

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2010

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

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

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, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2009 financial statements and, in our report dated June 15, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2011, 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 3 through 16, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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, supplementary information, and statistical sections as listed in the Table of Contents, 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, schedules and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, supplementary information, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Smith, Schaefer and Associates, Ltd.

Rochester, Minnesota
June 22, 2011

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, 2010, with comparative data for the fiscal year ended December 31, 2009. 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 \$1,065,810,195 (*net assets*). Of this amount, \$215,976,193 (*unrestricted net assets*) 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 assets increased by \$20,754,028.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$128,426,635. Approximately 54.5 percent of this total amount, or \$70,048,564, is available for use within the City's designations and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$22,313,749 representing 39.6 percent of total general fund expenditures. This is slightly below the City's target of 42 percent of expenditures.
- The City of Rochester increased total outstanding long term debt obligations by \$18,973,886 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 assets* presents information on all of the City of Rochester's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, 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 can be found on pages 17-19 of this report.

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.

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

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 seventeen 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 fifteen 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 74-83 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 24-25) and the special revenue funds (pages 78-83) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 20-25 of this report.

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 26-33 of this report.

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

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 34-70 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 74-88 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$1,065,810,195 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (76 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's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 193,495,482	\$ 175,920,988	\$ 113,886,081	\$ 122,823,770	\$ 307,381,563	\$ 298,744,758
Capital assets	526,894,717	512,600,061	558,533,671	544,358,118	1,085,428,388	1,056,958,179
Total assets	<u>720,390,199</u>	<u>688,521,049</u>	<u>672,419,752</u>	<u>667,181,888</u>	<u>1,392,809,951</u>	<u>1,355,702,937</u>
Long-term liabilities						
outstanding	73,184,168	46,564,053	226,575,709	234,221,938	299,759,877	280,785,991
Other liabilities	12,237,494	13,710,247	15,002,385	16,150,532	27,239,879	29,860,779
Total liabilities	<u>85,421,662</u>	<u>60,274,300</u>	<u>241,578,094</u>	<u>250,372,470</u>	<u>326,999,756</u>	<u>310,646,770</u>
Net assets:						
Invested in capital assets,						
net of related debt	465,058,494	476,322,274	339,648,274	321,275,110	804,706,768	797,597,384
Restricted	41,894,443	44,545,026	3,232,791	7,765,427	45,127,234	52,310,453
Unrestricted	128,015,600	107,379,449	87,960,593	87,768,881	215,976,193	195,148,330
Total net assets	<u>\$ 634,968,537</u>	<u>\$ 628,246,749</u>	<u>\$ 430,841,658</u>	<u>\$ 416,809,418</u>	<u>\$ 1,065,810,195</u>	<u>\$ 1,045,056,167</u>

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

An additional portion of the City of Rochester's net assets (4.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$215,976,193) 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 assets, both for the government as a whole, as well as for its business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the City of Rochester's net assets by \$6,721,788. Most of this increase can be attributed to the capital grants and contributions (primarily street contributions). Additionally, instituted mandatory employee furlough program and other departmental spending restrictions within operations to offset the reduction in local government aid, market value credit revenues and the lower permit revenues.

Business-type activities. Business-type activities increased the City of Rochester's net assets by \$14,032,240. Operations in the City's electric, water, parking and storm water utilities contributed the majority of the increase which was offset somewhat by a loss after non-cash depreciation in the City's sewer utility. The City's parking utility contributed by far the largest increase in net assets at \$6.7 million resulting primarily from the capital contribution for funding of the 3rd Street Parking Ramp.

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

A condensed version of the Statement of Activities follows:

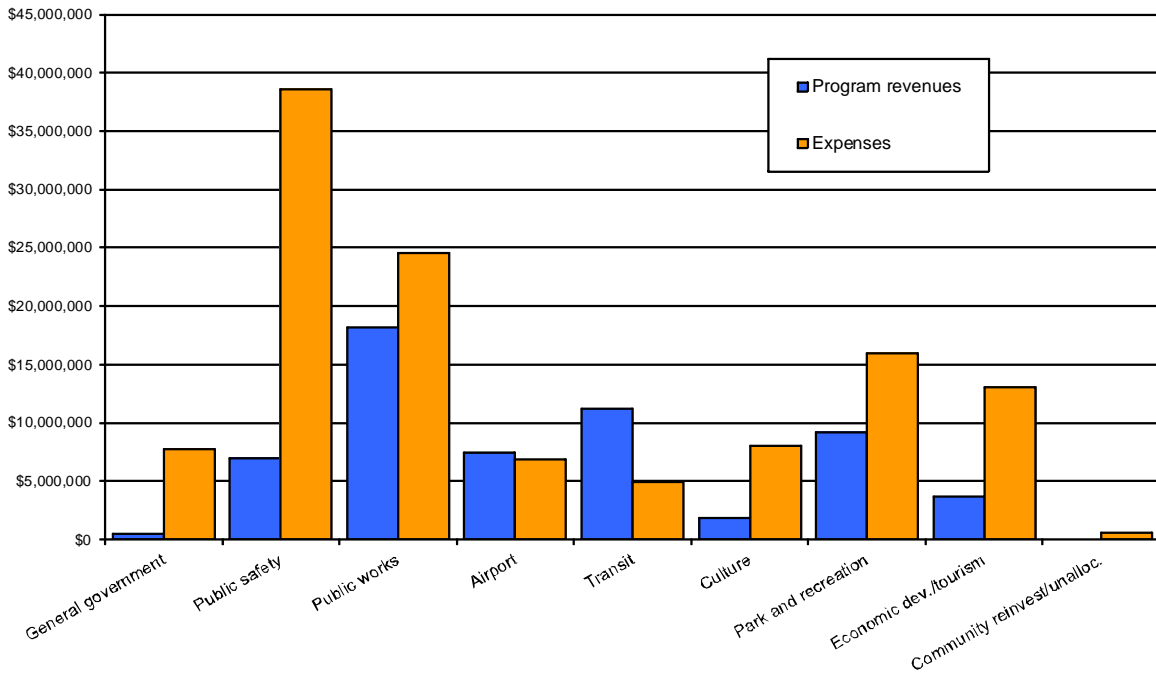
City of Rochester's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue:						
Program revenues:						
Charges for services	\$ 16,294,387	\$ 16,026,933	\$ 177,226,760	\$ 168,433,706	\$ 193,521,147	\$ 184,460,639
Operating grants and contributions	12,179,932	10,404,046			12,179,932	10,404,046
Capital grants and contributions	30,373,195	17,571,480	6,540,059	1,088,397	36,913,254	18,659,877
General revenues:						
Property taxes	41,711,795	39,179,058			41,711,795	39,179,058
Other taxes	16,122,797	15,788,115			16,122,797	15,788,115
Grants and contributions not restricted to specific programs	5,489,944	8,799,788	80,746	33,451	5,570,690	8,833,239
Other	3,394,585	3,028,500	1,297,117	1,537,786	4,691,702	4,566,286
Total revenues	<u>125,566,635</u>	<u>110,797,920</u>	<u>185,144,682</u>	<u>171,093,340</u>	<u>310,711,317</u>	<u>281,891,260</u>
Expenses:						
General government	7,689,602	6,943,475			7,689,602	6,943,475
Public safety	38,566,296	37,982,196			38,566,296	37,982,196
Public works	24,596,491	24,551,047			24,596,491	24,551,047
Airport	6,881,982	5,572,561			6,881,982	5,572,561
Transit	4,885,878	4,465,509			4,885,878	4,465,509
Culture	8,045,420	7,698,935			8,045,420	7,698,935
Park and recreation	15,952,230	15,631,196			15,952,230	15,631,196
Economic development/tourism	13,054,890	6,545,075			13,054,890	6,545,075
Community reinvestment/unallocated	599,580	572,515			599,580	572,515
Interest on long-term debt	1,824,346	1,574,213			1,824,346	1,574,213
Parking			4,100,101	3,731,599	4,100,101	3,731,599
Electric			131,769,006	123,933,285	131,769,006	123,933,285
Water			7,242,501	7,172,964	7,242,501	7,172,964
Sewer			21,766,488	22,180,957	21,766,488	22,180,957
Storm water			2,982,478	2,721,314	2,982,478	2,721,314
Total expenses	<u>122,096,715</u>	<u>111,536,722</u>	<u>167,860,574</u>	<u>159,740,119</u>	<u>289,957,289</u>	<u>271,276,841</u>
Increase in net assets before transfers	3,469,920	(738,802)	17,284,108	11,353,221	20,754,028	10,614,419
Transfers	3,251,868	5,735,310	(3,251,868)	(5,735,310)		
Increase in net assets	6,721,788	4,996,508	14,032,240	5,617,911	20,754,028	10,614,419
Net assets, beginning of year	628,246,749	623,250,241	416,809,418	411,191,507	1,045,056,167	1,034,441,748
Net assets, end of year	<u>\$ 634,968,537</u>	<u>\$ 628,246,749</u>	<u>\$ 430,841,658</u>	<u>\$ 416,809,418</u>	<u>\$ 1,065,810,195</u>	<u>\$ 1,045,056,167</u>

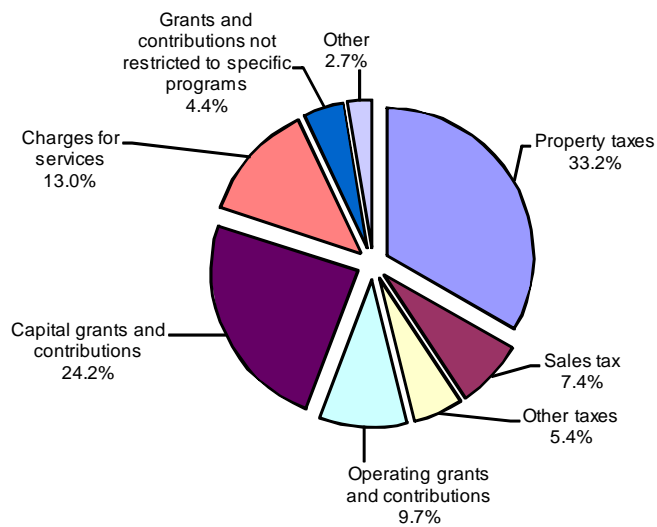
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



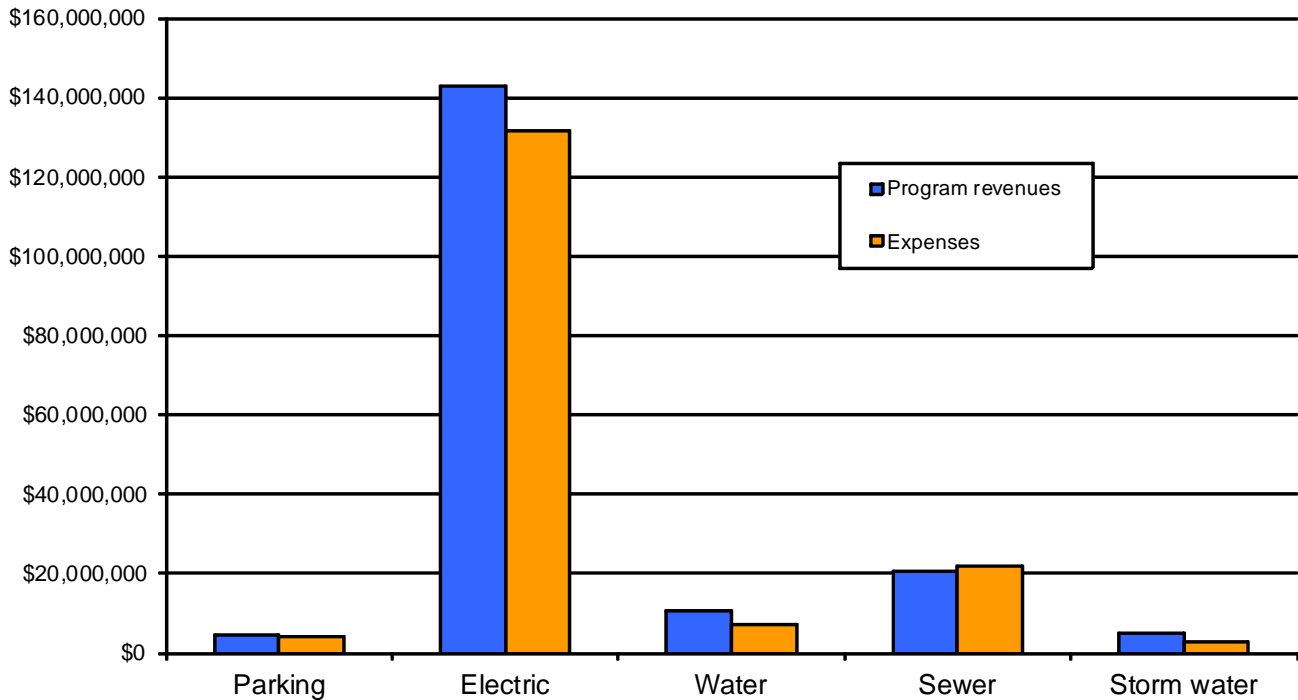
Revenues by Source - Governmental Activities



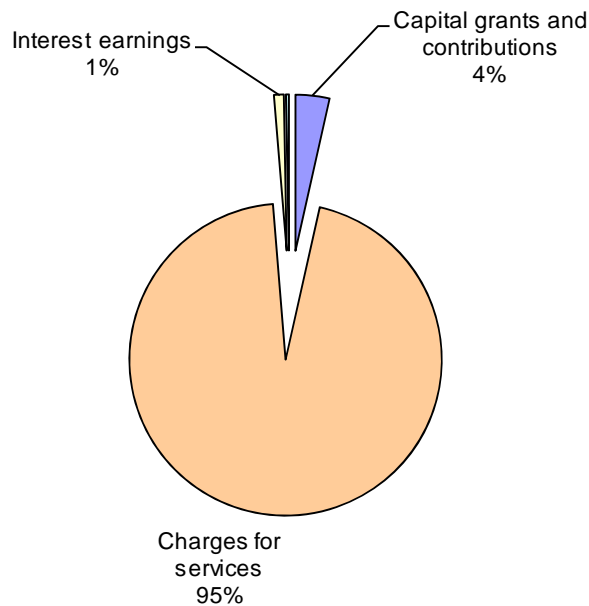
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$128,426,635, an increase of \$17,643,473 from the prior year. The general fund and construction improvement fund increased fund balance; however, this was offset somewhat by the decline in the other governmental funds of \$1.2 million. The increase in the construction improvement fund was the result of bond proceeds issued for the construction of the public works and transit operations center as well as accumulation of sales tax proceeds in advance of project expenditures. Nearly all of the decrease in other governmental funds occurred in the airport fund and was a result of a transfer to the construction improvement fund for airport projects. Approximately 54.5 percent of the total fund balance, or \$70,048,564, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed. The primary reservations of fund balance are 1) to liquidate contracts and purchase orders of the prior period (\$22,298,713), 2) to repay interfund advances or other debt (\$800,616), 3) Land held for resale (\$650,000) or 4) to fund specific capital projects or programs as obligated by statute or other regulation (\$34,566,431).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$302,807 from the prior year. At the end of the current fiscal year, unreserved fund balance of the general fund was \$22,313,749 while total fund balance amounted to \$22,839,458. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39.6 percent of total general fund expenditures, while total fund balance represents 40.5 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 41.6 percent. This target has been difficult to maintain in the face of continued, unplanned cuts from the State.

