

**CITY OF ROCHESTER, MINNESOTA**  
**FINANCIAL SECTION**  
**DECEMBER 31, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of and for the year ended December 31, 2014, which collectively comprise the City's basic financial statements as listed in the Table of Contents, and the related notes to the financial statements. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a discretely presented component unit).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 48 percent, 52 percent, and 81 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities, or the DMCC (a discretely presented component unit). Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds and the DMCC, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2014, 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.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 17, and required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Minnesota's financial statements as a whole. The introductory section, combining and individual nonmajor governmental fund financial statements and schedules, 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.

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

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

*Report on Summarized Comparative Information*

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2013, from which such partial information was derived.

We have previously audited the City's 2013 financial statements and our report, dated June 20, 2014, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015, on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rochester, Minnesota's internal control over financial reporting and compliance.

*Smith, Schafu and Associates, Ltd.*

Rochester, Minnesota  
June 24, 2015

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

As management of the City of Rochester, Minnesota, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended December 31, 2014, with comparative data for the fiscal year ended December 31, 2013. 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 \$1,175,530,272 (*net position*). Of this amount, \$244,828,523 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$20,512,009.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$129,598,479, an increase of \$890,867 in comparison with the prior year. Approximately 23 percent of this total amount, or \$29,388,843, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of fund balance) for the general fund was \$29,994,790 or approximately 46 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long term debt obligations by \$13,704,419 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 position* presents information on all of the City of Rochester's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Rochester is improving or deteriorating.

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

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

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

The government-wide financial statements can be found on pages 18-20 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 sixteen 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 fourteen 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 80-90 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 25-26) and the special revenue funds (pages 84-90) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 21-26 of this report.

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

**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 27-34 of this report.

**CITY OF ROCHESTER, MINNESOTA  
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**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 35-76 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 80-95 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$1,175,530,272 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (75 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 Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 206,208,411	\$ 214,791,343	\$ 220,075,729	\$ 232,590,789	\$ 426,284,140	\$ 447,382,132
Capital assets	622,575,819	606,195,488	526,344,808	513,427,683	1,148,920,627	1,119,623,171
Deferred outflows of resources			1,140,733	1,272,422	1,140,733	1,272,422
Total assets and deferred outflows of resources	<u>828,784,230</u>	<u>820,986,831</u>	<u>747,561,270</u>	<u>747,290,894</u>	<u>1,576,345,500</u>	<u>1,568,277,725</u>
Long-term liabilities outstanding	63,382,028	65,448,850	305,984,917	318,996,525	369,366,945	384,445,375
Other liabilities	13,379,868	9,925,887	17,156,086	17,944,298	30,535,954	27,870,185
Deferred inflows of resources			912,329	943,902	912,329	943,902
Total liabilities and deferred inflows of resources	<u>76,761,896</u>	<u>75,374,737</u>	<u>324,053,332</u>	<u>337,884,725</u>	<u>400,815,228</u>	<u>413,259,462</u>
Net position:						
Net investment in capital assets	572,584,985	553,588,996	314,444,519	302,966,490	887,029,504	856,555,486
Restricted	43,672,245	49,748,493			43,672,245	49,748,493
Unrestricted	135,765,104	142,274,605	109,063,419	106,439,679	244,828,523	248,714,284
Total net position	<u>\$ 752,022,334</u>	<u>\$ 745,612,094</u>	<u>\$ 423,507,938</u>	<u>\$ 409,406,169</u>	<u>\$ 1,175,530,272</u>	<u>\$ 1,155,018,263</u>

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

An additional portion of the City of Rochester's net position (3.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$244,828,523) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**Governmental activities.** Governmental activities increased the City of Rochester's net position by \$6,410,240. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions and transit grants). Additional net position growth resulted from increased program revenues such as building permit revenue as development improved as well as operational savings through the delayed hiring of budgeted positions and unused contingency.

**Business-type activities.** Business-type activities increased the City of Rochester's net position by \$14,101,769. This increase is due to contributions of assets in the storm water, sewer and water utilities as well as program revenues which exceeded expenses in all business activities except the water utility.

