u>	<u>\$ 114,790,000</u>	<u>\$ 50,682,042</u>		

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2016, the City had not utilized \$171,896,740 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$2,591,198,559 and the balance outstanding at December 31, 2016 totals \$2,259,991,918.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

J. Other Post-Employment Benefits

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2017 there were approximately 45 retirees participating in the City's group health plan.

The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute. As of January 1, 2017 there were 5 disabled police and fire fighters receiving the benefit.

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for 2016, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,085,717
Interest on net OPEB obligations	206,518
Adjustment to ARC	<u>(198,990)</u>
Annual OPEB Cost	1,093,245
Contributions during the year	<u>(313,248)</u>
Increase in net OPEB obligation	779,997
Net OPEB beginning of year	<u>4,589,288</u>
Net OPEB end of year	<u><u>\$ 5,369,285</u></u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 3: Detailed Notes on All Funds (continued)

J. Other Post-Employment Benefits (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2014	\$ 867,526	\$ 3,197,806	\$ 279,959	32.27%	\$ 3,785,373
December 31, 2015	1,048,821	3,785,373	244,906	23.35%	4,589,288
December 31, 2016	1,093,245	4,589,288	313,248	28.65%	5,369,285

The City has not funded the post-employment liability and therefore the actuarial value of assets is zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2014		\$ 7,351,265	\$ 7,351,265	0.00%	\$ 61,870,053	11.88%
1/1/2015		7,938,311	7,938,311	0.00%	62,339,039	12.73%
1/1/2016		8,709,145	8,709,145	0.00%	64,676,753	13.47%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress included in the supplementary information is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

J. Other Post-Employment Benefits (continued)

In the January 1, 2017 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using underlying long-term inflation assumption of 3% and a 3.5% annual increase in covered payroll. The annual healthcare cost trend rate is 8.0% initially, reduced incrementally to an ultimate rate of 5% after nine years. The unfunded actuarial accrued liability is being amortized as a percent of payroll over a 30-year closed amortization period. The average remaining amortization period at December 31, 2016, was 25 years.

K. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2016 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 96,986	\$	\$ 2,419	\$ 99,405
Inventory	797,109		51,229	848,338
Total Nonspendable	<u>894,095</u>		<u>53,648</u>	<u>947,743</u>
<u>Restricted for:</u>				
Civic music endowment	41,149			41,149
Flood control		20,355,559		20,355,559
Economic development loans		329,856		329,856
Park and recreation		110,581		110,581
Tax increment financing		3,738,176		3,738,176
Sales tax authorized projects		15,773,743		15,773,743
Airport operations			1,961,149	1,961,149
Children's playgrounds			667,065	667,065
Debt service			1,677,095	1,677,095
Total Restricted	<u>41,149</u>	<u>40,307,915</u>	<u>4,305,309</u>	<u>44,654,373</u>
<u>Committed to:</u>				
Capital improvement projects		58,790,608		58,790,608
Total Committed		<u>58,790,608</u>		<u>58,790,608</u>
<u>Assigned to:</u>				
Subsequent years budgets	332,412			332,412
Encumbrances	628,483			628,483
Library operations			2,721,455	2,721,455
Parks and recreation			3,286,785	3,286,785
Mayo Civic Center			681,152	681,152
Transit			2,272,069	2,272,069
Minnesota Bio Science Center			908,915	908,915
Total Assigned	<u>960,895</u>		<u>9,870,376</u>	<u>10,831,271</u>
<u>Unassigned</u>	<u>31,745,754</u>		<u>(4,432)</u>	<u>31,741,322</u>
Total Fund Balances	<u>\$ 33,641,893</u>	<u>\$ 99,098,523</u>	<u>\$ 14,224,901</u>	<u>\$ 146,965,317</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2016 for which performance is expected in the subsequent years. Such encumbrances are included in assigned fund balance of the general fund.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: Detailed Notes on All Funds (continued)

L. Restricted Net Position

Governmental Activities	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 41,149	\$	\$
Construction Improvement Fund:				
Flood Control				20,355,559
Economic Development Loans	329,856			
Park and Recreation		110,581		
Tax Increment Financing				3,738,176
Sales Tax Authorized Projects				15,773,743
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	667,065			
CDBG Loans	3,516,898			
Airport Operations				1,961,149
Debt Service Funds:				
Debt Service			1,677,095	
Total Governmental Restricted Net Position	<u>4,513,819</u>	<u>151,730</u>	<u>1,677,095</u>	<u>41,828,627</u>
Business-Type Activities				
Debt Service			327,917	
Total Government Wide Restricted Net Position	<u>\$ 4,513,819</u>	<u>\$ 151,730</u>	<u>\$ 2,005,012</u>	<u>\$ 41,828,627</u>

M. Deficit Fund Balance

Special Revenue Fund:			
Edward Byrne Memorial Justice Assistance Grant Fund		\$	4,232
Debt Service Fund:			
Tax Increment Bonds			200

The City intends to fund this accumulated deficit through additional revenue sources.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 4: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal years.

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$275,000 per group health claim (with a variable annual aggregate) and \$940,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$3,434,712 reported in the Fund at December 31, 2016 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling claims, including specific and incremental expenses, salvage, and subrogation. The claim liability does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount during the years ended December 31, 2016 and 2015 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2016	\$ 2,323,697	\$ 17,421,547	\$ (16,310,532)	\$ 3,434,712
2015	1,831,532	15,729,208	(15,237,043)	2,323,697

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

B. Commitments

Power Sales Agreement

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

Service Territory Settlements

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 13.49 mills (tenths of a cent) per kWh to 16.46 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

Southern Minnesota Municipal Power Agency

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,230,780,640 and 1,220,607,409 kilowatt hours totaling \$91,687,490 and \$85,873,398 from SMMPA during the years ended December 31, 2016 and 2015, respectively.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

B. Commitments (continued)

Westside Energy Station

Construction of the Westside Energy Station began in October 2016. It is comprised of five 9,600KW Wärtsilä reciprocating gas engines with a total capacity of 48MW at an approximate cost of \$75 million. The quick responding, highly efficient natural gas powered generating station will provide for future capacity needs and support system reliability. As more intermittent renewable generation is added to the regional grid, quick responding generating units such as this are critical to ensure grid stability. Work prior to construction included acquiring the necessary permits, purchasing the engines, executing an engineer, procure, and construct (EPC) contract with Westside Energy Partners (a collaboration between Sargent & Lundy and Boldt Construction), and performing detailed design. The anticipated in-service date for the plant is spring of 2018.