The library fund decreased its fund balance by \$27,940 for the year after transferring \$22,445 to the capital projects fund for future equipment purchases and needing to absorb a portion of the cut in market value credit payments anticipated from the State. The municipal recreation fund decreased its fund balance by \$62,503 after also needing to absorb a portion of the cut in market value credit and the lower than expected revenues from the Mayo Civic Center in 2010. The airport fund decreased its total fund balance by \$1,212,083 for the year to \$3,830,289. This decline was the result of slightly lower than anticipated landing charges as well as slightly higher expenses coupled with a transfer of \$1,077,928 to capital projects. The transit fund saw an increase in fund balance of \$80,656 after lower than anticipated operating costs with the contracted provider. Economic development administration increased fund balance by \$49,669 due to operations of the Bio Business Center.

Debt service fund balances decreased by \$62,946 this year reflecting the use of reserves held for payments on the Energy Improvement Loan as well as reserves for payment on the new Bioscience Building bonds.

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

Governmental funds (continued).

The construction improvement fund increased fund balance by \$18,571,693 as bond proceeds and federal transit construction dollars were received to fund the public works and transit operations center project and sales tax monies were collected to fund approved projects in 2011.

Proprietary funds. The City of Rochester's *proprietary funds* statements found on pages 26-33 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets in the respective proprietary funds are Parking - \$12,606,010 Electric - \$46,891,223, Water - \$5,811,481, Sewer - \$17,746,596 and Storm water - \$1,228,585. With the exception of the Sewer Utility, all proprietary funds reported increases in total net assets for the year. The Parking Enterprise growth in net assets was largely due to the \$6.7 million capital contribution for the 3rd street parking ramp that was funded with State grant monies. The Sewer Utility reported a \$3.4 million reduction in net assets for the year as revenues fell short of plan due to lower than expected sewer flows and higher than expected expenses as we continue to adjust to the expanded plant.

The Sewer Utility's rates were adjusted 8.5 percent effective January of 2010 based upon an update to the 2005 rate study which was completed at the end of 2009. The city council adopted a new six-year schedule of rate adjustments through 2015. In addition, the "plant investment fee" instituted in 2005 was increased from \$2,000 per residential equivalent in 2008, \$2,500 in 2009, \$2,600 in 2010 and is now scheduled to increase \$100 per year to \$3,000 by 2015. The schedule of rate increases was necessary as sewer flows were below plan. Housing starts were also down and continued water usage efficiency gains reduce sewer usage beyond our earlier expectations.

The Water Utility's rates were not increased during 2010 though the new conservation rates were implemented which had varied impacts on users depending upon use levels. The utility is anticipating no rate increase for 2011 as well.

The Electric Utility rates were held flat in 2010 due to cost reduction measures implemented in 2009 and 2010 as the board reflected the local economy. No rate increase is anticipated in this utility for 2011, reflecting the second straight year the utility has held rates flat.

Parking rates were also held flat during 2010 reflecting a seven-year rate plan adopted in 2008. The plan calls for rates increases every other year such that 2011 will see the second phase of increases with metered rates increasing between 5 to 20 cents per hour depending upon duration. Lots designated for "all day" parking are increasing from \$1.75 to \$2.25 per hour in 2011 and the hourly metered rates are increasing 50 cents per hour. The 24-hour public rate in parking ramps will increase from \$12.00 to \$12.50 while the monthly contract rates are going up by \$5.00 per month.

The Storm Water Utility rates were increased by 3% in 2010 following the rate structure approved by council for years 2008 through 2011. In addition, the customer charge was increased from \$2.00/parcel/month to \$2.50. This charge is slated to increase to \$3.00/parcel/month in 2011 along with another 3% increase in per acre charges.

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

General Fund Budgetary Highlights

The City approved the 2010 general fund budget anticipating a "balanced budget" or slight decrease in fund balance.

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

- Decrease in property tax and offsetting increase in intergovernmental revenue once the market value credit amount was determined.
- Increase in the City Attorney's budget to address unplanned expenditures for legal consultants.
- Increase in Drug Enforcement Administration due to grant approval.
- 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 \$3,044,449 below final budget while actual revenues fell short of the final budget by \$1,228,470. Much of the lower expenses can be traced to greater engineering charge-backs from project designs, savings in public safety budgets due to a delay in hiring of approved positions and remaining amounts in the contingency budget. The lower than expected revenues are primarily the results of reduced market value credit and interest earnings in the fund. The overage in street and alley expenditures was due to the significant snowstorms at the end of 2010 as well as additional street paving completed during the summer. The overage in City lighting was the result of the council declining to create a separate street light utility by the 3rd quarter of 2010 as had been previously planned and budgeted for.

**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, 2010, amounts to \$1,085,428,388 (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 \$28,470,209, or 2.6 percent. This increase nearly evenly split between the governmental and business activities in 2010. On the governmental side, the Bio Business Center construction was completed and the Public Works Operation Center construction was well underway while significant street network additions also occurred. Within the business-type activities the most significant increases occurred with the expansion of underground mains as well as new distribution and transmission facilities in the electric utility.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 60,110,132	\$ 57,858,795	\$ 13,020,467	\$ 12,779,911	\$ 73,130,599	\$ 70,638,706
Buildings	103,059,619	82,718,354	252,709,083	248,623,661	355,768,702	331,342,015
Improvements other than buildings	30,372,518	28,379,530			30,372,518	28,379,530
Machinery and equipment	23,236,508	23,553,152	253,699,584	249,580,501	276,936,092	273,133,653
Infrastructure	249,696,349	252,799,945			249,696,349	252,799,945
Construction in progress	60,419,591	67,290,285	39,104,537	33,374,045	99,524,128	100,664,330
Total	\$ 526,894,717	\$ 512,600,061	\$ 558,533,671	\$ 544,358,118	\$ 1,085,428,388	\$ 1,056,958,179

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 50-52 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$279,877,481 in bonds and notes outstanding. Of this amount, \$169,219,721 comprises debt backed by the full faith and credit of the government, \$106,504,852 represents bonds and notes secured solely by specified revenue sources, \$4,027,602 represents an energy loan payable through savings in costs from energy improvements, \$108,439 represents a Minnesota DEED Bio Science cleanup loan backed by the full faith and credit of the government with payments reimbursed by MPCA, and \$16,867 represents a lease of equipment payable from revenues derived from the operation of the Electric Utility Enterprise Fund. 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, Notes Payable and Capital Lease

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 9,841,721	\$ 10,036,806	\$	\$	\$ 9,841,721	\$ 10,036,806
General obligation revenue bonds			128,010,000	131,200,000	128,010,000	131,200,000
General obligation revenue notes	3,928,000	4,143,000			3,928,000	4,143,000
General obligation equipment certificates of indebtedness	740,000	815,000			740,000	815,000
General obligation taxable						
Build America bonds	26,700,000				26,700,000	
Revenue bonds	16,215,000	16,600,000	81,685,000	83,525,000	97,900,000	100,125,000
Notes payable	189,852	237,776	8,415,000	10,615,000	8,604,852	10,852,776
Energy loan payable	4,027,602	4,445,205			4,027,602	4,445,205
MN DEED BioScience cleanup loan payable	108,439				108,439	
Capital Lease			16,867	228,252	16,867	228,252
Total	\$ 61,750,614	\$ 36,277,787	\$ 218,126,867	\$ 225,568,252	\$ 279,877,481	\$ 261,846,039

The City of Rochester's total bonds and notes payable increased by \$18,031,442 during the current fiscal year.

On September 20th of 2010, the City issued \$26.7 million in Taxable General Obligation Bonds, Series 2010A, Build America Bonds for construction of the City's public works and transit operation center as well as a small portion (\$425,000) to fund a new fire truck.

In December of 2010, the Water Utility made the final payment on the 2006 Revenue Note, leaving the Water Utility with no debt outstanding at the end of 2010.

In December of 2010, the sewer utility made an optional payment of \$600,000 on its variable rate sewer bond series 2007B

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:H., beginning on page 56.

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 Aa2 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 decreased to 6.1 percent by the end of March 2011, down from 6.7 percent one year ago. While still higher than Rochester's historical average, it remains below the state and U.S. averages of 7.3 and 9.2 percent respectively. Total employment over the last 12 months ending March of 2011 has shown an increase of 488 jobs, primarily in the goods producing sector as the services sector has remained relatively flat for the year.
- Commercial and residential building permits appeared to falter again for the first quarter of 2011, down to \$27.0 million from \$45.3 million in the same quarter a year earlier with very little of this coming from single family home construction.
- Property tax reforms at the state level continue to impact government aid payments made to the City. The 2010 certified aid was reduced twice, for a total reduction of nearly \$5.7 million and then followed with an additional cut in market value credit payments of \$1.825 million. The 2011 budget anticipated a level of state aid similar to 2010, however, a current legislative stalemate and possible State government shutdown has left us with much uncertainty for this year,
- The establishment of a University of Minnesota presence in the downtown is providing impetus for new development activity and service demands in this area.
- The Rochester Economic Development Authority's construction of a 9-story bioscience building with significant portions already leased to medical and related technology companies and a new restaurant opened on the first floor is bringing additional jobs and activity to the downtown.
- Interest rates have remained at historical lows in 2010 and 2011, making future earnings of the City's investment portfolio difficult to maintain at current levels.

All of these factors were considered in preparing the City of Rochester's budget for the 2011 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources. The City's tax levy was increased for pay 2011 in expectation that state aid will continue to dwindle while the City continues its growth trends and resulting demands for service.

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.

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2010

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2010
With Comparative Totals as of December 31, 2009

	Governmental Activities	Business-Type Activities	Totals	
			2010	2009
ASSETS				
Cash and cash equivalents	\$ 21,213,546	\$ 8,547,731	\$ 29,761,277	\$ 21,474,430
Investments	142,495,640	69,533,963	212,029,603	197,445,408
Land held for resale	650,000		650,000	650,000
Receivables (net of allowance for uncollectibles)	23,014,393	7,913,479	30,927,872	34,570,767
Internal balances	(2,964,468)	2,964,468		
Due from other governmental units	8,426,677	86,981	8,513,658	6,852,467
Accrued utility revenues		3,883,101	3,883,101	3,574,482
Restricted and reserved cash and investments	35,060	11,097,564	11,132,624	20,004,693
Inventory	140,272	8,098,012	8,238,284	11,950,658
Prepaid items	27,251	70,395	97,646	182,675
Deferred charges and other assets	457,111	1,690,387	2,147,498	2,039,198
Capital assets:				
Nondepreciable	120,529,722	52,125,004	172,654,726	171,303,036
Depreciable, net	406,364,995	506,408,667	912,773,662	885,655,143
Total Assets	<u>720,390,199</u>	<u>672,419,752</u>	<u>1,392,809,951</u>	<u>1,355,702,957</u>
LIABILITIES				
Accounts and contracts payable	5,576,251	9,423,530	14,999,781	16,741,089
Deposits payable	1,366,354	739,319	2,105,673	2,110,144
Accrued interest payable	821,197	2,074,255	2,895,452	2,913,249
Accrued compensation and payroll taxes	2,415,606	837,090	3,252,696	2,688,655
Accrued claims	1,587,586	40,000	1,627,586	1,900,883
Due to other governmental units	470,500	535,063	1,005,563	1,646,745
Unearned revenue		1,353,128	1,353,128	1,860,014
Noncurrent liabilities:				
Due within one year	7,000,604	8,489,719	15,490,323	15,413,645
Due in more than one year	66,183,564	218,085,990	284,269,554	265,372,366
Total Liabilities	<u>85,421,662</u>	<u>241,578,094</u>	<u>326,999,756</u>	<u>310,646,790</u>
NET ASSETS				
Invested in capital assets, net of related debt	465,058,494	339,648,274	804,706,768	797,597,384
Restricted for:				
Airport	3,830,289		3,830,289	5,961,014
CDBG loans	3,462,663		3,462,663	3,471,639
Civic music endowment	35,060		35,060	32,591
Debt service		3,232,791	3,232,791	7,765,427
Flood control	23,075,717		23,075,717	23,854,897
Sales tax authorized projects	11,490,714		11,490,714	11,224,885
Unrestricted	128,015,600	87,960,593	215,976,193	195,148,330
Total Net Assets	<u>\$ 634,968,537</u>	<u>\$ 430,841,658</u>	<u>\$ 1,065,810,195</u>	<u>\$ 1,045,056,167</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 7,689,602	\$ 512,005	\$ 15,747	\$
Public safety	38,566,296	4,769,132	1,870,318	283,771
Public works	24,596,491	234,659	152,336	17,775,363
Airport	6,881,982	2,982,614	1,154,290	3,291,751
Transit	4,885,878	664,888	3,628,926	6,897,923
Culture	8,045,420	323,655	1,454,991	11,562
Park and recreation	15,952,230	6,744,988	2,174,106	271,154
Economic development/tourism	13,054,890	62,446	1,729,218	1,841,671
Community reinvestment/unallocated	599,580			
Interest on long-term debt	1,824,346			
Total governmental activities	<u>122,096,715</u>	<u>16,294,387</u>	<u>12,179,932</u>	<u>30,373,195</u>
Business-Type activities:				
Parking	4,100,101	4,763,393		
Electric utility	131,769,006	142,768,456		
Water utility	7,242,501	8,132,955		2,324,429
Sewer utility	21,766,488	16,873,321		3,790,565
Storm water utility	2,982,478	4,688,635		425,065
Total business-type activities	<u>167,860,574</u>	<u>177,226,760</u>		<u>6,540,059</u>
Total	<u>\$ 289,957,289</u>	<u>\$ 193,521,147</u>	<u>\$ 12,179,932</u>	<u>\$ 36,913,254</u>
General revenues:				
General property taxes				
Tax increments collection				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Interest earnings				
Gain on disposition of property				
Net increase (decrease) in the fair value of investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2010	2009
\$ (7,161,850)		\$ (7,161,850)	\$ (6,365,430)
(31,643,075)		(31,643,075)	(31,179,293)
(6,434,133)		(6,434,133)	(15,359,239)
546,673		546,673	102,304
6,305,859		6,305,859	902,741
(6,255,212)		(6,255,212)	(5,732,724)
(6,761,982)		(6,761,982)	(6,094,342)
(9,421,555)		(9,421,555)	(1,661,552)
(599,580)		(599,580)	(572,515)
(1,824,346)		(1,824,346)	(1,574,213)
<u>(63,249,201)</u>		<u>(63,249,201)</u>	<u>(67,534,263)</u>
	\$ 663,292	663,292	969,652
	10,999,450	10,999,450	12,232,597
	3,214,883	3,214,883	1,185,145
	(1,102,602)	(1,102,602)	(6,549,820)
	2,131,222	2,131,222	1,944,410
	<u>15,906,245</u>	<u>15,906,245</u>	<u>9,781,984</u>
<u>(63,249,201)</u>	<u>15,906,245</u>	<u>(47,342,956)</u>	<u>(57,752,279)</u>
41,711,795		41,711,795	39,179,058
1,943,050		1,943,050	1,686,611
9,346,574		9,346,574	9,192,275
4,833,173		4,833,173	4,909,229
5,489,944	80,746	5,570,690	8,833,239
4,082,540	1,856,829	5,939,369	6,837,747
61,681		61,681	30,671
(1,294,764)	(390,708)	(1,685,472)	(2,761,428)
545,128	(169,004)	376,124	459,296
3,251,868	(3,251,868)		
<u>69,970,989</u>	<u>(1,874,005)</u>	<u>68,096,984</u>	<u>68,366,698</u>
6,721,788	14,032,240	20,754,028	10,614,419
<u>628,246,749</u>	<u>416,809,418</u>	<u>1,045,056,167</u>	<u>1,034,441,748</u>
<u>\$ 634,968,537</u>	<u>\$ 430,841,658</u>	<u>\$ 1,065,810,195</u>	<u>\$ 1,045,056,167</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2010