**CITY OF ROCHESTER, MINNESOTA  
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A condensed version of the Statement of Activities follows:

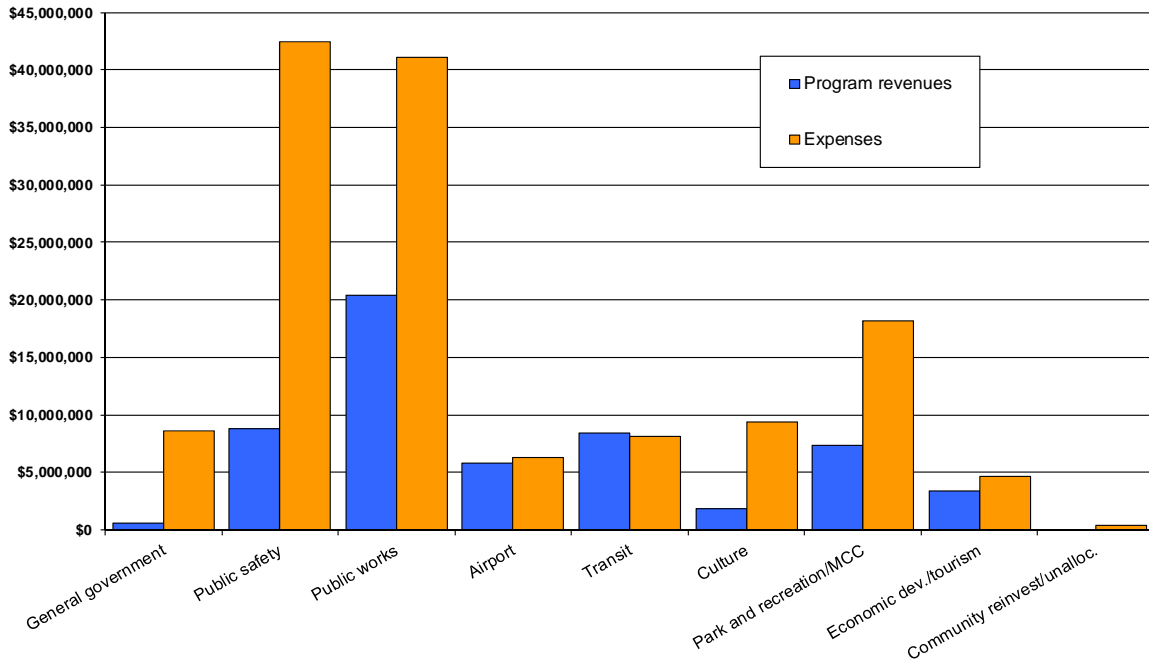
**City of Rochester's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue:						
Program revenues:						
Charges for services	\$ 22,414,544	\$ 21,518,507	\$ 187,108,600	\$ 182,855,148	\$ 209,523,144	\$ 204,373,655
Operating grants and contributions	9,886,803	9,375,174			9,886,803	9,375,174
Capital grants and contributions	24,087,277	74,050,192	5,057,759	1,662,034	29,145,036	75,712,226
General revenues:						
Property taxes	50,057,894	50,008,722			50,057,894	50,008,722
Other taxes	23,092,405	19,157,845			23,092,405	19,157,845
Grants and contributions not restricted to specific programs	8,105,837	5,157,388	93,471	9,796	8,199,308	5,167,184
Other	3,304,497	1,292,733	1,347,693	304,839	4,652,190	1,597,572
Total revenues	<u>140,949,257</u>	<u>180,560,561</u>	<u>193,607,523</u>	<u>184,831,817</u>	<u>334,556,780</u>	<u>365,392,378</u>
Expenses:						
General government	8,609,956	8,811,595			8,609,956	8,811,595
Public safety	42,417,692	42,858,335			42,417,692	42,858,335
Public works	41,087,966	19,887,604			41,087,966	19,887,604
Airport	6,259,156	5,734,323			6,259,156	5,734,323
Transit	8,076,205	7,724,506			8,076,205	7,724,506
Culture	9,351,564	9,566,658			9,351,564	9,566,658
Park and recreation/Mayo Civic Center	18,216,344	16,841,511			18,216,344	16,841,511
Economic development/tourism	4,621,378	9,911,655			4,621,378	9,911,655
Community reinvestment/unallocated	428,930	506,967			428,930	506,967
Interest on long-term debt	2,276,231	2,380,003			2,276,231	2,380,003
Parking			4,347,469	4,393,329	4,347,469	4,393,329
Electric			131,936,203	132,336,449	131,936,203	132,336,449
Water			8,753,706	8,633,125	8,753,706	8,633,125
Sewer			23,780,820	24,553,468	23,780,820	24,553,468
Storm water			3,881,151	3,641,691	3,881,151	3,641,691
Total expenses	<u>141,345,422</u>	<u>124,223,157</u>	<u>172,699,349</u>	<u>173,558,062</u>	<u>314,044,771</u>	<u>297,781,219</u>
Increase in net position before transfers	(396,165)	56,337,404	20,908,174	11,273,755	20,512,009	67,611,159
Transfers	6,806,405	7,617,827	(6,806,405)	(7,617,827)		
Increase in net position	6,410,240	63,955,231	14,101,769	3,655,928	20,512,009	67,611,159
Net position as restated, beginning (Note 6)	745,612,094	681,656,863	409,406,169	405,750,241	1,155,018,263	1,087,407,104
Net position, end of year	<u>\$ 752,022,334</u>	<u>\$ 745,612,094</u>	<u>\$ 423,507,938</u>	<u>\$ 409,406,169</u>	<u>\$ 1,175,530,272</u>	<u>\$ 1,155,018,263</u>