The contract purchase price for the Wärtsilä engines was \$22,516,646 USD, of which \$18,731,184 USD was denominated in Euro's. After making an initial deposit of \$1,404,839 USD on the Euro-denominated portion of the purchase price, RPU was exposed to foreign exchange risk on the remaining \$17,326,345 USD from December 28, 2015, the date the contract was executed, until August 31, 2016, the date RPU gave Wärtsilä notice to proceed with construction after RPU had obtained the necessary permits.

In order to limit and manage the foreign exchange risk and overall purchase costs of the Wärtsilä engine purchase, RPU entered into two forward contracts to mitigate the Euro US Dollar exchange rate risk as follows:

		<u>USD</u>	<u>Exchange Rate</u>	<u>Euro's</u>
2/18/2016	Forward Contract dated 3/1/2017 to Purchase Euro's	\$ (17,000,000)	@ 1.1274	15,078,943
8/31/2016	Forward Contract dated 3/1/2017 to Sell Euro's	16,926,114	@ 1.1225	(15,078,943)
12/28/2015	Euro Denominated portion of Wärtsilä contract	17,326,345	@ 1.1266	15,379,323
8/31/2016	Euro Denominated portion of Wärtsilä contract	<u>(17,175,628)</u>	@ 1.1168	(15,379,323)
	Gain	76,831		
	Transaction Costs	<u>(20,356)</u>		
	Net Gain	<u>\$ 56,475</u>		

The two forward contracts were abated on September 14, 2016. The gain is included as part of the engine purchase.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

B. Commitments (continued)

Purchase Commitments/Encumbrances:

The City has active construction projects and equipment purchase commitments. As of December 31, 2016, the City's commitments with contractors and vendors were as follows:

	<u>Remaining Commitment</u>
Construction Projects	
Major Street Projects	\$ 5,298,377
Sewer and Water Projects	315,574
Sidewalk Projects	1,337,235
Traffic Projects	433,637
Bridge Projects	106,185
Storm Water / Storm Sewer Projects	39,523
Parking Ramp Rehabilitation	237,364
Airport Projects	12,575,618
Civic Center Improvements	8,569,554
Recreation Center	2,218,494
Parks Projects - Various	1,141,321
Destination Medical Center	20,136
Electric Projects	54,558,795
Water Projects	186,189
Total Construction Projects	\$ 87,038,002
Equipment Purchase Commitments	
Police Precinct #2-Server, Video Equip, Licenses	\$ 12,151
Adobe Acrobat Standard	607
GIS Work Management Software	71,161
LEC Electronic Citation System	258,503
City-Wide Network Fiber	11,932
Park & Rec Management Software	10,000
Transit Vehicle Location System	319,339
Buses	4,948,447
Total Equipment Purchase Commitments	\$ 5,632,140
General Fund Encumbrances	
*General Fund Equipment Purchase Commitments	\$ 628,483
Total General Fund Encumbrances	\$ 628,483

*See additional disclosures regarding encumbrances in footnote 3:K.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

C. Contingent Liabilities

General Litigation:

There are several pending lawsuits in which the City is involved. It is the opinion of management that substantially all of these claims would be covered by the liability insurance of the City and that potential claims against the City would not materially affect the financial statements.

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Neighborhood Stabilization Program, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2016, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is generally not available to employees until termination, retirement, death, or unforeseeable emergency.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans 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.

1. General Employees Retirement Fund (General Employees Plan (accounted for in the General Employees Fund)) All full-time and certain part-time employees of the City of Rochester, Minnesota are covered by the General Employees Plan. General Employee Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (Police and Fire Plan (accounted for in the Police and Fire Fund)) The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Contributions

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

1. General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$3,383,825. The City's contributions were equal to the required contributions as set by state statute.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2016. The City's was required to contribute 16.20 percent of pay for members in calendar year 2016. The City's contributions to the Police and Fire Fund for the year ended December 31, 2016, were \$3,342,831. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$59,036,914 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$771,048. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.7271 percent which was a decrease of 0.0139 percent from its proportion measured at June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$8,002,633 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$229,906 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Fund Pension Costs (continued)

At December 31, 2016, the City reported its 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>
Differences between expected and actual economic experience	\$	\$ 4,820,082
Changes in actuarial assumptions	11,559,479	
Difference between projected and actual investment earnings	11,256,605	
Changes in proportion		2,240,773
Contributions paid to PERA subsequent to the measurement date	<u>1,883,195</u>	
Total	<u>\$ 24,699,279</u>	<u>\$ 7,060,855</u>

\$1,883,195 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 4,042,361
2018	4,042,360
2019	5,537,986
2020	2,132,522

2. Police and Fire Fund Pension Costs

At December 31, 2016, the City reported a liability of \$85,962,187 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 2.142 percent which was a decrease of 0.035 percent from its proportion measured at June 30, 2015.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

2. Police and Fire Fund Pension Costs (continued)

For the year ended December 31, 2016, the City recognized pension expense of \$14,550,685 for its proportionate share of the Police and Fire Fund's pension expense. The City also recognized \$192,780 for the year ended December 31, 2016 as pension expense (and offsetting reduction of net pension liability) for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 9,913,082
Changes in actuarial assumptions	47,308,748	
Difference between projected and actual investment earnings	13,170,400	
Changes in proportion		208,997
Contributions paid to PERA subsequent to the measurement date	1,905,407	
Total	\$ 62,384,555	\$ 10,122,079

\$1,905,407 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	\$ 10,844,964
2018	10,844,964
2019	10,844,963
2020	9,767,514
2021	8,054,664

The total pension expense for all plans recognized by the City for the year ended December 31, 2016, was \$22,553,318.