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2010

With Comparative Totals as of December 31, 2009

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2010	2009
ASSETS					
Cash and cash equivalents	\$ 5,349,555	\$ 11,383,895	\$ 1,714,165	\$ 18,447,615	\$ 11,402,775
Investments	18,318,219	80,118,821	7,721,700	106,158,740	97,716,907
Land held for resale		650,000		650,000	650,000
Accrued interest receivable	497,335	401,900	40,500	939,735	1,108,309
Accounts receivable (net of allowance for uncollectibles)	580,342	584,236	1,477,164	2,641,742	3,417,358
Loans receivable		2,665,687	3,462,663	6,128,350	6,335,413
Taxes receivable delinquent	661,694	122,221	268,727	1,052,642	890,454
Special assessments receivable:					
Deferred		11,640,870		11,640,870	12,686,488
Delinquent	2,066	235,405	4,928	242,399	1,484,463
Utility connection charges receivable:					
Deferred		145,472		145,472	190,188
Due from other funds	824,719	611,187	264,623	1,700,529	1,044,473
Due from other governmental units	1,355,325	5,999,174	1,069,815	8,424,314	6,835,516
Advances to other funds		242,693		242,693	473,574
Prepaid items	23,828		3,423	27,251	17,788
Restricted cash	35,060			35,060	32,591
Inventory	112,650		27,622	140,272	148,907
TOTAL ASSETS	\$ 27,760,793	\$ 114,801,561	\$ 16,055,330	\$ 158,617,684	\$ 144,435,204
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 746,317	\$ 4,140,596	\$ 617,676	\$ 5,504,589	\$ 6,359,199
Deposits payable	789,299	4,300	459,448	1,253,047	1,324,481
Accrued compensation and payroll taxes	1,939,013		458,975	2,397,988	1,929,574
Due to other funds	551,394	25,084	411,821	988,299	858,412
Due to other governmental units	231,552	44,960	178,517	455,029	1,119,793
Advances from other funds			242,693	242,693	473,574
Deferred revenue	663,760	14,949,326	3,736,318	19,349,404	21,587,009
Total Liabilities	<u>4,921,335</u>	<u>19,164,266</u>	<u>6,105,448</u>	<u>30,191,049</u>	<u>33,652,042</u>
Fund Balance:					
Reserved for:					
Restricted assets	35,060			35,060	32,591
Prepaid items	23,828		3,423	27,251	17,788
Debt service			557,923	557,923	620,869
Interfund advances		242,693		242,693	473,574
Encumbrances	466,821	21,772,124	59,768	22,298,713	16,337,964
Airport					918,642
Flood control		23,075,717		23,075,717	23,854,897
Sales tax authorized projects		11,490,714		11,490,714	11,224,885
Land held for resale		650,000		650,000	650,000
Unreserved, designated, reported in:					
General fund	8,048,691			8,048,691	7,525,206
Special revenue funds			2,327,921	2,327,921	2,168,337
Unreserved, undesignated, reported in:					
General fund	14,265,058			14,265,058	14,518,531
Capital projects fund		38,406,047		38,406,047	24,282,673
Special revenue funds			7,000,847	7,000,847	8,157,205
Total Fund Balance	<u>22,839,458</u>	<u>95,637,295</u>	<u>9,949,882</u>	<u>128,426,635</u>	<u>110,783,162</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 27,760,793	\$ 114,801,561	\$ 16,055,330	\$ 158,617,684	\$ 144,435,204

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS

December 31, 2010

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

Total governmental fund balances (page 20)		\$ 128,426,635
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 728,260,509	
Less: Accumulated depreciation	<u>(211,433,652)</u>	516,826,857
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 1,295,041	
Deferred special assessments and utility connection agreements	11,786,342	
Deferred charges	457,111	
Loans receivable	<u>6,268,022</u>	19,806,516
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 assets.		
		41,082,689
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	\$ (60,585,614)	
Compensated absences	(9,692,888)	
Accrued interest	(810,049)	
Unamortized bond premium	<u>(85,609)</u>	<u>(71,174,160)</u>
Net assets of governmental activities (page 17)		<u><u>\$ 634,968,537</u></u>

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

For the Year Ended December 31, 2010
 With Comparative Totals for the Year Ended December 31, 2009

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2010	2009
REVENUES					
General property taxes	\$ 27,510,229	\$ 3,878,356	\$ 10,186,222	\$ 41,574,807	\$ 38,806,150
Tax increments collection		1,418,050	525,000	1,943,050	1,686,611
Sales tax		9,000,205	346,369	9,346,574	9,192,275
Special assessments		1,645,097		1,645,097	1,533,001
Utility connection and availability		825,430		825,430	326,051
Nonproperty taxes	4,833,173			4,833,173	4,909,229
Licenses and permits	2,379,733			2,379,733	2,279,973
Fines and forfeits	527,450			527,450	544,259
Intergovernmental revenues	7,208,073	23,835,491	5,997,781	37,041,345	29,659,974
Charges for services	2,769,488	465,685	9,295,121	12,530,294	13,687,801
Contributions in aid of construction		593,748		593,748	211,374
Interest earnings	409,556	2,451,533	312,824	3,173,913	3,649,388
Net increase (decrease) in the fair value of investments	(118,464)	(661,300)	(145,000)	(924,764)	(2,008,682)
Miscellaneous revenues	346,074	2,523,147	3,090,511	5,959,732	3,372,574
Total Revenues	45,865,312	45,975,442	29,608,828	121,449,582	107,849,978
EXPENDITURES					
Current:					
General government	7,049,164			7,049,164	6,691,631
Public safety	35,647,884		217,331	35,865,215	34,986,398
Public works	10,253,529			10,253,529	9,096,795
Airport operations			3,116,769	3,116,769	3,038,389
Transit			4,216,924	4,216,924	3,791,674
Culture	1,159,387		6,079,045	7,238,432	6,896,807
Park and recreation			12,341,947	12,341,947	12,024,541
Economic development/tourism	1,795,194		1,467,599	3,262,793	2,601,319
Community reinvestment and unallocated	470,731			470,731	572,108
Debt service			3,370,947	3,370,947	2,243,307
Capital outlay		55,413,183		55,413,183	46,496,499
Total Expenditures	56,375,889	55,413,183	30,810,562	142,599,634	128,439,468
Excess (deficiency) of revenues over (under) expenditures	(10,510,577)	(9,437,741)	(1,201,734)	(21,150,052)	(20,589,490)
OTHER FINANCING SOURCES (USES)					
Issuance of debt		26,067,539	315,900	26,383,439	8,035,000
Premium on issuance of debt		85,609		85,609	
Transfers in	11,188,291	3,531,719	1,990,423	16,710,433	14,722,178
Transfers out	(374,907)	(1,675,433)	(2,335,616)	(4,385,956)	(4,675,774)
Total other financing sources (uses)	10,813,384	28,009,434	(29,293)	38,793,525	18,081,404
Net change in fund balances	302,807	18,571,693	(1,231,027)	17,643,473	(2,508,086)
Fund Balance - beginning	22,536,651	77,065,602	11,180,909	110,783,162	113,291,248
Fund Balance - ending	\$ 22,839,458	\$ 95,637,295	\$ 9,949,882	\$ 128,426,635	\$ 110,783,162

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, 2010

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

Net change in fund balances - total governmental funds (page 22)		\$ 17,643,473
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-construction improvement	\$ 55,413,183	
Capital outlay-other governmental funds	695,879	
Depreciation expense	<u>(16,364,143)</u>	39,744,919
Infrastructure contributed from governmental activities to business-type activities reduces governmental net assets but does not effect fund balance.		(9,104,146)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(15,639,805)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue, December 31, 2010	\$ 19,349,404	
Deferred revenue, December 31, 2009	<u>(21,587,009)</u>	(2,237,605)
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, 2010	\$ (9,692,888)	
Compensated absences, December 31, 2009	<u>9,134,493</u>	(558,395)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal retirement on long-term debt	\$ 1,260,612	
Bond issuance costs incurred	320,002	
Issuance of debt	(26,383,439)	
Premium on issuance of debt	(85,609)	
Change in accrued interest	(5,731)	
Amortization of bond issuance costs	<u>(5,619)</u>	(24,899,784)
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		<u>1,773,131</u>
Change in net assets of governmental activities (pages 18 and 19)		<u>\$ 6,721,788</u>

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended December 31, 2010
 With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 29,163,882	\$ 27,728,926	\$ 27,510,229	\$ (218,697)	\$ 24,407,589
Nonproperty taxes	4,550,000	4,660,054	4,833,173	173,119	4,909,229
Licenses and permits	2,327,392	2,327,392	2,379,733	52,341	2,279,973
Fines and forfeits	520,000	596,249	527,450	(68,799)	544,259
Intergovernmental	6,698,997	8,215,101	7,208,073	(1,007,028)	10,404,980
Charges for services	2,603,868	2,758,255	2,769,488	11,233	2,873,750
Interest earnings	605,000	605,502	409,556	(195,946)	652,458
Net increase (decrease) in the fair value of investments			(118,464)	(118,464)	(111,682)
Miscellaneous	159,976	202,303	346,074	143,771	231,563
Total Revenues	<u>46,629,115</u>	<u>47,093,782</u>	<u>45,865,312</u>	<u>(1,228,470)</u>	<u>46,192,119</u>
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	732,709	861,355	744,426	116,929	810,193
City Administrator	577,128	578,484	582,866	(4,382)	571,890
Development District Administration	143,985	144,409	149,093	(4,684)	143,881
City Clerk	328,143	331,159	319,086	12,073	313,141
Elections and Voter Registration	156,029	156,029	109,295	46,734	12,303
Finance Department	1,266,764	1,278,854	1,218,963	59,891	1,209,208
Information Systems	1,167,023	1,179,223	1,113,286	65,937	1,014,405
City Attorney	1,207,716	1,308,127	1,306,502	1,625	1,221,057
Human Resources	997,585	1,030,169	1,003,276	26,893	934,669
Planning and Zoning	28,150	28,150	18,099	10,051	24,197
City Hall Maintenance	495,163	503,242	484,272	18,970	436,687
Total General Government	<u>7,100,395</u>	<u>7,399,201</u>	<u>7,049,164</u>	<u>350,037</u>	<u>6,691,631</u>
Public Safety:					
Police Department	19,502,478	19,641,967	19,149,008	492,959	18,628,018
Fire Department	12,769,920	12,822,713	12,592,353	230,360	12,521,062
Fire Hazmat Response Team	45,000	94,840	102,725	(7,885)	116,419
Building Safety	2,721,339	2,749,947	2,703,165	46,782	2,651,221
Animal Control	300,913	303,846	291,807	12,039	273,264
Drug Enforcement Administration		173,129	34,136	138,993	25,649
Flood Control	441,991	442,933	489,522	(46,589)	442,507
Emergency Mgmt/Safety Council	303,647	303,647	285,168	18,479	294,457
Total Public Safety	<u>36,085,288</u>	<u>36,533,022</u>	<u>35,647,884</u>	<u>885,138</u>	<u>34,952,597</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, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,917,233	\$ 2,953,971	\$ 1,954,311	\$ 999,660	\$ 1,865,805
Traffic Engineer	1,113,643	1,142,078	1,051,380	90,698	1,095,563
Street and Alley	5,272,615	5,297,263	5,956,083	(658,820)	4,865,025
City Lighting	927,166	927,166	1,291,755	(364,589)	1,270,402
Total Public Works	<u>10,230,657</u>	<u>10,320,478</u>	<u>10,253,529</u>	<u>66,949</u>	<u>9,096,795</u>
Culture:					
Art Center/Theatre	293,148	293,148	293,143	5	292,641
Music Department	804,952	977,570	866,244	111,326	883,288
Total Culture	<u>1,098,100</u>	<u>1,270,718</u>	<u>1,159,387</u>	<u>111,331</u>	<u>1,175,929</u>
Economic Development/Tourism	<u>1,666,000</u>	<u>1,841,859</u>	<u>1,795,194</u>	<u>46,665</u>	<u>1,858,180</u>
Community Reinvestment and Unallocated	<u>2,194,953</u>	<u>2,055,060</u>	<u>470,731</u>	<u>1,584,329</u>	<u>572,108</u>
Total Expenditures	<u>58,375,393</u>	<u>59,420,338</u>	<u>56,375,889</u>	<u>3,044,449</u>	<u>54,347,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,746,278)</u>	<u>(12,326,556)</u>	<u>(10,510,577)</u>	<u>1,815,979</u>	<u>(8,155,121)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	11,390,578	11,390,578	11,188,291	(202,287)	10,830,872
Transfers out	(162,994)	(162,994)	(374,907)	(211,913)	(181,283)
Total other financing sources (uses)	<u>11,227,584</u>	<u>11,227,584</u>	<u>10,813,384</u>	<u>(414,200)</u>	<u>10,649,589</u>
Net change in fund balances	<u>(518,694)</u>	<u>(1,098,972)</u>	<u>302,807</u>	<u>1,401,779</u>	<u>2,494,468</u>
Fund Balance - beginning	<u>22,536,651</u>	<u>22,536,651</u>	<u>22,536,651</u>		<u>20,042,183</u>
Fund Balance - ending	<u><u>\$22,017,957</u></u>	<u><u>\$21,437,679</u></u>	<u><u>\$22,839,458</u></u>	<u><u>\$ 1,401,779</u></u>	<u><u>\$22,536,651</u></u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2010
With Comparative Totals as of December 31, 2009