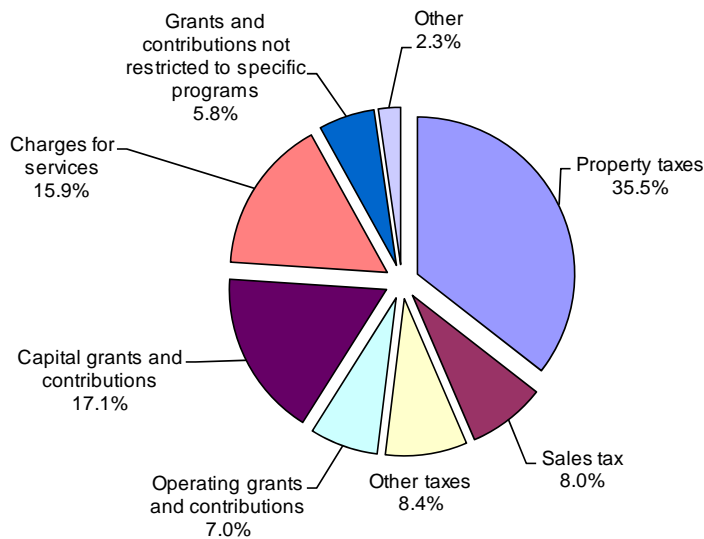
## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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**



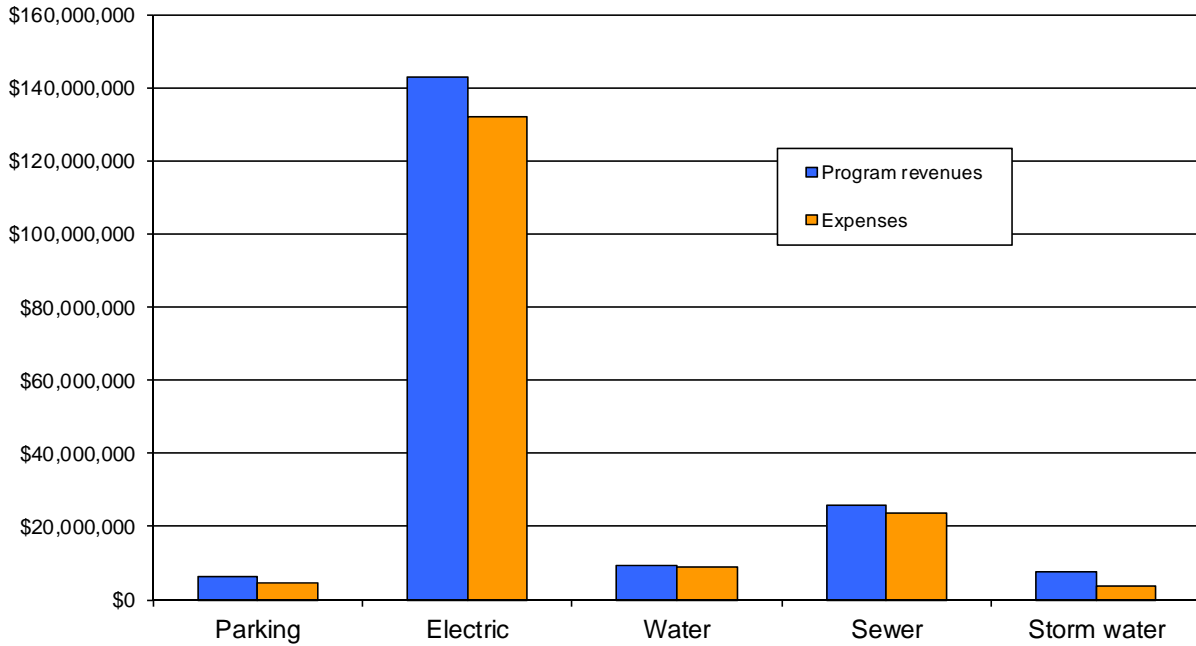
**Revenues by Source - Governmental Activities**