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2016**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%	Per year
Active Member Payroll Growth	3.25%	Per year
Investment Rate of Return	7.50%	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

There following changes in actuarial assumptions occurred in 2016:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future 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 2.50% for inflation.

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rate specified in Minnesota Statutes. Based on that assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Liability Sensitivity

The following presents the City'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 what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 83,849,914	\$ 59,036,914	\$ 38,597,754
	4.60%	5.60%	6.60%
City's proportionate share of the PEPFF net pension liability	120,335,654	85,962,187	57,876,454
Total Net Pension Liability	\$ 204,185,568	\$ 144,999,101	\$ 96,474,208

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.mnpera.org.

NOTE 5: Accounting for the Effects of Rate Regulation

The Electric and Water funds are subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements*. In order for a rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the criteria as outlined by the Statement. Based upon the Utilities' management evaluation of the criteria in relation to its operations, and the effect of competition on its ability to recover its costs, the Electric and Water funds believe that GASB Statement No. 62 continues to apply.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: Tax Abatement Agreements

As of December 31, 2016, the City only provides tax abatements through Pay-as-You-Go (PAYG) Tax Increment Financing (TIF) District agreements under Minnesota Statutes, Sections 469.174 through 469.179. The PAYG TIF Districts in the City pay a developer up to 95% of the previous six months tax increment collected in order to assist with funding a development project. As of December 31, 2016, the City had ten said Districts in which \$1,004,824 of tax revenue was paid out to developers under these agreements.

NOTE 7: Subsequent Events

On February 15, 2017, the Electric Utility issued Revenue and Refunding Bonds (Series 2017A) in the amount of \$108,255,000. The proceeds of the Bonds, along with other available funds, will be used to finance additional Electric Utility capital improvements including without limitation the Westside Energy Station, a portion of RPU's percentage interest in the CapX2020 Hampton to Rochester to La Crosse transmission line project, improvements to the Lake Zumbro Hydroelectric facility, expansion of the 4000 East River Road NE service center, refund the City's Temporary Subordinate Electric Utility Revenue Bond, Series 2016A which was previously issued to finance the initial stages of construction of the Westside Energy Station, currently refund the outstanding portion of the Series 2007C Bonds, fund certain debt reserves, and fund the costs of issuance. The total amount of debt refunded was \$44,495,000, of which \$20,850,000 was the balance on the Series 2016A Bond and \$23,645,000 was the outstanding portion of the Series 2007C Bonds.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

CITY OF ROCHESTER, MINNESOTA
Schedules of Pension Contributions
December 31, 2016

PERA General Employees Retirement Fund
Last Ten Years*

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll** (d)	Contributions as a Percentage of Covered Payroll (b/d)
2015	\$ 3,212,117	\$ 3,212,117	\$	\$ 42,828,227	7.5%
2016	3,383,825	3,383,825		45,117,667	7.5%

PERA Public Employees Police and Fire Fund Pension Plan
Last Ten Years*

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll** (d)	Contributions as a Percentage of Covered Payroll (b/d)
2015	\$ 3,140,595	\$ 3,140,595	\$	\$ 19,386,389	16.2%
2016	3,342,831	3,342,831		20,634,759	16.2%

* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**For purposes of this schedule, covered payroll is defined as "pensionable wages."

CITY OF ROCHESTER, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2016

PERA General Employees Retirement Fund
Last Ten Years*

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll** (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.7410%	\$ 38,402,466	\$ 46,112,718	83.3%	78.2%
2016	0.7271%	59,036,914	43,972,947	134.3%	68.9%

PERA Public Employees Police and Fire Fund Pension Plan
Last Ten Years*

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll** (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.177%	\$ 24,735,814	\$ 20,924,808	118.2%	86.6%
2016	2.142%	85,962,187	20,010,574	429.6%	63.9%

* This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

**For purposes of this schedule, covered payroll is defined as "pensionable wages."

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2014	\$	\$ 7,351,265	\$ 7,351,265	0.00%	\$ 61,870,053	11.88%
1/1/2015		7,938,311	7,938,311	0.00%	62,339,039	12.73%
1/1/2016		8,709,145	8,709,145	0.00%	64,676,753	13.47%

See Note 3J, Post-Employment Benefits, for more information.

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2016

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2016

SPECIAL REVENUE FUNDS

Library Fund:

The Library Fund was established in 1968 by Council resolution to account for all gifts, donations and contributions, all fees and such other monies collected from the operation of the Library and all taxes levied by the Common Council for Library purposes.

Municipal Recreation System Fund:

This fund was created by Council resolution, under the authority of City Charter Chapter XI to account for the activities of the Park and Recreation System.

Mayo Civic Center Fund:

This fund was created by Council resolution, under the authority of City Charter Chapter XI to account for the activities of the Mayo Civic Center.

Edward Byrne Memorial JAG Fund:

This fund was established in 1996, as required by the Department of Justice, to account for grant revenues and eligible expenditures.

Airport Operations Fund:

This fund was established in 1998 by Council resolution to account for the revenues and expenditures of the Rochester International Airport operations.

The F.E. Williams Estate Fund:

This fund was established to account for the gift of property made by Mr. Frank E. Williams to be used "for the acquiring of or the support of, or the maintenance of a playground or playgrounds, for children under 15 years of age."