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 739,155	\$ 5,896,496	\$ 964,473
Investments	8,069,282	36,417,217	5,956,664
Accrued interest receivable	63,400	4,305	
Accounts receivable	15,393	7,353,546	278,161
Accrued utility revenues		3,855,913	27,188
Taxes receivable delinquent			
Inventory, material, supplies and fuel		7,946,719	137,672
Due from other funds			
Due from other governmental units	13,090		
Prepaid items		70,395	
Restricted and reserved cash	4,043,118	2,499,927	
Total Current Assets	12,943,438	64,044,518	7,364,158
Noncurrent Assets:			
Capital assets:			
Nondepreciable	7,859,457	18,010,548	6,270,134
Depreciable	35,849,811	286,745,769	111,790,288
Less: Accumulated depreciation	(16,699,016)	(115,848,829)	(32,275,996)
Net capital assets	27,010,252	188,907,488	85,784,426
Deferred charges and other assets		1,297,211	
Total Noncurrent Assets	27,010,252	190,204,699	85,784,426
Total Assets	39,953,690	254,249,217	93,148,584
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	146,643	8,711,650	217,772
Deposits payable	27,699	487,254	5,756
Accrued interest payable		309,390	
Accrued compensation and payroll taxes	13,351	625,634	67,023
Accrued compensated absences	37,042	1,515,018	154,679
Due to other funds	260	1,663,519	677,032
Due to other governmental units	60,087	460,571	8,974
Accrued claims			
Unearned revenue		2,436	255,721
Bonds and capital lease payable		3,824,362	
Total Current Liabilities	285,082	17,599,834	1,386,957
Noncurrent Liabilities:			
Bonds payable		84,628,150	
Unamortized bond premium		2,287,227	
Bonds payable, net		86,915,377	
Obligation under capital lease		12,505	
Accrued compensated absences	52,346	1,423,243	165,720
Accrued claims		40,000	
Post employment benefit obligation			
Unearned lease revenues		701,795	
Total Noncurrent Liabilities	52,346	89,092,920	165,720
Total Liabilities	337,428	106,692,754	1,552,677
NET ASSETS			
Invested in capital assets, net of related debt	27,010,252	98,165,313	85,784,426
Restricted for debt service		2,499,927	
Unrestricted	12,606,010	46,891,223	5,811,481
Total Net Assets	\$ 39,616,262	\$ 147,556,463	\$ 91,595,907

Amounts reported by business-type activities in the statement of net assets (page 17) are different because:

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

Net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2010	2009
		2010	2009		
\$ 396,327	\$ 551,280	\$ 8,547,731	\$ 9,555,338	\$ 2,765,932	\$ 516,317
18,687,100	403,700	69,533,963	64,531,601	36,336,900	35,196,900
105,600	2,100	175,405	225,533	190,100	213,100
42,153	48,821	7,738,074	8,016,594	29,490	
		3,883,101	3,574,482		
				3,589	2,867
13,621		8,098,012	11,801,751		
1,444,679	373,221	1,817,900	1,670,945		
73,231	660	86,981	16,037	2,363	914
		70,395	164,887		
4,554,519		11,097,564	19,972,102		
<u>25,317,230</u>	<u>1,379,782</u>	<u>111,049,126</u>	<u>119,529,270</u>	<u>39,328,374</u>	<u>35,930,098</u>
13,409,909	6,574,956	52,125,004	46,153,956	3,410	103,357
299,343,323	49,537,717	783,266,908	753,347,688	26,483,977	25,826,412
(106,208,443)	(5,825,957)	(276,858,241)	(255,143,526)	(16,419,527)	(15,147,665)
<u>206,544,789</u>	<u>50,286,716</u>	<u>558,533,671</u>	<u>544,358,118</u>	<u>10,067,860</u>	<u>10,782,104</u>
347,931	45,245	1,690,387	1,896,451		
<u>206,892,720</u>	<u>50,331,961</u>	<u>560,224,058</u>	<u>546,254,569</u>	<u>10,067,860</u>	<u>10,782,104</u>
<u>232,209,950</u>	<u>51,711,743</u>	<u>671,273,184</u>	<u>665,783,839</u>	<u>49,396,234</u>	<u>46,712,202</u>
288,942	58,523	9,423,530	10,228,457	71,660	153,433
218,610		739,319	678,625	113,304	126,269
1,764,865		2,074,255	2,097,782	11,148	19,084
113,672	17,410	837,090	742,437	17,619	16,644
221,304	32,314	1,960,357	1,944,866		
159,880	29,439	2,530,130	1,857,006		
5,274	157	535,063	513,448	15,472	13,504
				1,102,381	1,256,812
347,931	45,245	651,333	1,102,568		
2,705,000		6,529,362	6,858,252	75,000	75,000
<u>5,825,478</u>	<u>183,088</u>	<u>25,280,439</u>	<u>26,023,441</u>	<u>1,406,584</u>	<u>1,660,746</u>
125,305,000		209,933,150	216,921,129	1,090,000	740,000
3,954,877		6,242,104	6,665,488		
<u>129,259,877</u>		<u>216,175,254</u>	<u>223,586,617</u>	<u>1,090,000</u>	<u>740,000</u>
		12,505			
243,568	13,354	1,898,231	1,832,203	485,205	595,071
		40,000	49,000	1,655,058	1,151,773
		701,795	738,215		
<u>129,503,445</u>	<u>13,354</u>	<u>218,827,785</u>	<u>226,206,035</u>	<u>3,230,263</u>	<u>2,486,844</u>
<u>135,328,923</u>	<u>196,442</u>	<u>244,108,224</u>	<u>252,229,476</u>	<u>4,636,847</u>	<u>4,147,590</u>
78,401,567	50,286,716	339,648,274	321,275,110	8,902,860	9,967,104
732,864		3,232,791	7,765,427		
17,746,596	1,228,585	84,283,895	84,513,826	35,856,527	32,597,508
<u>\$ 96,881,027</u>	<u>\$ 51,515,301</u>	<u>427,164,960</u>	<u>413,554,363</u>	<u>\$ 44,759,387</u>	<u>\$ 42,564,612</u>
		3,676,698	3,255,055		
		<u>\$ 430,841,658</u>	<u>\$ 416,809,418</u>		

**CITY OF ROCHESTER, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS**

For the Year Ended December 31, 2010
 With Comparative Totals for the Year Ended December 31, 2009

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 4,763,393	\$	\$
Sales and charges for services, pledged as security for revenue bonds		136,170,249	7,388,462
Miscellaneous		6,598,207	744,493
Total Operating Revenues	<u>4,763,393</u>	<u>142,768,456</u>	<u>8,132,955</u>
Operating Expenses:			
Purchased power		88,157,635	
Maintenance and operations	3,115,089	30,687,727	5,082,482
Depreciation	992,880	9,055,375	2,177,630
Total Operating Expenses	<u>4,107,969</u>	<u>127,900,737</u>	<u>7,260,112</u>
Operating Income (Loss)	<u>655,424</u>	<u>14,867,719</u>	<u>872,843</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	7,775		
Interest earnings	311,879	802,951	159,736
Net increase (decrease) in the fair value of investments	(131,500)		
Interest and fiscal charges		(4,176,948)	(18,125)
Gain (loss) on disposal of property			
Other income (expense)	420	(421,133)	(88,569)
Total Nonoperating Revenues (Expenses)	<u>188,574</u>	<u>(3,795,130)</u>	<u>53,042</u>
Income (Loss) Before Transfers and Contributions	843,998	11,072,589	925,885
Capital contributions	6,666,003		2,909,926
Transfers in			
Transfers out	(797,198)	(8,402,549)	(343,093)
Change in net assets	6,712,803	2,670,040	3,492,718
Net Assets - Beginning of Year	<u>32,903,459</u>	<u>144,886,423</u>	<u>88,103,189</u>
Net Assets - End of Year	<u>\$ 39,616,262</u>	<u>\$ 147,556,463</u>	<u>\$ 91,595,907</u>

Amounts reported by business-type activities in the statement of activities (page 22) are different because:

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

 Change in net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2010	2009
		2010	2009		
\$	\$ 4,544,970	\$ 9,308,363	\$ 8,865,061	\$ 17,444,006	\$ 16,551,900
16,791,004		160,349,715	153,171,889		
82,317	143,665	7,568,682	6,396,756		
<u>16,873,321</u>	<u>4,688,635</u>	<u>177,226,760</u>	<u>168,433,706</u>	<u>17,444,006</u>	<u>16,551,900</u>
		88,157,635	81,138,926		
7,472,948	2,068,896	48,427,142	48,508,163	13,729,718	12,419,546
9,067,514	919,465	22,212,864	21,019,930	2,265,631	2,067,314
<u>16,540,462</u>	<u>2,988,361</u>	<u>158,797,641</u>	<u>150,667,019</u>	<u>15,995,349</u>	<u>14,486,860</u>
332,859	1,700,274	18,429,119	17,766,687	1,448,657	2,065,040
				136,988	103,745
9,219	63,752	80,746	33,451	2,116	5,922
561,843	20,420	1,856,829	2,142,150	908,620	1,046,209
(244,408)	(14,800)	(390,708)	(243,846)	(370,000)	(508,900)
(5,289,503)		(9,484,576)	(9,704,773)	(30,272)	(18,580)
	(3,207)	(3,207)		61,681	30,671
330,132	13,353	(165,797)	(360,518)		(86)
<u>(4,632,717)</u>	<u>79,518</u>	<u>(8,106,713)</u>	<u>(8,133,536)</u>	<u>709,133</u>	<u>658,981</u>
(4,299,858)	1,779,792	10,322,406	9,633,151	2,157,790	2,724,021
4,252,423	1,815,853	15,644,205	5,339,368	5,448	89,124
98,135	898,658	996,793	2,901,856	31,537	9,995
<u>(3,447,487)</u>	<u>(362,480)</u>	<u>(13,352,807)</u>	<u>(12,888,137)</u>		<u>(70,118)</u>
(3,396,787)	4,131,823	13,610,597	4,986,238	2,194,775	2,753,022
100,277,814	47,383,478			42,564,612	39,811,590
<u>\$ 96,881,027</u>	<u>\$ 51,515,301</u>			<u>\$ 44,759,387</u>	<u>\$ 42,564,612</u>
		421,643	631,673		
		<u>\$ 14,032,240</u>	<u>\$ 5,617,911</u>		

**CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 4,791,612	\$ 137,546,053	\$ 8,051,388
Cash received from other City funds	45,457	5,234,416	181,167
Cash received from employees			
Cash paid to employees	(342,014)	(18,082,108)	(1,852,760)
Cash paid to suppliers	(2,655,618)	(100,299,150)	(3,098,789)
Other income	420		
Net Cash Provided By Operating Activities	<u>1,839,857</u>	<u>24,399,211</u>	<u>3,281,006</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	7,775		
Transfers in			
Transfers out	<u>(797,198)</u>	<u>(8,379,843)</u>	<u>(344,592)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(789,423)</u>	<u>(8,379,843)</u>	<u>(344,592)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Proceeds from issuance of revenue notes and bonds			
Principal payments on bonds		(3,841,384)	(410,000)
Interest and fiscal charges		(4,153,669)	(18,097)
Acquisition of capital assets	<u>(585,897)</u>	<u>(10,969,496)</u>	<u>(1,615,898)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(585,897)</u>	<u>(18,964,549)</u>	<u>(2,043,995)</u>
Cash Flows From Investing Activities:			
Investment income	321,978	814,486	159,707
Net (increase) decrease in investments	<u>(498,695)</u>	<u>(6,177,023)</u>	<u>(1,338,254)</u>
Net Cash Provided By (Used In) Invested Activities	<u>(176,717)</u>	<u>(5,362,537)</u>	<u>(1,178,547)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	287,820	(8,307,718)	(286,128)
Cash and Cash Equivalents, Beginning of Year	<u>4,494,453</u>	<u>16,704,141</u>	<u>1,250,601</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,782,273</u>	<u>\$ 8,396,423</u>	<u>\$ 964,473</u>
Classified As:			
Cash and Cash Equivalents	\$ 739,155	\$ 5,896,496	\$ 964,473
Restricted and Reserved Cash	<u>4,043,118</u>	<u>2,499,927</u>	
Total Cash and Cash Equivalents, End of Year	<u>\$ 4,782,273</u>	<u>\$ 8,396,423</u>	<u>\$ 964,473</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2010	2009
		2010	2009		
\$ 16,544,106	\$ 4,419,057	\$ 171,352,216	\$ 164,140,803	\$ 15,753,017	\$ 14,382,453
76,623	201,495	5,739,158	5,501,671	1,659,491	2,170,911
(2,925,822)	(415,522)	(23,618,226)	(23,939,651)	(13,475,965)	(11,701,762)
(4,297,430)	(1,636,593)	(111,987,580)	(100,617,854)		
330,132	10,146	340,698	428,511		
<u>9,727,609</u>	<u>2,578,583</u>	<u>41,826,266</u>	<u>45,513,480</u>	<u>3,936,543</u>	<u>4,851,602</u>
				134,571	104,002
9,219	63,752	80,746	33,451	2,116	5,922
98,135	898,658	996,793	2,901,856	31,537	9,995
<u>(3,447,487)</u>	<u>(362,480)</u>	<u>(13,331,600)</u>	<u>(12,905,260)</u>		<u>(70,118)</u>
<u>(3,340,133)</u>	<u>599,930</u>	<u>(12,254,061)</u>	<u>(9,969,953)</u>	<u>168,224</u>	<u>49,801</u>
				85,167	32,237
			9,615,000	425,000	815,000
(3,190,000)		(7,441,384)	(9,012,352)	(75,000)	
(5,554,340)		(9,726,106)	(10,066,485)	(35,954)	494
<u>(2,814,872)</u>	<u>(3,192,745)</u>	<u>(19,178,908)</u>	<u>(22,350,416)</u>	<u>(1,675,985)</u>	<u>(2,778,071)</u>
<u>(11,559,212)</u>	<u>(3,192,745)</u>	<u>(36,346,398)</u>	<u>(31,814,253)</u>	<u>(1,276,772)</u>	<u>(1,930,340)</u>
586,837	23,920	1,906,928	2,152,314	931,620	1,079,309
2,499,092	500,000	(5,014,880)	(47,128,547)	(1,510,000)	(3,910,000)
<u>3,085,929</u>	<u>523,920</u>	<u>(3,107,952)</u>	<u>(44,976,233)</u>	<u>(578,380)</u>	<u>(2,830,691)</u>
(2,085,807)	509,688	(9,882,145)	(41,246,959)	2,249,615	140,372
7,036,653	41,592	29,527,440	70,774,399	516,317	375,975
<u>\$ 4,950,846</u>	<u>\$ 551,280</u>	<u>\$ 19,645,295</u>	<u>\$ 29,527,440</u>	<u>\$ 2,765,932</u>	<u>\$ 516,347</u>
\$ 396,327	\$ 551,280	\$ 8,547,731	\$ 9,555,338	\$ 2,765,932	\$ 516,347
4,554,519		11,097,564	19,972,102		
<u>\$ 4,950,846</u>	<u>\$ 551,280</u>	<u>\$ 19,645,295</u>	<u>\$ 29,527,440</u>	<u>\$ 2,765,932</u>	<u>\$ 516,347</u>

**CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)**

For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 655,424	\$ 14,867,719	\$ 872,843
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	992,880	9,055,375	2,177,630
Other income (expense)	420	(30,596)	
Other		(292,789)	(28,697)
(Increase) Decrease In:			
Accounts receivable	83,843	56,677	42,396
Accrued utility revenues		(309,556)	938
Inventory		3,711,243	(18,118)
Due from other funds			
Due from other governmental units	(12,819)		
Prepaid items		94,492	
Other assets		(1,528)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	94,785	(2,994,392)	144,847
Deposits payable	2,641	38,140	913
Accrued expenses and other liabilities	8,789	140,839	24,309
Unearned revenues		(436,984)	54,971
Accrued claims		40,000	
Due to other funds	11		
Due to other governmental units	13,883	460,571	8,974
Net Cash Provided By Operating Activities	\$ 1,839,857	\$ 24,399,211	\$ 3,281,006
Non Cash Transactions:			
Decrease in fair value of investments	\$ (131,500)	\$	\$
Receipt of contributed property	6,666,003		2,909,926
Equipment purchases in accounts payable at year end		1,807,598	664,545

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2010	2009
		2010	2009		
\$ 332,859	\$ 1,700,274	\$ 18,429,119	\$ 17,766,687	\$ 1,448,657	\$ 2,065,040
9,067,514	919,465	22,212,864	21,019,930	2,265,631	2,067,314
330,132	10,146	310,102	420,706		
		(321,486)	(254,852)		
18,607	(46,934)	154,589	(12,226)	(29,490)	
		(308,618)	(513,610)		
10,614		3,703,739	4,174,584		
(122,529)	(24,427)	(146,956)	389,049		
(57,995)	(130)	(70,944)	17,915	(2,008)	1,464
		94,492	63,304		
108,371	(2,730)	104,113	(15,421)		
143,551	9,193	(2,602,016)	1,636,783	24,787	17,141
19,000		60,694	115,524	(12,965)	(22,574)
(11,794)	11,030	173,173	414,759	504,260	519,907
(108,371)	2,730	(487,654)	327,405		
		40,000	49,000	(264,297)	203,084
(1,304)	678	(615)	(544,207)		
(1,046)	(712)	481,670	458,150	1,968	226
<u>\$ 9,727,609</u>	<u>\$ 2,578,583</u>	<u>\$ 41,826,266</u>	<u>\$ 45,513,480</u>	<u>\$ 3,936,543</u>	<u>\$ 4,851,602</u>
\$ (244,408)	\$ (14,800)	\$ (390,708)	\$ (243,846)	\$ (370,000)	\$ (508,900)
4,252,423	1,815,853	15,644,205	5,339,368	5,448	89,124
		2,472,143	907,928		

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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.

In determining the financial reporting entity, the City complies with the provisions of the Governmental Accounting Standards Board Statement No. 14, "The Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. As of December 31, 2010, the City had one blended component unit, the Economic Development Authority (EDA) which was created to account for development allowable only under specific State statutes. The board of directors of the EDA is comprised of City Council members and the EDA directly provides all of its services to the City. There were no activities in the EDA in 2010 other than the accumulation of resources and debt service on outstanding bonds issued by the EDA which is reported in the Economic Development Authority Bond nonmajor debt service fund in the Governmental Fund Financial Statements.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. As of December 31, 2010, there were no entities that met the requirements to be considered a discretely presented component unit of the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

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, and Net Assets or Equity

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

1. Deposits and investments (continued)

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

Cash and cash equivalents for purposes of the general purpose 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. Land Held for Resale

Land acquired by the City with the intent to be resold is reported as an asset in the governmental funds and offset by a fund balance reserve account.

3. Receivables and payables

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."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

3. Receivables and payables (continued)

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 revenue 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 revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

4. Inventory

The materials and supplies inventories are valued at moving average cost on a first-in, first-out basis. 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).

5. Restricted assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts, in the governmental funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. 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.

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</u> <u>in Years</u>
Buildings	10 - 40
Infrastructure	15 - 67
Other Improvements	5 - 40
Machinery and Equipment	2 - 20

7. Market Value Credit (MVC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by MVC. This credit is paid to the City by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. MVC revenue is recognized as intergovernmental revenue by the City when received.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

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.

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 assets.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

10. Long-term obligations (continued)

Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported separately and amortized over the term of the related debt.

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.

11. Fund equity

In the fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Comparative Data

The financial statements include certain prior year comparative financial information in total. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

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 Economic Development Fund, which adopt project length budgets.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 2: Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

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.
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).

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds

A. 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.

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, 2010 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy (continued)

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.

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
- 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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

- 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

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

<u>Investment Type</u>	<u>December 31, 2010 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	\$ 5,982,666	0.40 - 0.65	A-1+	P1
Guaranteed Investment Contracts	2,499,927	**	Unrated	Unrated
Short-Term Government Trust	4,554,520	0	AAA	Aaa
Municipal Bond	1,806,721	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	62,873,081	0.05 - 3.47	AAA	Aaa
Federal Home Loan Bank	48,018,935	0.19 - 4.67	AAA	Aaa
Federal Home Loan Mortgage Corporation	31,386,169	0.05 - 4.67	AAA	Aaa
Federal National Mortgage Association	68,971,643	0.02 - 4.50	AAA	Aaa
Treasury Note	3,016,173	0.074	AAA	Aaa
Sub-total Investments	229,109,835			
Cash and Deposits	23,813,669			
Total	<u>\$ 252,923,504</u>			

* Investment in internally issued municipal bonds not subject to weighted average maturity policy.

**Debt reserve accounts not subject to weighted average maturity policy.

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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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	\$ 62,873,081
Federal Home Loan Bank	Federal Agency Securities	48,018,935
Federal Home Loan Mortgage Corporation	Federal Agency Securities	31,386,169
Federal National Mortgage Association	Federal Agency Securities	68,971,643

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, 2010 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 Assets:

Cash and cash equivalents	\$ 29,761,277
Investments	212,029,603
Restricted and reserved cash and investments	<u>11,132,624</u>
Total	<u>\$ 252,923,504</u>

B. Land Held for Resale

On September 1, 2009 the City acquired land from a private party for \$650,000. The City intends to resell the property in connection with the expansion of the University of Minnesota Rochester Campus. Land held for resale is reported in the Construction Improvement Fund and offset by a restriction of fund balance in Governmental Activities in the Statement of Net Assets. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2010.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2010 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,629	\$ 695,417	\$ 556,995	\$ 101,284	\$1,355,325
Special Revenue	125,767	761,641	106,093	73,406	1,066,907
Capital Project	2,502,794	3,174,984	321,396		5,999,174
Debt Service			2,908		2,908
Enterprise		432	86,549		86,981
Internal Service	1,068		1,295		2,363
Totals	\$2,631,258	\$4,632,474	\$1,075,236	\$ 174,690	\$8,513,658

Amounts due to other governmental units as of December 31, 2010 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 28,129	\$ 201,568	\$ 1,855	\$ 231,552
Special Revenue	4,250	13,893	126,231	34,143	178,517
Capital Project		11,274	33,686		44,960
Enterprise		471,364	63,699		535,063
Internal Service		9,102	6,370		15,472
Totals	\$ 4,250	\$ 533,762	\$ 431,554	\$ 35,998	\$1,005,564

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted and Reserved Cash

Restricted cash are deposits held for specifically required purposes and in the governmental funds are offset by fund balance reserve accounts. Reserved cash are deposits reserved by council action for a particular purpose. Descriptions are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment	\$ 35,060
-------------------------------------	-----------

Enterprise Funds

Electric Fund:

Debt Service Reserve Accounts	2,499,927
-------------------------------	-----------

Sewer Fund:

Waste Water Construction Account	3,821,656
Waste Water Debt Service Account	732,863

Reserved Cash -

Enterprise Funds:

Parking Fund:

Bioscience Building Debt Service Reserve	<u>4,043,118</u>
--	------------------

Total	<u><u>\$ 11,132,624</u></u>
-------	-----------------------------

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements and the sewer utility issued revenue bonds in 2004 to fund the construction of sewer utility improvements. Provisions of these revenue bonds require that the electric and sewer utilities fund debt service accounts in an amount equal to the following years bond principal and interest payments at least by the date the debt payments are due each year. In addition to the debt service account, provisions of the electric utility revenue bonds require that a portion of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if necessary.

The sewer utility issued \$30,455,000 of GO Waste Water Revenue Bonds in February 2007 for upgrade and maintenance of the waste water treatment plant, lift station, and trunk lines. Debt service is to be paid from sewer rate revenue by the sewer fund. Also, bond proceeds were deposited in a reserve account for payment of the first three years of interest on the bonds. The sewer utility issued \$19,500,000 of GO Variable Rate Demand Waste Water Revenue Bonds in April 2007 to fund trunk line sewer and new lift station capacity to be repaid through sewer availability charges to developers. These bonds have a single maturity in December 2026, with no required principal payments before that time.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets

Governmental capital asset activity, including internal service fund capital assets, for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 57,858,795	\$ 2,251,337	\$	\$ 60,110,132
Construction in progress	67,290,285	37,615,824	44,486,518	60,419,591
Total capital assets, not being depreciated	<u>125,149,080</u>	<u>39,867,161</u>	<u>44,486,518</u>	<u>120,529,723</u>
Capital assets, being depreciated:				
Buildings	138,763,351	24,445,706		163,209,057
Improvements other than buildings	41,634,239	3,515,592		45,149,831
Infrastructure	354,369,277	4,641,330		359,010,607
Machinery and equipment	64,125,472	11,999,143	9,275,937	66,848,678
Total capital assets, being depreciated	<u>598,892,339</u>	<u>44,601,771</u>	<u>9,275,937</u>	<u>634,218,173</u>
Less accumulated depreciation for:				
Buildings	56,044,997	4,104,441		60,149,438
Improvements other than buildings	13,254,709	1,522,604		14,777,313
Infrastructure	101,569,332	7,744,926		109,314,258
Machinery and equipment	40,572,320	5,257,803	2,217,953	43,612,170
Total accumulated depreciation	<u>211,441,358</u>	<u>18,629,774</u>	<u>2,217,953</u>	<u>227,853,179</u>
Total capital assets, being depreciated, net	<u>387,450,981</u>	<u>25,971,997</u>	<u>7,057,984</u>	<u>406,364,994</u>
Governmental activities capital assets, net	<u>\$ 512,600,061</u>	<u>\$ 65,839,158</u>	<u>\$ 51,544,502</u>	<u>\$ 526,894,717</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2010 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 12,779,911	\$ 243,763	\$ 3,207	\$ 13,020,467
Construction in progress	33,374,045	24,853,482	19,122,990	39,104,537
Total capital assets, not being depreciated	<u>46,153,956</u>	<u>25,097,245</u>	<u>19,126,197</u>	<u>52,125,004</u>
Capital assets, being depreciated:				
Buildings and improvements	367,939,878	12,929,807		380,869,685
Machinery and equipment	385,407,810	17,851,226	861,813	402,397,223
Total capital assets, being depreciated	<u>753,347,688</u>	<u>30,781,033</u>	<u>861,813</u>	<u>783,266,908</u>
Less accumulated depreciation for:				
Buildings and improvements	119,316,217	8,844,385		128,160,602
Machinery and equipment	135,827,309	13,368,479	498,149	148,697,639
Total accumulated depreciation	<u>255,143,526</u>	<u>22,212,864</u>	<u>498,149</u>	<u>276,858,241</u>
Total capital assets, being depreciated, net	<u>498,204,162</u>	<u>8,568,169</u>	<u>363,664</u>	<u>506,408,667</u>
Business-type activities capital assets, net	<u>\$ 544,358,118</u>	<u>\$ 33,665,414</u>	<u>\$ 19,489,861</u>	<u>\$ 558,533,671</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 523,948
Public safety	3,001,323
Public works	5,408,528
Airport operations	2,224,876
Transit	665,578
Culture	1,200,700
Park and recreation	3,287,423
Economic development/tourism	51,767
Subtotal	<u>16,364,143</u>
Internal Service Funds:	
Equipment revolving	2,074,503
Information technology	<u>191,128</u>

Total depreciation expense - governmental activities \$18,629,774

Business-Type Activities:

Parking	\$ 992,880
Electric utility	9,055,375
Water utility	2,177,630
Sewer utility	9,067,514
Storm water utility	<u>919,465</u>

Total depreciation expense - business-type activities \$22,212,864

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

F. 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, 2010, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 824,719	\$ 551,394
Construction improvement	611,187	25,084
Subtotal	1,435,906	576,478
Non-Major Governmental Funds:		
Special Revenue -		
Library		6,909
Municipal recreation system	248,851	129,164
Edward Byrne Memorial JAG		74,114
Airport operations	15,772	25,050
Transit		174,388
Community development projects		2,196
Subtotal	264,623	411,821
Total Governmental Funds	1,700,529	988,299
Proprietary Funds:		
Enterprise -		
Parking		260
Electric utility		1,663,519
Water utility		677,032
Sewer utility	1,444,679	159,880
Storm water utility	373,221	29,439
Total Proprietary Funds	1,817,900	2,530,130
Total All Funds	\$ 3,518,429	\$ 3,518,429

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2010, at the individual fund level are summarized below:

Funds	Advances to Other Funds	Advances from Other
Major Governmental Funds:		
Capital Project -		
Construction improvement	\$ 242,693	\$
Non-Major Governmental Funds:		
Special Revenue -		
Municipal recreation system		242,693
Total Governmental Funds	<u>\$ 242,693</u>	<u>\$ 242,693</u>

Transfers during the year ended December 31, 2010 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 11,188,291	\$ 374,907
Capital Project	3,531,719	1,675,433
Other Governmental Funds		
Library	91,000	22,445
Municipal Recreation System	109,000	292,133
Airport Operations		1,077,928
F.E. Williams Estate		5,217
Economic Development Administration		765,838
Community Development Projects Fund		172,055
Airport Hangar Construction Notes	47,924	
Facility Energy Improvements Loan	566,966	
Economic Development Authority Bond	1,164,533	
PWOC Bond	11,000	
Subtotal Other Governmental Funds	<u>1,990,423</u>	<u>2,335,616</u>
Subtotal Governmental Funds	16,710,433	4,385,956
Enterprise	996,793	13,352,807
Internal Service	31,537	
Totals	<u>\$ 17,738,763</u>	<u>\$ 17,738,763</u>

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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Other significant transfers include Sanitary Sewer Fund transfer of \$2,365,000 and Airport Fund transfer of \$988,534 to the Construction Improvement Capital Project Fund for capital construction.