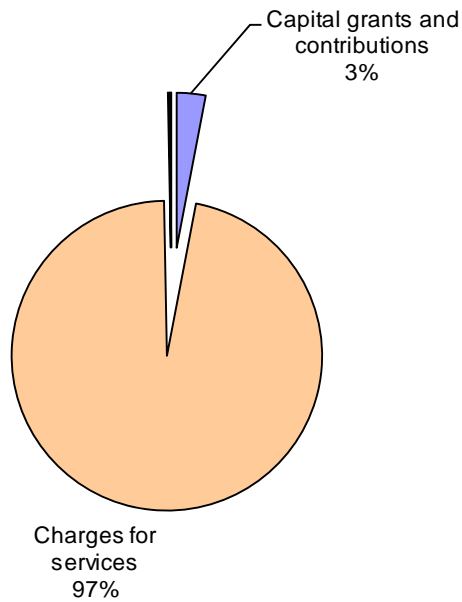
**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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  
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**Financial Analysis of the Government's Funds**

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

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

Fund balances are classified as follows:

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$129,598,479, an increase of \$890,867 from the prior year. The general fund increased fund balance by nearly \$2.3 million, while the construction improvement fund decreased fund balance by nearly \$2.2 million due to capital project expenditures of prior-accumulated reserves. Additionally, all other governmental funds reflected a net increase of \$788,845 in fund balance, largely showing up in the Airport and Bio Business Center funds.

Approximately 23 percent of the total fund balance, or \$29,388,843, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,137,223 is considered to be nonspendable (prepaid or inventory), \$40,284,725 has been restricted by grantors, donors, debt covenants, or regulation, \$51,592,509 has been committed by council action for CIP projects, and \$7,195,179 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

**CITY OF ROCHESTER, MINNESOTA  
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***Governmental funds (continued).***

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$2,297,613 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$29,431,232 while total fund balance amounted to \$31,011,002. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 45 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 41.7 percent.

The library fund increased its fund balance by \$152,994 for the year after transferring \$22,445 to the capital projects fund for future equipment purchases. Much of this gain was the result of charges for services exceeding budgeted amounts and new gift appropriations. Additionally, operational expenditures were held \$127,695 below the approved budget. The municipal recreation fund increased its fund balance by \$150,854 as a net gain in the Recreation Center and Park Operation budgets more than offset losses in the Golf and Recreation Center programs. The Mayo Civic Center started its first year as a separate department of the City but reflected a small loss in net fund balance of \$19,980. The airport fund increased its total fund balance by \$438,348 for the year to \$996,806 after higher than expected grant and fee revenues. Council provided \$442,285 in new budgeted tax levy in 2014 and capital project transfers were held to just \$89,395 all in effort to restore fund balance in this area. The transit fund saw a decrease in fund balance of \$68,520 due to lower than expected ridership revenues and higher than expected supply costs. Minnesota Bio Science Center fund increased fund balance by \$217,520 as the facility reached 98.7% occupancy by end of year.

Debt service fund balances decreased by \$68,719 this year reflecting the use of accumulated reserves held for payment of the Public Works and Transit Facility bonds.

The construction improvement fund decreased fund balance by \$2,195,591 as various projects were closed out and contributed to their respective operational funds.

***Proprietary funds.*** The City of Rochester's *proprietary funds* statements found on pages 27-34 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Parking - \$18,884,061 Electric - \$52,097,671, Water - \$4,169,310, Sewer - \$22,156,579 and Storm water - \$7,643,261. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$2.4 million increase in net position for the year as revenues improved from prior year due to scheduled rate increases. The Sewer Utility's rates were increased an average of 8 percent effective January of 2014 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" was increased to \$2,900 in 2014 and increased to \$3,000 in the beginning of 2015. The schedule of rate increases was necessary as sewer flows continued to fall below plan.