Transit Fund: This fund was established to account for the financial resources received for the support of regular route, dial-a-ride and rideshare services.

Minnesota Bio Science Center Fund: This fund was established to account for collection of lease payments of the Bio Business Center building.

Community Development Projects Fund:

This fund was established to account for the financial resources received under Title I of the Housing and Community Development Act of 1974.

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2016

DEBT SERVICE FUNDS

Tax Increment Bonds Fund:

These funds are used to account for the accumulation of resources (tax increment revenue) for payment of tax increment general obligation bonds and interest.

Airport Hangar Construction Notes Fund:

These funds are used to account for the accumulation of resources (hangar rental income) for payment of airport hangar construction notes.

Facility Energy Improvements Loan Fund:

This fund is used to account for the resources provided in the annual appropriations for operating departments to repay the amount borrowed under an energy improvement loan to fund facility energy improvements.

Economic Development Authority Bond Fund:

This fund is used to account for the accumulation of resources (transfers from the City of Rochester of sublease revenues) for payment of the 2007 Revenue Lease Bond issued by the Rochester Economic Development Authority.

Public Works and Transit Operation Center Bond Fund:

This fund is used to account for the accumulation of resources for payment of the taxable general obligation Series 2010A Build America Bonds.

Lodging Tax Revenue Bond Fund:

These funds are used to account for the accumulation of resources (lodging tax revenue) for payment of lodging tax general obligation bonds and interest.

GO Variable Rate Sales Tax Bond Fund:

These funds are used to account for the accumulation of resources (sales tax revenue) for payment of sales tax general obligation bonds and interest.

CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2016

	Special Revenue							Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
ASSETS								
Cash and cash equivalents	\$ 23,388		\$ 208,182		\$ 6,862	\$ 4,807	\$ 6,979	
Investments	2,887,600	3,272,602	558,700		880,500	618,700	1,335,900	798,465
Accrued interest receivable	8,607	10,391	1,630		2,611	1,794	3,958	3,189
Accounts receivable (net of allowance for uncollectibles)	697	1,028,171	152,277		1,343,763		12,528	107,665
Loans receivable								
Taxes receivable delinquent	51,327	55,704			3,094		934	
Special assessments receivable delinquent		64,036						
Due from other funds			306					
Advances to other funds						41,764		
Due from other governmental units	47,417	150,352	264,137		36,600		1,052,411	
Prepaid items	2,419							
Restricted cash and investments Inventory		5,180	24,025				22,024	
TOTAL ASSETS	\$ 3,021,455	\$ 4,586,436	\$ 1,209,257	\$	\$ 2,273,430	\$ 667,065	\$ 2,434,734	\$ 909,319
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 44,621	\$ 194,204	\$ 121,760		\$ 59,752		\$ 106,118	
Deposits payable	6,817	694,802	200,272		217,000			
Accrued compensation and payroll taxes	171,294	167,805	65,147				5,917	
Due to other funds	6,793	69,657	36,040	4,232	27,001		262	
Advances from other funds								
Unearned revenue		2,405	2,290					
Due to other governmental units	16,729	45,858	78,571		5,434		27,410	404
Total Liabilities	246,254	1,174,731	504,080	4,232	309,187		139,707	404
Deferred Inflows of Resources:								
Unavailable revenue								
Property taxes	51,327	55,704			3,094		934	
Special assessments		64,036						
Loans receivable								
Total Deferred Inflows of Resources	51,327	119,740			3,094		934	
Fund Balance:								
Nonspendable	2,419	5,180	24,025				22,024	
Restricted					1,961,149	667,065		
Assigned	2,721,455	3,286,785	681,152				2,272,069	908,915
Unassigned				(4,232)				
Total Fund Balance	2,723,874	3,291,965	705,177	(4,232)	1,961,149	667,065	2,294,093	908,915
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 3,021,455	\$ 4,586,436	\$ 1,209,257	\$	\$ 2,273,430	\$ 667,065	\$ 2,434,734	\$ 909,319