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

Governmental Funds:	
Transfer in	\$ 16,710,433
Transfers out	(4,385,956)
Internal Service Funds:	
Transfer in	31,537
Capital assets transferred from Govt- Activities to Business-type activities	<u>(9,104,146)</u>
Government-wide Statement of Activities - Transfers in/out	<u><u>\$ 3,251,868</u></u>

G. 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, 2010 totaled \$275,040.

Following is a schedule, by years, of estimated future minimum rental payments, for the Building Safety department's rental at Olmsted County's campus and record storage space lease for various City departments, 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 in costs.

Years ending December 31:	
2011	\$ 50,469
2012	49,602
2013	42,984
2014	43,574
2015	44,174

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2010, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/10
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 1,806,721
District 36, Series 2009A	8,035,000	2.6-6.0%	2033	8,035,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	79,565,000
Wastewater Treatment Plant				
Revenue Bonds, Series 2007A	30,455,000	4.0-5.0%	2026	29,785,000
Wastewater Treatment Plant				
Variable Rate Revenue Bonds, Series 2007B	19,500,000	Variable	2026	17,700,000
Wastewater Treatment Plant				
Refunding Bonds, Series 2009C	2,825,000	2.00%	2011	960,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	1.0-5.15%	2036	26,275,000
Direct Pay, Series 2010A - Equipment	425,000	0.85-3.70%	2020	425,000
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	2.5-3.5%	2019	740,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2002	11,275,000	3.0-4.5%	2017	6,170,000
Electric Utility Revenue				
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	75,515,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	9,670,000
Rochester Economic Development Authority				
Lease Bonds, Series 2008	6,700,000	4.71%	2033	6,545,000
Revenue Notes:				
Electric Utility				
Note, Series 2005	5,765,000	3.98%	2014	3,035,000
Note, Series 2009A	6,790,000	Variable	2014	5,380,000
Notes Payable:				
GO Sales Tax Revenue Note of 2001				
GO Sales Tax Revenue Note of 2001	2,500,000	2.83%	2021	1,606,000
GO Sales Tax Revenue Note of 2008				
GO Sales Tax Revenue Note of 2008	2,500,000	3.42%	2028	2,322,000
Airport Hangar - 2001				
Airport Hangar - 2001	215,301	0%	2012	35,884
Airport Hangar - 2006				
Airport Hangar - 2006	263,944	0%	2016	153,968
Energy Loan Payable				
Energy Loan Payable	5,715,795	4.10%	2018	4,027,602
MN DEED BioScience Site Cleanup Loan				
MN DEED BioScience Site Cleanup Loan	108,439	1%	2013	108,439
Capital Leases				
Capital Leases	886,219	7.769%	2014	16,867
Compensated Absences				13,551,476
Post Employment Benefit Obligation				1,655,057
Less: Unamortized premium				6,327,713
Deferred Refunding Balance				(1,651,850)
Total Long-term Debt				<u>\$ 299,759,877</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. 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 Refunding and Revenue Bonds

General Obligation Revenue Refunding and 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.

Revenue Bonds and Notes – Electric Utility

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

General Obligation Sales Tax Revenue Notes

In 2001 and 2008, the City authorized the issuance of \$2,500,000 General Obligation Sales Tax Revenue Notes, respectively, to finance the construction of transportation infrastructure improvements. The funds were advanced under these notes in 2002 and 2008. Both notes are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by a Debt Service Fund.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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 is being 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 as part of 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 are 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.

Capital Leases

The Electric Utility has entered into various capital leases with varying payments and interest rates. These lease payments are payable from revenues derived from the operation of the Electric Utility Enterprise Fund.

Bond Indentures

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2010:

	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	\$ 2,001,806	\$	\$ 195,085	\$ 1,806,721	\$
Taxable Tax Increment Bonds, District 36, Series 2009A	8,035,000			8,035,000	
GO Sales Tax Revenue Note of 2001	1,729,000		123,000	1,606,000	126,000
GO Sales Tax Revenue Note of 2008	2,414,000		92,000	2,322,000	95,000
GO Equipment Certificates of Indebtedness, Series 2009B	815,000		75,000	740,000	(1) 75,000
GO Taxable Build America Bonds Direct Pay, Series 2010A - Public Works		26,275,000		26,275,000	
GO Taxable Build America Bonds Direct Pay, Series 2010A - Equipment		425,000		425,000	(1)
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	9,900,000		230,000	9,670,000	240,000
REDA Lease Revenue Bonds, Series 2008	6,700,000		155,000	6,545,000	165,000
Note Payable:					
Airport Hangar 2001	57,414		21,530	35,884	21,530
Airport Hangar 2006	180,362		26,394	153,968	26,394
Municipal Loan Payable:					
Energy Loan	4,445,205		417,603	4,027,602	434,900
MN DEED BioScience Site Cleanup Loan		108,439		108,439	46,780
Less: Unamortized Premium on Bonds		85,609		85,609	
Other Liabilities:					
Compensated Absences	9,134,493	5,722,840	5,164,445	9,692,888	5,770,000
Post-Employment Benefit Obligation	1,151,773	779,499	276,215	1,655,057	(1)
Governmental Activities Long-term Liabilities	<u>46,564,053</u>	<u>33,396,387</u>	<u>6,776,272</u>	<u>73,184,168</u>	<u>7,000,604</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant - Revenue Refunding Bonds, Series 2009C	1,895,000		935,000	960,000	960,000
Revenue Bonds, Series 2004A	80,550,000		985,000	79,565,000	1,050,000
Revenue Bonds, Series 2007A	30,455,000		670,000	29,785,000	695,000
Variable Rate Demand Revenue Bonds, Series 2007B	18,300,000		600,000	17,700,000	
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2000	865,000		865,000		
Series 2002	6,910,000		740,000	6,170,000	770,000
Series 2007	75,750,000		235,000	75,515,000	1,145,000
Revenue Note:					
Electric Utility Note of 2005	3,615,000		580,000	3,035,000	645,000
Water Utility Note of 2006	410,000		410,000		
Electric Utility Note of 2009A	6,590,000		1,210,000	5,380,000	1,260,000
Less: Unamortized Premium	6,665,488		423,384	6,242,104	
Deferred Refunding Balance	(1,788,870)		(137,020)	(1,651,850)	
Other Liabilities:					
Obligation Under Capital Lease	228,252		211,385	16,867	4,362
Compensated Absences	3,777,068	2,100,361	2,018,841	3,858,588	1,960,357
Business-type Activities Long-term Liabilities	<u>234,221,938</u>	<u>2,100,361</u>	<u>9,746,590</u>	<u>226,575,709</u>	<u>8,489,719</u>
Total	<u>\$ 280,785,991</u>	<u>\$ 35,496,748</u>	<u>\$ 16,522,862</u>	<u>\$ 299,759,877</u>	<u>\$ 15,490,323</u>

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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

In 2007, the Electric Utility issued \$76.7 million in Revenue Bonds, Series 2007C, to finance the emission reduction project at Silver Lake Plant, transmission and substation work, and distribution system expansion, and to advance refund the majority of the outstanding Series 2000A bonds. With respect to the refunded portion, net proceeds of \$31.7 million (after payment of underwriting fees, insurance, and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Series 2000A Bonds. As a result, 2011-2030 maturities of the Series 2000A Bonds are considered defeased and the liability for those bonds has been removed from the financial statements

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,172,659. This difference, reported in the financial statements as a reduction from revenue bonds payable, is being amortized and charged to operations over the bond term using the interest method. The City completed the advance refunding to reduce its total debt service payments over the next 23 years by \$3.1 million and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$2.0 million. In December 2010, the Series 2000A Bonds were paid in full and the escrow agent released all funds, including the \$2,471,688 debt service reserve.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2010, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue Bonds*		Revenue Bonds and Notes		Energy Loan Payable		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2011	\$ 75,000	\$ 1,287,654	\$ 405,000	\$ 753,234	\$ 434,900	\$ 160,719	\$ 377,364	\$ 124,746
2012	340,000	1,517,375	425,000	733,712	452,914	142,705	269,748	117,936
2013	1,170,000	1,504,577	445,000	713,250	471,674	123,946	262,394	110,876
2014	1,195,000	1,485,032	470,000	691,728	491,210	104,409	270,394	103,601
2015	1,220,000	1,459,690	485,000	669,266	511,556	84,063	276,394	96,075
2016-2020	6,405,000	6,736,918	2,805,000	2,971,659	1,665,348	121,509	1,396,997	359,521
2021-2025	6,750,000	5,451,952	3,530,000	2,229,479			883,000	163,387
2026-2030	8,130,000	3,734,272	4,455,000	1,294,670			490,000	33,843
2031-2035	8,645,000	1,465,429	3,195,000	230,145				
2036	1,545,000	39,784						
Totals	\$ 35,475,000	\$ 24,682,683	\$ 16,215,000	\$ 10,287,143	\$ 4,027,602	\$ 737,351	\$ 4,226,291	\$ 1,109,985

					Capital Lease Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Business-Type Activities</u>						
2011	\$ 2,705,000	\$ 5,279,385	\$ 3,820,000	\$ 4,035,484	\$ 4,362	\$ 1,157
2012	2,075,000	5,172,260	4,025,000	3,887,431	4,714	806
2013	4,035,000	5,045,585	4,245,000	3,730,468	5,093	427
2014	5,445,000	4,827,085	4,470,000	3,565,416	2,698	61
2015	6,425,000	4,548,210	3,220,000	3,385,788		
2016-2020	36,220,000	17,688,063	18,580,000	14,454,788		
2021-2025	44,600,000	8,074,743	23,025,000	10,019,015		
2026-2030	26,505,000	306,060	28,715,000	4,330,426		
Totals	\$ 128,010,000	\$ 50,941,391	\$ 90,100,000	\$ 47,408,816	\$ 16,867	\$ 2,451

*Does not include the General Obligation Taxable Tax Increment Bond, District No. 7, Series 1997 which is structured without fixed principal maturities.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2010, the City had not utilized \$227,374,000 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 \$1,529,991,000 and the balance outstanding at December 31, 2010 totals \$1,533,940,418.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

I. 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, 2010 there were approximately 62 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, 2010 there were 7 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 2010, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 768,963
Interest on net OPEB obligations	51,830
Adjustment to ARC	<u>(41,294)</u>
Annual OPEB Cost	779,499
Contributions during the year	<u>(276,214)</u>
Increase in net OPEB obligation	503,285
Net OPEB beginning of year	<u>1,151,773</u>
Net OPEB end of year	<u><u>\$ 1,655,058</u></u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

I. 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 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	\$ 745,935	\$ 632,995	\$ 227,157	30.45%	\$ 1,151,773
December 31, 2010	779,499	1,151,773	276,214	35.43%	1,655,058

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)
1/1/2009		\$ 6,804,261	\$ 6,804,261	0.00%	\$ 56,269,264	12.09%
1/1/2010		7,373,661	7,373,661	0.00%	58,801,381	12.54%

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, 2010**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

In the January 1, 2007 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 6% annual increase in covered payroll. The annual healthcare cost trend rate is 10.0% initially, reduced incrementally to an ultimate rate of 5% after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2007.

J. Designated Fund Balance

Designated fund balance represents the portion which is based on tentative future spending plans. Fund balance has been designated at December 31, 2010 in the following funds:

General Fund

Designated:	
Subsequent years' appropriations	\$ 173,157
General contingency for future compensated absences	<u>7,875,534</u>
Totals	<u><u>\$ 8,048,691</u></u>

Special Revenue Funds

	<u>Library</u>	<u>Municipal Recreation</u>	<u>Totals</u>
Designated:			
Subsequent years' appropriations	\$ 455,703	\$ 54,864	\$ 510,567
General contingency for future compensated absences	<u>698,963</u>	<u>1,118,391</u>	<u>1,817,354</u>
Totals	<u><u>\$ 1,154,666</u></u>	<u><u>\$ 1,173,255</u></u>	<u><u>\$ 2,327,921</u></u>

K. Individual Fund Disclosures

There were no funds reporting a deficit as of December 31, 2010.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 3: Detailed Notes on All Funds (continued)

L. Restricted Net Assets

	Restricted Net Assets Imposed By			
	Grantors	Contributors	Bond Reserve	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 35,060	\$	\$
Construction Improvement Fund:				
Flood Control	23,075,717			
Sales Tax Authorized Projects				11,490,714
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
CDBG Loans	3,462,663			
Airport Operations				3,830,289
Total Governmental Activities	<u>26,538,380</u>	<u>35,060</u>		<u>15,321,003</u>
<u>Business-Type Activity Funds:</u>				
Electric Utility Fund:				
Debt Reserve			2,499,927	
Sewer Utility Fund:				
Debt Reserve			732,864	
Total Business-Type Activities			<u>3,232,791</u>	
Total Restricted Net Assets	<u>\$ 26,538,380</u>	<u>\$ 35,060</u>	<u>\$ 3,232,791</u>	<u>\$ 15,321,003</u>

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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 4: Other Information (continued)

A. Risk Management (continued)

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 \$900,000 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 \$1,587,586 reported in the Fund at December 31, 2010 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, 2010 and 2009 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2010	\$ 1,851,883	\$ 12,064,273	\$ (12,328,570)	\$ 1,587,586
2009	1,648,799	10,471,379	(10,268,295)	1,851,883

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010**

NOTE 4: Other Information (continued)

B. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("RPU") has entered into a power purchase agreement with Southern Minnesota Municipal Power Agency ("SMMPA"). Under the terms of the agreement the Agency provided virtually all Utility power requirements through 1999. In 1999, the Utility and Agency agreed to a contract rate of delivery (CROD) beginning in 2000. The CROD caps the amount of power the Agency must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The contract expires in the year 2030.

Power Generation Agreement:

In 1992 Rochester Public Utilities ("RPU") entered into an agreement with the Minnesota Municipal Power Agency ("MMPA") to sell a maximum of 100 megawatts of power annually to MMPA beginning July 1, 1995, at a fixed rate. Under the terms of the agreement, the Utility is paid a fixed fee for providing the availability of generating capacity and is reimbursed for the fuel-related costs of generating power.