Community Development Projects	Total	Debt Service							Total	Total Nonmajor Governmental Funds
		Tax Increment Bonds	Airport Hangar Construction Notes	Facility Improvements Loan	Energy	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond		
\$	\$ 250,218	\$	\$ 2,200	\$ 104,592	\$ 64,465	\$ 1,497,005	\$	\$	\$ 1,668,262	\$ 1,918,480
	10,352,467									10,352,467
	32,180			282		4,040		120	4,442	36,622
	2,645,101									2,645,101
3,516,898	3,516,898									3,516,898
	111,059					13,585			13,585	124,644
	64,036									64,036
	306									306
	41,764									41,764
68,553	1,619,470					12,763			12,763	1,632,233
	2,419									2,419
	51,229				2,870,366		58,546		2,928,912	2,928,912
										51,229
<u>\$ 3,585,451</u>	<u>\$ 18,687,147</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 104,874</u>	<u>\$ 2,934,831</u>	<u>\$ 1,527,393</u>	<u>\$ 58,546</u>	<u>\$ 120</u>	<u>\$ 4,627,964</u>	<u>\$ 23,315,111</u>
\$ 26,604	\$ 553,059	\$ 200	\$	\$	\$	\$ 197	\$ 200	\$	\$ 597	\$ 553,656
	1,118,891									1,118,891
	410,163									410,163
3,122	147,107									147,107
	4,695				2,934,687				2,934,687	2,934,687
38,827	213,233		2,200						2,200	215,433
<u>68,553</u>	<u>2,447,148</u>	<u>200</u>	<u>2,200</u>		<u>2,934,687</u>	<u>197</u>	<u>200</u>		<u>2,937,484</u>	<u>5,384,632</u>
	111,059						13,585		13,585	124,644
	64,036									64,036
3,516,898	3,516,898									3,516,898
<u>3,516,898</u>	<u>3,691,993</u>						<u>13,585</u>		<u>13,585</u>	<u>3,705,578</u>
	53,648									53,648
	2,628,214			104,874	144	1,513,611	58,346	120	1,677,095	4,305,309
	9,870,376									9,870,376
	(4,232)	(200)							(200)	(4,432)
	<u>12,548,006</u>	<u>(200)</u>		<u>104,874</u>	<u>144</u>	<u>1,513,611</u>	<u>58,346</u>	<u>120</u>	<u>1,676,895</u>	<u>14,224,901</u>
<u>\$ 3,585,451</u>	<u>\$ 18,687,147</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 104,874</u>	<u>\$ 2,934,831</u>	<u>\$ 1,527,393</u>	<u>\$ 58,546</u>	<u>\$ 120</u>	<u>\$ 4,627,964</u>	<u>\$ 23,315,111</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Special Revenue							Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F. E. Williams Estate	Transit	
REVENUES								
General property taxes	\$ 5,918,921	\$ 6,507,101	\$ 4,580	\$	\$ 405,108	\$	\$ 1,162	\$
Tax increments								
Nonproperty tax			1,540,541					
Intergovernmental revenues	964,986	113,656		18,473	427,951		5,809,726	
Charges for services	168,373	4,132,686	2,648,582		1,924,347		2,520,680	
Interest earnings	17,110	18,268	3,545		9,026	7,480	16,607	6,200
Net increase (decrease) in the fair value of investments	(3,000)	(3,800)	(2,600)		(3,800)	(600)	(3,400)	(2,600)
Rental revenues					1,677,747			2,497,575
Miscellaneous revenues	280,079	139,232	23,444		7,135		105,606	
Total Revenues	7,346,469	10,907,143	4,218,092	18,473	4,447,514	6,880	8,450,381	2,501,175
EXPENDITURES								
Culture	7,184,711							
Park and recreation/Mayo Civic Center		9,966,838	3,971,019					
Public safety				22,705				
Airport operations					3,509,338			
Transit							7,498,056	
Economic development/tourism								1,377,314
Debt service								
Total Expenditures	7,184,711	9,966,838	3,971,019	22,705	3,509,338		7,498,056	1,377,314
Excess (deficiency) of revenues over (under) expenditures	161,758	940,305	247,073	(4,232)	938,176	6,880	952,325	1,123,861
OTHER FINANCING SOURCES (USES)								
Issuance of debt								
Transfers in		53,607						
Transfers out	(22,446)	(514,035)	(56,571)		(89,394)		(46,500)	(1,122,530)
Total Other Financing Sources (Uses)	(22,446)	(460,428)	(56,571)		(89,394)		(46,500)	(1,122,530)
Net change in fund balances	139,312	479,877	190,502	(4,232)	848,782	6,880	905,825	1,331
Fund Balances - beginning	2,584,562	2,812,088	514,675		1,112,367	660,185	1,388,268	907,584
Fund Balances - ending	\$ 2,723,874	\$ 3,291,965	\$ 705,177	\$ (4,232)	\$ 1,961,149	\$ 667,065	\$ 2,294,093	\$ 908,915

Community Development Projects	Debt Service									Total Nonmajor Governmental Funds
	Total	Tax Increment Bonds	Airport Hangar Construction Notes	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond	Total	
\$	\$12,836,872	\$ 752,088	\$	\$	\$	\$ 1,651,691	\$	\$	\$ 1,651,691	\$14,488,563
	1,540,541								752,088	752,088
607,140	7,941,932					335,307			335,307	8,277,239
2,934	11,394,668			859	21,881	6,693	474	254	30,161	11,394,668
	81,170									111,331
	(19,800)									(19,800)
	4,175,322									4,175,322
163,293	718,789									718,789
773,367	38,669,494	752,088		859	21,881	1,993,691	474	254	2,769,247	41,438,741
	7,184,711									7,184,711
	13,937,857									13,937,857
	22,705									22,705
	3,509,338									3,509,338
	7,498,056									7,498,056
773,367	2,150,681									2,150,681
		752,288	24,195	595,619	1,152,487	1,883,314	3,404,430	1,191,321	9,003,654	9,003,654
773,367	34,303,348	752,288	24,195	595,619	1,152,487	1,883,314	3,404,430	1,191,321	9,003,654	43,307,002
	4,366,146	(200)	(24,195)	(594,760)	(1,130,606)	110,377	(3,403,956)	(1,191,067)	(6,234,407)	(1,868,261)
	53,607		21,995	566,967	1,122,530		3,404,030	84,183	84,183	84,183
	(1,851,476)							1,107,004	6,222,526	6,276,133
	(1,797,869)		21,995	566,967	1,122,530		3,404,030	1,191,187	6,306,709	4,508,840
	2,568,277	(200)	(2,200)	(27,793)	(8,076)	110,377	74	120	72,302	2,640,579
	9,979,729		2,200	132,667	8,220	1,403,234	58,272		1,604,593	11,584,322
\$	\$12,548,006	\$ (200)	\$	\$ 104,874	\$ 144	\$ 1,513,611	\$ 58,346	\$ 120	\$ 1,676,895	\$14,224,901