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments. As of December 31, 2010, the City's commitments with contractors and vendors were as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Major Street Projects	\$ 6,344,589
Sewer and Water Projects	948,647
Sidewalk Projects	14,315
Bridge Projects	387,576
Storm Water / Storm Sewer Projects	529,212
Flood Control	11,196
Parking Ramp Rehabilitation	117,941
Downtown Bus Stop Improvements	751
Airport Projects	1,406,909
Civic Center Expansion & Improvements	1,599
Parks Projects - Various	9,299
Public Works/Transit Operation Center	<u>10,962,874</u>
Total Construction Projects	<u>\$ 20,734,908</u>
 <u>Equipment Purchase Commitments</u>	
Facility Energy Improvements	\$ 71,012
Roch Civic Theatre Sound Board	3,547
Police New World Software	356,375
Payment Card Industry - switches & cables	2,129
City Wide - Area Network	8,867
City Hall Computer System	25,260
New Transit Buses	<u>363,348</u>
Total Equipment Purchase Commitments	<u>\$ 830,538</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

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, 2010, 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.

SMMPA Litigation:

In 2005, the City of Rochester brought a claim against Southern Minnesota Municipal Power Agency (SMMPA) its primary wholesale power supplier, seeking a declaratory judgment over cost responsibility for new generating resources and alleging a breach of contract over SMMPA's rate setting methods. SMMPA filed counterclaims alleging a breach of the 1992 "Settlement Agreement" concerning the use of the Silver Lake Power Plant, seeking declaratory judgments regarding issues relating to the nature of RPU's obligations under the Power Sales Contract and that the SMMPA Board has virtually unlimited discretion in setting rates under the Power Sales Contract with Rochester.

On May 8, 2009, the Court issued a decision that denied the City's requested declaratory judgment, granted portions of SMMPA's counterclaims concerning its rate setting authority but denied the remainder. The decision rejected SMMPA's counterclaim concerning the Settlement Agreement. On March 17, 2010, the Court issued a final order granting SMMPA's motion for payment of \$252,317 for expert witness fees. The date for possible appeals has passed and the Court's order for payment was carried out in 2010.

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, 2010

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

The City participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA). PERA is the administrator of two cost-sharing multiple-employer retirement plans, the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF). PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

The following disclosures are made in accordance with Statement No. 27 of the Governmental Accounting Standards Board:

1. Cost-Sharing Multiple-Employer
Defined Benefit Pension Plans - Statewide
Public Employees Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Rochester are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 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 10 years and 1.7 percent for each remaining year.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989.

Normal retirement age for unreduced Social Security benefits is capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0% respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. In 2010, the City of Rochester was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7% for Coordinated Plan members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$2,781,258, \$2,674,154, and \$2,520,353, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$2,431,488, \$2,433,498, and \$2,232,035, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2010

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)	UAAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2008	\$	\$ 5,102,627	\$ 5,102,627	0.00%	\$ 51,356,586	9.94%
1/1/2009		6,804,261	6,804,261	0.00%	56,269,264	12.09%
1/1/2010		7,373,661	7,373,661	0.00%	58,801,381	12.54%

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2010

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2010

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.

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.

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.

Transportation Sales Tax Note of 2008 Fund:

This fund is used to account for the accumulation of resources (sales tax revenue) for payment of the 2008 general obligation sales tax revenue note.

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2010

DEBT SERVICE FUNDS (continued)

Transportation Sales Tax Note Fund:

This fund is used to account for the accumulation of resources (sales tax revenue) for payment of the 2001 general obligation sales tax revenue note.

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.

CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2010

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
ASSETS								
Cash and cash equivalents	\$ 254,495	\$ 676,500	\$	\$ 161,826	\$ 45,401	\$	\$ 20,928	\$
Investments	1,816,800	2,018,800		2,826,200	605,700		454,200	
Accrued interest receivable	9,500	10,600		14,800	3,200		2,400	
Accounts receivable (net of allowance for uncollectibles)	19,364	455,811		866,853		46,436	88,700	
Loans receivable								3,462,663
Taxes receivable delinquent	119,071	142,068		2,180		383		
Special assessments receivable delinquent		4,928						
Due from other funds		248,851		15,772				
Due from other governmental units	80,592	106,954	74,119	87,385		691,545		26,312
Prepaid items	3,423							
Inventory		27,622						
TOTAL ASSETS	\$ 2,303,245	\$ 3,692,134	\$ 74,119	\$ 3,975,016	\$ 654,301	\$ 738,364	\$ 566,228	\$ 3,488,975
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 194,848	\$ 133,421	\$	\$ 113,247	\$	\$ 170,508	\$	\$ 5,652
Deposits payable	6,816	441,248					11,384	
Accrued compensation and payroll taxes	179,671	278,823				481		
Due to other funds	6,909	129,164	74,114	25,050		174,388		2,196
Due to other governmental units	18,000	137,520	5	4,250		56	222	18,464
Advances from other funds		242,693						
Deferred revenue	119,071	146,996		2,180		383		3,462,663
Total Liabilities	525,315	1,509,865	74,119	144,727		345,816	11,606	3,488,975
Fund Balance:								
Reserved for prepaid items	3,423							
Reserved for debt service								
Reserved for encumbrances	20,567	32,840				6,361		
Unreserved:								
Designated for future compensated absences	698,963	1,118,391						
Designated for subsequent years' appropriations	455,703	54,864						
Undesignated	599,274	976,174		3,830,289	654,301	386,187	554,622	
Total Fund Balance	1,777,930	2,182,269		3,830,289	654,301	392,548	554,622	
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,303,245	\$ 3,692,134	\$ 74,119	\$ 3,975,016	\$ 654,301	\$ 738,364	\$ 566,228	\$ 3,488,975

Total	Debt Service							Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Note 2008	Transportation Sales Tax Note	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 1,159,150	\$ 78	\$	\$	\$	\$ 217,476	\$	337,461	\$ 555,015	\$ 1,714,165
7,721,700									7,721,700
40,500									40,500
1,477,164									1,477,164
3,462,663									3,462,663
263,702							5,025	5,025	268,727
4,928									4,928
264,623									264,623
1,066,907							2,908	2,908	1,069,815
3,423									3,423
27,622									27,622
<u>\$ 15,492,382</u>	<u>\$ 78</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 217,476</u>	<u>\$</u>	<u>\$ 345,394</u>	<u>\$ 562,948</u>	<u>\$ 16,055,330</u>
\$ 617,676	\$	\$	\$	\$	\$	\$	\$	\$	\$ 617,676
459,448									459,448
458,975									458,975
411,821									411,821
178,517									178,517
242,693									242,693
3,731,293							5,025	5,025	3,736,318
<u>6,100,423</u>							<u>5,025</u>	<u>5,025</u>	<u>6,105,448</u>
3,423	78				217,476		340,369	557,923	3,423
59,768									557,923
									59,768
1,817,354									1,817,354
510,567									510,567
7,000,847									7,000,847
<u>9,391,959</u>	<u>78</u>				<u>217,476</u>		<u>340,369</u>	<u>557,923</u>	<u>9,949,882</u>
<u>\$ 15,492,382</u>	<u>\$ 78</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 217,476</u>	<u>\$</u>	<u>\$ 345,394</u>	<u>\$ 562,948</u>	<u>\$ 16,055,330</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
REVENUES								
General property taxes	\$ 4,529,281	\$ 5,316,769	\$	\$ 1,419	\$	\$ 11,805	\$	\$
Tax increments								
Sales tax								
Intergovernmental revenues	1,018,740	263,293	217,331	224,684		3,618,226		652,014
Charges for services	202,855	6,744,088		1,683,290		664,888		
Interest earnings	34,090	48,790		199,416	15,937	(1,839)	10,893	
Net increase (decrease) in the fair value of investments	(24,200)	(48,800)		(55,800)	(6,600)	(6,200)	(3,400)	
Miscellaneous revenues	221,784	138,437		929,605		10,700	1,699,448	90,537
Total Revenues	5,982,550	12,462,577	217,331	2,982,614	9,337	4,297,580	1,706,941	742,551
EXPENDITURES								
Culture	6,079,045							
Park and recreation		12,341,947						
Public safety			217,331					
Airport operations				3,116,769				
Transit						4,216,924		
Economic development/tourism							891,434	570,496
Debt service								
Total Expenditures	6,079,045	12,341,947	217,331	3,116,769		4,216,924	891,434	570,496
Excess (deficiency) of revenues over (under) expenditures	(96,495)	120,630		(134,155)	9,337	80,656	815,507	172,055
OTHER FINANCING SOURCES (USES)								
Issuance of debt								
Transfers in	91,000	109,000						
Transfers out	(22,445)	(292,133)		(1,077,928)	(5,217)		(765,838)	(172,055)
Total Other Financing Sources (Uses)	68,555	(183,133)		(1,077,928)	(5,217)		(765,838)	(172,055)
Net change in fund balances	(27,940)	(62,503)		(1,212,083)	4,120	80,656	49,669	
Fund Balances - beginning	1,805,870	2,244,772		5,042,372	650,181	311,892	504,953	
Fund Balances - ending	\$ 1,777,930	\$ 2,182,269	\$	\$ 3,830,289	\$ 654,301	\$ 392,548	\$ 554,622	\$

Total	Debt Service							Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Note 2008	Transportation Sales Tax Note	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 9,859,274	\$ 525,000	\$	\$	\$	\$	\$	\$ 326,948	\$ 326,948	\$10,186,222
			174,438	171,931				525,000	525,000
5,994,288							3,493	3,493	346,369
9,295,121									5,997,781
307,287	(725)				5,281	(2,049)	3,030	5,537	9,295,121
									312,824
(145,000)									(145,000)
3,090,511									3,090,511
<u>28,401,481</u>	<u>524,275</u>		<u>174,438</u>	<u>171,931</u>	<u>5,281</u>	<u>(2,049)</u>	<u>333,471</u>	<u>1,207,347</u>	<u>29,608,828</u>
6,079,045									6,079,045
12,341,947									12,341,947
217,331									217,331
3,116,769									3,116,769
4,216,924									4,216,924
1,461,930						5,669		5,669	1,467,599
	904,218	47,924	174,438	171,931	595,619	1,156,815	320,002	3,370,947	3,370,947
<u>27,433,946</u>	<u>904,218</u>	<u>47,924</u>	<u>174,438</u>	<u>171,931</u>	<u>595,619</u>	<u>1,162,484</u>	<u>320,002</u>	<u>3,376,616</u>	<u>30,810,562</u>
967,535	(379,943)	(47,924)			(590,338)	(1,164,533)	13,469	(2,169,269)	(1,201,734)
200,000		47,924			566,966	1,164,533	315,900	315,900	315,900
(2,335,616)							11,000	1,790,423	1,990,423
<u>(2,135,616)</u>		<u>47,924</u>			<u>566,966</u>	<u>1,164,533</u>	<u>326,900</u>	<u>2,106,323</u>	<u>(29,293)</u>
(1,168,081)	(379,943)				(23,372)		340,369	(62,946)	(1,231,027)
10,560,040	380,021				240,848			620,869	11,180,909
<u>\$ 9,391,959</u>	<u>\$ 78</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 217,476</u>	<u>\$</u>	<u>\$ 340,369</u>	<u>\$ 557,923</u>	<u>\$ 9,949,882</u>

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 4,802,537	\$ 4,559,658	\$ 4,529,281	\$ (30,377)	\$ 4,511,375
Intergovernmental	907,801	1,212,179	1,018,740	(193,439)	1,211,430
Charges for services	143,150	143,150	202,855	59,705	180,734
Interest earnings		8,428	34,090	25,662	32,686
Net increase in the fair value of investments			(24,200)	(24,200)	(18,700)
Miscellaneous					
Contributions		211,811	211,811		145,568
Other	7,700	7,700	9,973	2,273	11,762
Total Revenues	<u>5,861,188</u>	<u>6,142,926</u>	<u>5,982,550</u>	<u>(160,376)</u>	<u>6,074,855</u>
EXPENDITURES					
Public Library	5,838,743	6,047,056	5,912,263	134,793	5,680,086
Library - SELCO		31,415		31,415	
Gifts appropriations		591,070	166,782	424,288	40,792
Total Expenditures	<u>5,838,743</u>	<u>6,669,541</u>	<u>6,079,045</u>	<u>590,496</u>	<u>5,720,878</u>
Excess (deficiency) of revenues over (under) expenditures	22,445	(526,615)	(96,495)	430,120	353,977
OTHER FINANCING USES					
Transfers in			91,000	91,000	
Transfers out	<u>(22,445)</u>	<u>(22,445)</u>	<u>(22,445)</u>		<u>(22,551)</u>
Total Other Financing Sources (Uses)	<u>(22,445)</u>	<u>(22,445)</u>	<u>68,555</u>	<u>91,000</u>	<u>(22,551)</u>
Net change in fund balance		(549,060)	(27,940)	521,120	331,426
Fund Balance - beginning	<u>1,805,870</u>	<u>1,805,870</u>	<u>1,805,870</u>		<u>1,474,444</u>
Fund Balance - ending	<u>\$ 1,805,870</u>	<u>\$ 1,256,810</u>	<u>\$ 1,777,930</u>	<u>\$ 521,120</u>	<u>\$ 1,805,870</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 5,635,187	\$ 5,349,866	\$ 5,316,769	\$ (33,097)	\$ 5,629,860
Intergovernmental	51,386	386,707	263,293	(123,414)	345,570
Charges for services	6,970,545	6,970,545	6,744,088	(226,457)	6,810,596
Interest earnings	47,000	47,000	48,790	1,790	61,093
Net increase in the fair value of investments			(48,800)	(48,800)	(39,800)
Miscellaneous					
Contributions	34,500	44,781	11,081	(33,700)	6,860
Other	181,900	182,817	127,356	(55,461)	191,008
Total Revenues	<u>12,920,518</u>	<u>12,981,716</u>	<u>12,462,577</u>	<u>(519,139)</u>	<u>13,005,187</u>
EXPENDITURES					
Administration	427,124	430,073	433,548	(3,475)	432,684
Recreation Department	651,180	656,627	634,536	22,091	625,311
Golf	1,552,966	1,575,971	1,429,605	146,366	1,467,068
Tennis Center	46,773	46,773	60,860	(14,087)	40,804
Volleyball Center	294,848	295,876	282,992	12,884	282,467
Swimming Pools	232,879	232,879	152,263	80,616	165,016
Graham Arenas	669,850	671,571	673,768	(2,197)	628,566
Park	3,720,128	3,789,499	3,805,159	(15,660)	3,520,734
Plummer House	58,854	58,864	47,009	11,855	53,481
Recreation Center	1,235,783	1,238,856	1,195,546	43,310	1,170,313
UCR Field House	130,000	130,000	147,013	(17,013)	140,923
Mayo Civic Center	3,365,215	3,382,871	3,479,648	(96,777)	3,495,524
Total Expenditures	<u>12,385,600</u>	<u>12,509,860</u>	<u>12,341,947</u>	<u>167,913</u>	<u>12,022,891</u>
Excess (deficiency) of revenues over (under) expenditures	<u>534,918</u>	<u>471,856</u>	<u>120,630</u>	<u>(351,226)</u>	<u>982,296</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			109,000	109,000	
Transfers out	(527,381)	(527,381)	(292,133)	235,248	(309,266)
Total Other Financing Sources (Uses)	<u>(527,381)</u>	<u>(527,381)</u>	<u>(183,133)</u>	<u>344,248</u>	<u>(309,266)</u>
Net change in fund balance	<u>7,537</u>	<u>(55,525)</u>	<u>(62,503)</u>	<u>(6,978)</u>	<u>673,030</u>
Fund Balance - beginning	<u>2,244,772</u>	<u>2,244,772</u>	<u>2,244,772</u>		<u>1,571,742</u>
Fund Balance - ending	<u>\$ 2,252,309</u>	<u>\$ 2,189,247</u>	<u>\$ 2,182,269</u>	<u>\$ (6,978)</u>	<u>\$ 2,244,772</u>