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 5,930,094	\$ 5,930,094	\$ 5,918,921	\$ (11,173)
Intergovernmental	925,528	964,986	964,986	
Charges for services	169,150	169,150	168,373	(777)
Interest earnings	10,000	15,151	17,110	1,959
Net decrease in the fair value of investments	(3,000)	(3,000)	(3,000)	
Miscellaneous revenues				
Contributions		278,558	278,558	
Other	1,300	1,300	1,521	221
Total Revenues	<u>7,033,072</u>	<u>7,356,239</u>	<u>7,346,469</u>	<u>(9,770)</u>
EXPENDITURES				
Public Library	7,022,554	7,040,931	6,901,238	139,693
Gifts appropriations		984,821	283,473	701,348
Total Expenditures	<u>7,022,554</u>	<u>8,025,752</u>	<u>7,184,711</u>	<u>841,041</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,518</u>	<u>(669,513)</u>	<u>161,758</u>	<u>831,271</u>
OTHER FINANCING USES				
Transfers out	<u>(22,446)</u>	<u>(22,446)</u>	<u>(22,446)</u>	
Total Other Financing Uses	<u>(22,446)</u>	<u>(22,446)</u>	<u>(22,446)</u>	
Net change in fund balance	(11,928)	(691,959)	139,312	831,271
Fund Balance - beginning	<u>2,584,562</u>	<u>2,584,562</u>	<u>2,584,562</u>	
Fund Balance - ending	<u>\$ 2,572,634</u>	<u>\$ 1,892,603</u>	<u>\$ 2,723,874</u>	<u>\$ 831,271</u>

CITY OF ROCHESTER, MINNESOTA
MUNICIPAL RECREATION SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,520,632	\$ 6,520,632	\$ 6,507,101	\$ (13,531)
Intergovernmental	57,816	76,066	113,656	37,590
Charges for services	3,860,030	3,885,486	4,132,686	247,200
Interest earnings	2,700	2,700	18,268	15,568
Net decrease in the fair value of investments	(300)	(300)	(3,800)	(3,500)
Miscellaneous revenues				
Contributions	18,000	19,172	9,775	(9,397)
Other	90,800	93,478	129,457	35,979
Total Revenues	<u>10,549,678</u>	<u>10,597,234</u>	<u>10,907,143</u>	<u>309,909</u>
EXPENDITURES				
Administration	502,113	502,113	508,072	(5,959)
Recreation Department	670,643	707,573	612,077	95,496
Golf	1,487,654	1,521,533	1,462,593	58,940
Tennis Center	45,175	45,175	45,046	129
Volleyball Center	332,658	332,658	323,130	9,528
Swimming Pools	216,532	216,532	115,304	101,228
Graham Arenas	709,317	709,317	768,097	(58,780)
Park	4,882,057	4,979,320	4,795,137	184,183
Plummer House	82,941	82,941	78,295	4,646
Recreation Center	1,369,856	1,369,856	1,259,087	110,769
Total Expenditures	<u>10,298,946</u>	<u>10,467,018</u>	<u>9,966,838</u>	<u>500,180</u>
Excess of revenues over expenditures	<u>250,732</u>	<u>130,216</u>	<u>940,305</u>	<u>810,089</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		46,938	53,607	6,669
Transfers out	(250,732)	(452,647)	(514,035)	(61,388)
Total Other Financing Sources (Uses)	<u>(250,732)</u>	<u>(405,709)</u>	<u>(460,428)</u>	<u>(54,719)</u>
Net change in fund balance		(275,493)	479,877	755,370
Fund Balance - beginning	<u>2,812,088</u>	<u>2,812,088</u>	<u>2,812,088</u>	
Fund Balance - ending	<u>\$ 2,812,088</u>	<u>\$ 2,536,595</u>	<u>\$ 3,291,965</u>	<u>\$ 755,370</u>

**CITY OF ROCHESTER, MINNESOTA
MAYO CIVIC CENTER
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2016**

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 4,580	\$ 4,580	\$ 4,580	\$
Nonproperty taxes	1,463,616	1,464,466	1,540,541	76,075
Charges for services	2,621,139	2,621,139	2,648,582	27,443
Interest earnings	(2,250)	(2,250)	3,545	5,795
Net decrease in the fair value of investments			(2,600)	(2,600)
Other	21,700	21,700	23,444	1,744
Total Revenues	<u>4,108,785</u>	<u>4,109,635</u>	<u>4,218,092</u>	<u>108,457</u>
EXPENDITURES				
Mayo Civic Center	<u>4,067,383</u>	<u>4,072,318</u>	<u>3,971,019</u>	<u>101,299</u>
Excess of revenues over expenditures	<u>41,402</u>	<u>37,317</u>	<u>247,073</u>	<u>209,756</u>
OTHER FINANCING USES				
Transfers out	<u>(41,402)</u>	<u>(41,402)</u>	<u>(56,571)</u>	<u>(15,169)</u>
Total Other Financing Uses	<u>(41,402)</u>	<u>(41,402)</u>	<u>(56,571)</u>	<u>(15,169)</u>
Net change in fund balance		(4,085)	190,502	194,587
Fund Balance - beginning	<u>514,675</u>	<u>514,675</u>	<u>514,675</u>	
Fund Balance - ending	<u>\$ 514,675</u>	<u>\$ 510,590</u>	<u>\$ 705,177</u>	<u>\$ 194,587</u>

CITY OF ROCHESTER, MINNESOTA
AIRPORT OPERATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 406,000	\$ 406,000	\$ 405,108	\$ (892)
Intergovernmental	223,752	223,752	427,951	204,199
Charges for services	1,655,000	1,655,000	1,924,347	269,347
Interest earnings	5,100	5,100	9,026	3,926
Net decrease in the fair value of investments	(700)	(700)	(3,800)	(3,100)
Rental revenues	1,558,823	1,558,823	1,677,747	118,924
Miscellaneous revenues			7,135	7,135
Total Revenues	<u>3,847,975</u>	<u>3,847,975</u>	<u>4,447,514</u>	<u>599,539</u>
EXPENDITURES				
Airport operations	3,383,726	3,383,726	3,354,601	29,125
US customs operations	165,000	165,000	154,737	10,263
Total Expenditures	<u>3,548,726</u>	<u>3,548,726</u>	<u>3,509,338</u>	<u>39,388</u>
Excess of revenues over expenditures	<u>299,249</u>	<u>299,249</u>	<u>938,176</u>	<u>638,927</u>
OTHER FINANCING USES				
Transfers out	<u>(89,394)</u>	<u>(89,394)</u>	<u>(89,394)</u>	
Net change in fund balance	209,855	209,855	848,782	638,927
Fund Balance - beginning	<u>1,112,367</u>	<u>1,112,367</u>	<u>1,112,367</u>	
Fund Balance - ending	<u>\$ 1,322,222</u>	<u>\$ 1,322,222</u>	<u>\$ 1,961,149</u>	<u>\$ 638,927</u>