CITY OF ROCHESTER, MINNESOTA
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT (JAG)
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$	\$	\$217,331	\$ 217,331	\$ 33,801
Total Revenues			<u>217,331</u>	<u>217,331</u>	<u>33,801</u>
EXPENDITURES					
Law enforcement block grant			<u>217,331</u>	<u>(217,331)</u>	<u>33,801</u>
Total Expenditures			<u>217,331</u>	<u>(217,331)</u>	<u>33,801</u>
Excess (deficiency) of revenues over (under) expenditures					
Fund Balance - beginning					
Fund Balance - ending	\$	\$	\$	\$	\$

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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$	\$	\$ 1,419	\$ 1,419	\$ 4,878
Intergovernmental	198,752	198,752	224,684	25,932	214,547
Charges for services	1,761,648	1,761,648	1,683,290	(78,358)	2,678,608
Interest earnings	115,000	100,000	199,416	99,416	157,696
Net increase (decrease) in the fair value of investments			(55,800)	(55,800)	(77,000)
Miscellaneous	918,000	918,000	929,605	11,605	18,000
Total Revenues	<u>2,993,400</u>	<u>2,978,400</u>	<u>2,982,614</u>	<u>4,214</u>	<u>2,996,729</u>
EXPENDITURES					
Airport operations	2,859,724	2,859,724	2,962,956	(103,232)	2,877,212
US customs operations	150,200	150,200	153,813	(3,613)	161,177
Total Expenditures	<u>3,009,924</u>	<u>3,009,924</u>	<u>3,116,769</u>	<u>(106,845)</u>	<u>3,038,389</u>
Excess (deficiency) of revenues over (under) expenditures	(16,524)	(31,524)	(134,155)	(102,631)	(41,660)
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(89,394)</u>	<u>(89,394)</u>	<u>(1,077,928)</u>	<u>(988,534)</u>	<u>(199,274)</u>
Net change in fund balance	(105,918)	(120,918)	(1,212,083)	(1,091,165)	(240,934)
Fund Balance - beginning	<u>5,042,372</u>	<u>5,042,372</u>	<u>5,042,372</u>		<u>5,283,306</u>
Fund Balance - ending	<u>\$4,936,454</u>	<u>\$4,921,454</u>	<u>\$3,830,289</u>	<u>\$ (1,091,165)</u>	<u>\$5,042,372</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, 2010
With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 10,000	\$ 10,000	\$ 15,937	\$ 5,937	\$ 18,962
Net increase in the fair value of investments			(6,600)	(6,600)	(11,600)
Total Revenues	<u>10,000</u>	<u>10,000</u>	<u>9,337</u>	<u>(663)</u>	<u>7,362</u>
EXPENDITURES					
Contractual services					1,650
Total Expenditures					<u>1,650</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,000</u>	<u>10,000</u>	<u>9,337</u>	<u>(663)</u>	<u>5,712</u>
OTHER FINANCING SOURCES (USES)					
Sale of land					
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(5,217)</u>	<u>9,783</u>	
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(5,217)</u>	<u>9,783</u>	
Net change in fund balance	(5,000)	(5,000)	4,120	9,120	5,712
Fund Balance - beginning	<u>650,181</u>	<u>650,181</u>	<u>650,181</u>		<u>644,469</u>
Fund Balance - ending	<u>\$ 645,181</u>	<u>\$ 645,181</u>	<u>\$ 654,301</u>	<u>\$ 9,120</u>	<u>\$ 650,181</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, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Budgeted Amounts		2010 Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 12,270	\$ 11,757	\$ 11,805	\$ 48	\$ 27,345
Intergovernmental revenues	3,667,013	3,667,526	3,618,226	(49,300)	3,299,319
Charges for services	682,618	682,618	664,888	(17,730)	659,012
Interest earnings			(1,839)	(1,839)	4,239
Net increase (decrease) in the fair value of investments			(6,200)	(6,200)	6,200
Miscellaneous		10,186	10,700	514	16,845
Total Revenues	<u>4,361,901</u>	<u>4,372,087</u>	<u>4,297,580</u>	<u>(74,507)</u>	<u>4,012,960</u>
EXPENDITURES					
Employee services	14,644	14,644	11,923	2,721	10,990
Contractual services	4,162,554	4,173,253	4,082,008	91,245	3,663,208
Materials and supplies	87,950	87,950	96,792	(8,842)	98,541
Other charges	12,959	12,959	26,201	(13,242)	18,935
Total Expenditures	<u>4,278,107</u>	<u>4,288,806</u>	<u>4,216,924</u>	<u>71,882</u>	<u>3,791,674</u>
Excess (deficiency) of revenues over (under) expenditures	83,794	83,281	80,656	(2,625)	221,286
OTHER FINANCING USES					
Transfers out					(7,600)
Net change in fund balance	83,794	83,281	80,656	(2,625)	213,686
Fund Balance - beginning	<u>311,892</u>	<u>311,892</u>	<u>311,892</u>		<u>98,206</u>
Fund Balance - ending	<u>\$ 395,686</u>	<u>\$ 395,173</u>	<u>\$ 392,548</u>	<u>\$ (2,625)</u>	<u>\$ 311,892</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2010

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 ASSETS
December 31, 2010
With Comparative Totals as of December 31, 2009

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2010	2009
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 367,058	\$ 505,729	\$ 1,893,145	\$ 2,765,932	\$ 516,317
Investments	7,065,600	3,028,000	26,243,300	36,336,900	35,196,900
Accrued interest receivable	37,000	15,800	137,300	190,100	213,100
Accounts receivable		29,490		29,490	
Taxes receivable delinquent	2,874	715		3,589	2,867
Due from other governmental units	2,315	48		2,363	914
Total Current Assets	<u>7,474,847</u>	<u>3,579,782</u>	<u>28,273,745</u>	<u>39,328,374</u>	<u>35,930,098</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	3,410			3,410	103,357
Machinery and equipment	25,261,237	1,222,740		26,483,977	25,826,412
Less: Accumulated depreciation	(15,562,285)	(857,242)		(16,419,527)	(15,147,665)
Total capital assets (net of accumulated depreciation)	<u>9,702,362</u>	<u>365,498</u>		<u>10,067,860</u>	<u>10,782,104</u>
Total Assets	<u>17,177,209</u>	<u>3,945,280</u>	<u>28,273,745</u>	<u>49,396,234</u>	<u>46,712,202</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	22,373	16,888	32,399	71,660	153,433
Accrued interest payable	11,148			11,148	19,084
Deposits payable			113,304	113,304	126,269
Accrued compensation and payroll taxes			17,619	17,619	16,644
Due to other governmental units		11	15,461	15,472	13,504
Accrued claims			1,102,381	1,102,381	1,256,812
Bonds payable	75,000			75,000	75,000
Total Current Liabilities	<u>108,521</u>	<u>16,899</u>	<u>1,281,164</u>	<u>1,406,584</u>	<u>1,660,746</u>
Noncurrent Liabilities:					
Bonds payable	1,090,000			1,090,000	740,000
Accrued claims			485,205	485,205	595,071
Post employment benefit obligation			1,655,058	1,655,058	1,151,773
Total Noncurrent Liabilities	<u>1,090,000</u>		<u>2,140,263</u>	<u>3,230,263</u>	<u>2,486,844</u>
Total Liabilities	<u>1,198,521</u>	<u>16,899</u>	<u>3,421,427</u>	<u>4,636,847</u>	<u>4,147,590</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,537,362	365,498		8,902,860	9,967,104
Unrestricted	7,441,326	3,562,883	24,852,318	35,856,527	32,597,508
Total Net Assets	<u>\$ 15,978,688</u>	<u>\$ 3,928,381</u>	<u>\$ 24,852,318</u>	<u>\$ 44,759,387</u>	<u>\$ 42,564,612</u>

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

For the Year Ended December 31, 2010
 With Comparative Totals for the Year Ended December 31, 2009

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2010	2009
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 2,064,953	\$ 467,560	\$	\$ 2,532,513	\$ 2,270,336
Copy center charges	28,622			28,622	22,588
Departmental workers' compensation charges			177,040	177,040	175,671
Departmental insurance charges			13,026,431	13,026,431	11,892,701
Departmental flex charges			19,909	19,909	19,693
Employee insurance charges			970,216	970,216	1,527,537
Employee flex benefit contributions			689,275	689,275	643,374
Total Operating Revenues	<u>2,093,575</u>	<u>467,560</u>	<u>14,882,871</u>	<u>17,444,006</u>	<u>16,551,900</u>
Operating Expenses:					
Copy center	17,340			17,340	17,789
Minor equipment		143,763		143,763	195,599
Workers' compensation benefits			379,821	379,821	386,564
Workers' compensation insurance premiums			211,688	211,688	63,787
Health insurance claims			11,388,082	11,388,082	10,361,593
Flex benefits			684,641	684,641	658,202
Property and liability insurance			551,403	551,403	567,264
Property and liability claims			197,791	197,791	23,523
Other	52	155,137		155,189	145,225
Depreciation	2,074,503	191,128		2,265,631	2,067,314
Total Operating Expenses	<u>2,091,895</u>	<u>490,028</u>	<u>13,413,426</u>	<u>15,995,349</u>	<u>14,486,860</u>
Operating Income (Loss)	<u>1,680</u>	<u>(22,468)</u>	<u>1,469,445</u>	<u>1,448,657</u>	<u>2,065,040</u>
Nonoperating Revenues (Expenses):					
General property taxes	137,056	(68)		136,988	103,745
Interest earnings	163,104	84,366	661,150	908,620	1,046,209
Net increase (decrease) in the fair value of investments	(57,400)	(39,600)	(273,000)	(370,000)	(508,900)
Interest and fiscal charges	(30,272)			(30,272)	(18,580)
Gain on disposal of property	61,681			61,681	30,671
Intergovernmental revenues	2,116			2,116	5,922
Other income (expense)					(86)
Total Nonoperating Revenues	<u>276,285</u>	<u>44,698</u>	<u>388,150</u>	<u>709,133</u>	<u>658,981</u>
Income Before Transfers and Contributions	277,965	22,230	1,857,595	2,157,790	2,724,021
Capital contributions		5,448		5,448	89,124
Transfers in		31,537		31,537	9,995
Transfers out					(70,118)
Change in Net Assets	277,965	59,215	1,857,595	2,194,775	2,753,022
Total Net Assets - beginning	<u>15,700,723</u>	<u>3,869,166</u>	<u>22,994,723</u>	<u>42,564,612</u>	<u>39,811,590</u>
Total Net Assets - ending	<u>\$ 15,978,688</u>	<u>\$ 3,928,381</u>	<u>\$ 24,852,318</u>	<u>\$ 44,759,387</u>	<u>\$ 42,564,612</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

With Comparative Totals for the Year Ended December 31, 2009

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2010	2009
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 2,091,603	\$ 438,034	\$ 13,223,380	\$ 15,753,017	\$ 14,382,453
Cash received from employees			1,659,491	1,659,491	2,170,911
Cash paid to suppliers	(19,155)	(302,272)	(13,154,538)	(13,475,965)	(11,701,762)
Net Cash Provided by Operating Activities	2,072,448	135,762	1,728,333	3,936,543	4,851,602
Cash Flows From Noncapital Financing Activities:					
General property taxes	134,182	389		134,571	104,002
Intergovernmental revenues	2,116			2,116	5,922
Transfers in		31,537		31,537	9,995
Transfers out					(70,118)
Net Cash Provided by (Used in) Noncapital Financing Activities	136,298	31,926		168,224	49,801
Cash Flows From Capital and Related Financing Activities:					
Proceeds from issuance of bonds	425,000			425,000	815,000
Principal and interest payments on bonds	(110,954)			(110,954)	
Interest and fiscal charges					464
Proceeds from sale of property	85,167			85,167	32,237
Acquisition of capital assets	(1,592,380)	(83,605)		(1,675,985)	(2,778,071)
Net Cash Used in Capital and Related Financing Activities	(1,193,167)	(83,605)		(1,276,772)	(1,930,370)
Cash Flows From Investing Activities:					
Investment income	163,204	88,966	679,450	931,620	1,079,309
Net (increase) decrease in investments	(1,000,000)	300,000	(810,000)	(1,510,000)	(3,910,000)
Net Cash Provided by (Used in) Investing Activities	(836,796)	388,966	(130,550)	(578,380)	(2,830,691)
Net Increase (Decrease) in Cash and Cash Equivalents	178,783	473,049	1,597,783	2,249,615	140,342
Cash and Cash Equivalents, Beginning of Year	188,275	32,680	295,362	516,317	375,975
Cash and Cash Equivalents, End of Year	\$ 367,058	\$ 505,729	\$ 1,893,145	\$ 2,765,932	\$ 516,317

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2010
With Comparative Totals for the Year Ended December 31, 2009

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2010	2009
Operating Income (Loss)	\$ 1,680	\$ (22,468)	\$ 1,469,445	\$ 1,448,657	\$ 2,065,040
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	2,074,503	191,128		2,265,631	2,067,314
(Increase) Decrease In:					
Accounts receivable		(29,490)		(29,490)	
Due from other governmental units	(1,972)	(36)		(2,008)	1,464
Increase (Decrease) In:					
Accounts payable	(724)	(3,267)	28,778	24,787	17,141
Deposits payable			(12,965)	(12,965)	(22,574)
Accrued compensation and payroll taxes			975	975	1,129
Due to other governmental units	(1,039)	(105)	3,112	1,968	226
Post employment benefit obligation			503,285	503,285	518,778
Accrued claims			(264,297)	(264,297)	203,084
Net Cash Provided by Operating Activities	<u>\$2,072,448</u>	<u>\$ 135,762</u>	<u>\$ 1,728,333</u>	<u>\$ 3,936,543</u>	<u>\$ 4,851,602</u>
Non Cash Transactions:					
Receipt of contributed property	\$	\$ 5,448	\$	\$ 5,448	\$ 89,124
Increase (Decrease) in fair value of investments	(57,400)	(39,600)	(273,000)	(370,000)	(508,900)
Equipment purchases in accounts payable at year end	22,244				128,805

(This Page is Left Blank Intentionally)