CITY OF ROCHESTER, MINNESOTA
F. E. WILLIAMS ESTATE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest earnings	\$ 7,108	\$ 7,108	\$ 7,480	\$ 372
Net decrease in the fair value of investments	(1,500)	(1,500)	(600)	900
Total Revenues	<u>5,608</u>	<u>5,608</u>	<u>6,880</u>	<u>1,272</u>
Net change in fund balance	<u>5,608</u>	<u>5,608</u>	<u>6,880</u>	<u>1,272</u>
Fund Balance - beginning	<u>660,185</u>	<u>660,185</u>	<u>660,185</u>	
Fund Balance - ending	<u><u>\$ 665,793</u></u>	<u><u>\$ 665,793</u></u>	<u><u>\$ 667,065</u></u>	<u><u>\$ 1,272</u></u>

**CITY OF ROCHESTER, MINNESOTA
TRANSIT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**
For the Year Ended December 31, 2016

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$	\$	\$ 1,162	\$ 1,162
Intergovernmental revenues	5,814,000	5,814,000	5,809,726	(4,274)
Charges for services	2,356,741	2,356,741	2,520,680	163,939
Interest earnings	4,000	4,000	16,607	12,607
Net decrease in the fair value of investments	(700)	(700)	(3,400)	(2,700)
Miscellaneous revenues	114,000	114,720	105,606	(9,114)
Total Revenues	<u>8,288,041</u>	<u>8,288,761</u>	<u>8,450,381</u>	<u>161,620</u>
EXPENDITURES				
Fixed route	7,342,422	7,347,900	6,615,530	732,370
Demand response - ZIPS	908,898	908,898	882,526	26,372
Total Expenditures	<u>8,251,320</u>	<u>8,256,798</u>	<u>7,498,056</u>	<u>758,742</u>
Excess of revenues over expenditures	<u>36,721</u>	<u>31,963</u>	<u>952,325</u>	<u>920,362</u>
OTHER FINANCING USES				
Transfers out			(46,500)	(46,500)
Total Other Financing Uses			<u>(46,500)</u>	<u>(46,500)</u>
Net change in fund balance	36,721	31,963	905,825	873,862
Fund Balance - beginning	<u>1,388,268</u>	<u>1,388,268</u>	<u>1,388,268</u>	
Fund Balance - ending	<u>\$ 1,424,989</u>	<u>\$ 1,420,231</u>	<u>\$ 2,294,093</u>	<u>\$ 873,862</u>

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2016

Internal Service Funds are used to account for the financing of goods or services provided for various departments of the City on a cost-reimbursement basis. The accrual basis of accounting is used. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Equipment Revolving Fund:

This fund was created by Council resolution for the purchase and replacement of equipment. City departments pay rental charges to the Equipment Revolving Fund for equipment used in providing services.

Information Technology Revolving Fund:

This fund provides for the purchase and upgrading of computer equipment and base-system software; and maintenance of current computer hardware. User charges are assessed against City departments using the computer equipment.

Self-Insurance Fund:

This fund was established by Council resolution, under the authority of City Charter Chapter XI, to account for the City's self-insurance program which includes group life and health, workers' compensation and deductible property loss.

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
December 31, 2016

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 30,958	\$ 38,843	\$ 209,390	\$ 279,191
Investments	3,960,400	4,966,600	26,784,700	35,711,700
Accounts receivable	19,394			19,394
Accrued interest receivable	11,744	14,788	79,764	106,296
Taxes receivable delinquent	2,388	2,108		4,496
Advances to other funds			3,275,247	3,275,247
Due from other governmental units	2,046	2,146		4,192
Total Current Assets	<u>4,026,930</u>	<u>5,024,485</u>	<u>30,349,101</u>	<u>39,400,516</u>
Noncurrent Assets:				
Capital assets:				
Construction in process	290,378			290,378
Machinery and equipment	34,092,082	2,423,649		36,515,731
Less: Accumulated depreciation	(20,009,691)	(1,806,346)		(21,816,037)
Total capital assets (net of accumulated depreciation)	<u>14,372,769</u>	<u>617,303</u>		<u>14,990,072</u>
Total Assets	<u>18,399,699</u>	<u>5,641,788</u>	<u>30,349,101</u>	<u>54,390,588</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	22,808	813,230	98,147	934,185
Accrued interest payable	6,365			6,365
Deposits payable			11,145	11,145
Accrued compensation and payroll taxes			486	486
Unearned revenue			96,755	96,755
Due to other governmental units		983	14,443	15,426
Accrued claims			1,993,031	1,993,031
Bonds payable	135,000			135,000
Total Current Liabilities	<u>164,173</u>	<u>814,213</u>	<u>2,214,007</u>	<u>3,192,393</u>
Noncurrent Liabilities:				
Bonds payable	335,000			335,000
Accrued claims			1,441,681	1,441,681
Post employment benefit obligation			5,369,285	5,369,285
Total Noncurrent Liabilities	<u>335,000</u>		<u>6,810,966</u>	<u>7,145,966</u>
Total Liabilities	<u>499,173</u>	<u>814,213</u>	<u>9,024,973</u>	<u>10,338,359</u>
NET POSITION				
Net investment in capital assets	13,902,769	617,303		14,520,072
Unrestricted	3,997,757	4,210,272	21,324,128	29,532,157
Total Net Position	<u>\$ 17,900,526</u>	<u>\$ 4,827,575</u>	<u>\$ 21,324,128</u>	<u>\$ 44,052,229</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION

For the Year Ended December 31, 2016

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Revenues:				
Charges for Services:				
Equipment rental	\$ 2,847,151	\$ 1,047,610	\$	\$ 3,894,761
Copy center charges	26,769			26,769
Departmental workers' compensation charges			563,820	563,820
Departmental insurance charges			14,514,062	14,514,062
Departmental flex charges			10,143	10,143
Employee insurance charges			2,114,849	2,114,849
Employee flex benefit contributions			492,274	492,274
Total Operating Revenues	<u>2,873,920</u>	<u>1,047,610</u>	<u>17,695,148</u>	<u>21,616,678</u>
Operating Expenses:				
Copy center	16,593			16,593
Minor equipment		294,857		294,857
Workers' compensation benefits			997,891	997,891
Workers' compensation insurance premiums			76,527	76,527
Health insurance claims			19,826,980	19,826,980
Flex benefits			507,769	507,769
Property and liability insurance			431,230	431,230
Property and liability claims			83,118	83,118
Other	6,138	1,180,931		1,187,069
Depreciation	2,855,714	183,973		3,039,687
Total Operating Expenses	<u>2,878,445</u>	<u>1,659,761</u>	<u>21,923,515</u>	<u>26,461,721</u>
Operating Loss	<u>(4,525)</u>	<u>(612,151)</u>	<u>(4,228,367)</u>	<u>(4,845,043)</u>
Nonoperating Revenues (Expenses):				
General property taxes	156,786	277,168		433,954
Interest earnings	31,727	37,445	235,380	304,552
Net increase (decrease) in the fair value of investments	4,600	(8,200)	9,900	6,300
Interest and fiscal charges	(15,562)			(15,562)
Gain on disposal of property	88,338			88,338
Intergovernmental revenues	2,094			2,094
Total Nonoperating Revenues	<u>267,983</u>	<u>306,413</u>	<u>245,280</u>	<u>819,676</u>
Income (Loss) Before Transfers	263,458	(305,738)	(3,983,087)	(4,025,367)
Transfers in		660,940		660,940
Transfers out		(158,775)		(158,775)
Change in Net Position	263,458	196,427	(3,983,087)	(3,523,202)
Total Net Position - beginning	<u>17,637,068</u>	<u>4,631,148</u>	<u>25,307,215</u>	<u>47,575,431</u>
Total Net Position - ending	<u>\$ 17,900,526</u>	<u>\$ 4,827,575</u>	<u>\$ 21,324,128</u>	<u>\$ 44,052,229</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Cash Flows From Operating Activities:				
Cash received from other departments	\$ 2,873,648	\$ 1,046,495	\$ 11,812,778	\$ 15,732,921
Cash received from employees			2,694,394	2,694,394
Cash paid to suppliers	<u>(22,731)</u>	<u>(741,816)</u>	<u>(20,073,853)</u>	<u>(20,838,400)</u>
Net Cash Provided by (Used in) Operating Activities	<u>2,850,917</u>	<u>304,679</u>	<u>(5,566,681)</u>	<u>(2,411,085)</u>
Cash Flows From Noncapital Financing Activities:				
General property taxes	155,821	276,710		432,531
Intergovernmental revenues	2,094			2,094
Transfers in		660,940		660,940
Transfers out		<u>(158,775)</u>		<u>(158,775)</u>
Net Cash Provided by Noncapital Financing Activities	<u>157,915</u>	<u>778,875</u>		<u>936,790</u>
Cash Flows From Capital and Related Financing Activities:				
Principal and interest payments on bonds	(141,983)			(141,983)
Proceeds from sale of property	209,968			209,968
Acquisition of capital assets	<u>(4,455,206)</u>	<u>(337,342)</u>		<u>(4,792,548)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(4,387,221)</u>	<u>(337,342)</u>		<u>(4,724,563)</u>
Cash Flows From Investing Activities:				
Investment income	32,493	32,559	231,454	296,506
Net (increase) decrease in investments	<u>1,332,600</u>	<u>(775,100)</u>	<u>5,276,200</u>	<u>5,833,700</u>
Net Cash Provided by (Used in) Investing Activities	<u>1,365,093</u>	<u>(742,541)</u>	<u>5,507,654</u>	<u>6,130,206</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,296)	3,671	(59,027)	(68,652)
Cash and Cash Equivalents, Beginning of Year	<u>44,254</u>	<u>35,172</u>	<u>268,417</u>	<u>347,843</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,958</u>	<u>\$ 38,843</u>	<u>\$ 209,390</u>	<u>\$ 279,191</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2016

Reconciliation of Operating Income (Loss) to Net Cash
Provided By (Used in) Operating Activities

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Loss	\$ (4,525)	\$ (612,151)	\$ (4,228,367)	\$ (4,845,043)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	2,855,714	183,973		3,039,687
(Increase) Decrease In:				
Accounts receivable			87,271	87,271
Due from other governmental units	(272)	(1,115)		(1,387)
Advances due from other funds			(3,275,247)	(3,275,247)
Increase (Decrease) In:				
Accounts payable		732,989	22,156	755,145
Deposits payable			(4,541)	(4,541)
Unearned revenue			9,584	9,584
Accrued compensation and payroll taxes			34	34
Due to other governmental units		983	(68,583)	(67,600)
Post employment benefit obligation			779,997	779,997
Accrued claims			1,111,015	1,111,015
	<u>\$ 2,850,917</u>	<u>\$ 304,679</u>	<u>\$ (5,566,681)</u>	<u>\$ (2,411,085)</u>
Net Cash Provided by (Used in) Operating Activities				
Non Cash Transactions:				
Increase (Decrease) in fair value of investments	\$ 4,600	\$ (8,200)	\$ 9,900	\$ 6,300
Equipment purchases in accounts payable at year end	22,808			22,808

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