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

***Proprietary funds (continued).***

The Water Utility's rates were increased by 1.5% in January of 2014 and 3.5% in January of 2015. Rates had not been increased in this utility since 2007. Rochester Public Utilities will be completing a cost of service study for this utility during 2015.

The Electric Utility rates were increased 3.0% in January of 2014 and were increased by 3.5% for 2015 based on a cost of service study accepted by the RPU board and city council in November of 2014. Electric rates had not been increased since 2009.

The Parking Enterprise growth in net position of \$1.3 million was largely due to increased parking revenues. Parking rates were increased in 2013 and again in January of 2015 reflecting a seven-year rate plan adopted in 2008. The plan called for rate increases every other year such that the fourth and final phase of increases was implemented in 2015 but no increase was implemented in 2014. Rate increases in 2015 were developed to rebalance based on market demand and ranged from 4% to 20%, but averaged approximately 8.8%.

The Storm Water Utility rates were held flat again in 2014. This utility's last increase was in 2011, an increase of 3% following the rate structure approved by council for years 2008 through 2011. An update to that study is currently underway.

**General Fund Budgetary Highlights**

The City approved the 2014 general fund budget anticipating a "balanced budget" or slight increase or decrease in fund balance.

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

- Increase in the Public Safety expenditures due to drug enforcement administration and Fire Hazmat grant appropriations.
- Increase in the City Attorney and Council budget and to address unplanned expenditures for legal and lobbying consultants.
- Reductions in unallocated contingency account to offset increases in city attorney, and other smaller unplanned costs.
- Street and Alley budget was increased primarily to reflect sealcoating and other roadwork completed by our own street crews that was funded by capital project accounts or private developer direct reimbursements.

At the close of the year, general fund total expenditures were \$2,705,166 below final budget while actual revenues were above final budget by \$1,311,897. These variances to budget can be traced to higher than expected building permit revenue and savings in police and fire budgets due to a delay in hiring of approved positions and remaining amounts in the contingency budget.

**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, 2014, amounts to \$1,148,920,627 (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 \$29,297,456, or 2.6 percent. This increase is a result of significant construction activities in infrastructure including streets, underground mains and continued construction of the electric transmission line.

**City of Rochester's Capital Assets**

(net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 68,134,187	\$ 66,718,459	\$ 15,202,285	\$ 14,668,248	\$ 83,336,472	\$ 81,386,707
Buildings	96,764,279	100,333,951	254,358,900	253,034,626	351,123,179	353,368,577
Improvements other than buildings	27,137,255	28,436,938			27,137,255	28,436,938
Machinery and equipment	24,722,509	22,092,379	212,967,729	212,605,357	237,690,238	234,697,736
Infrastructure	284,591,577	280,971,591			284,591,577	280,971,591
Construction in progress	121,226,012	107,642,170	43,815,894	33,119,452	165,041,906	140,761,622
Total	<u>\$ 622,575,819</u>	<u>\$ 606,195,488</u>	<u>\$ 526,344,808</u>	<u>\$ 513,427,683</u>	<u>\$ 1,148,920,627</u>	<u>\$ 1,119,623,171</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 53-55 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Rochester had \$332,345,569 in bonds and notes outstanding. Of this amount, \$204,225,273 comprises debt backed by the full faith and credit of the government, \$125,943,390 represents bonds and notes secured solely by specified revenue sources, and \$2,176,906 represents an energy loan payable through savings in costs from energy improvements. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

**City of Rochester's Outstanding Debt**

General Obligation and Revenue Bonds, Notes Payable and Capital Lease

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 7,895,273	\$ 8,548,965	\$	\$	\$ 7,895,273	\$ 8,548,965
General obligation revenue bonds			110,150,000	116,695,000	110,150,000	116,695,000
General obligation equipment certificates of indebtedness	440,000	520,000			440,000	520,000
General obligation taxable Build America bonds	24,900,000	25,780,000			24,900,000	25,780,000
General obligation revenue crossover refunding bonds			60,840,000	60,840,000	60,840,000	60,840,000
Revenue bonds	14,470,000	14,940,000	111,425,000	113,490,000	125,895,000	128,430,000
Notes payable	48,390	74,784		2,235,000	48,390	2,309,784
Energy loan payable	2,176,906	2,668,116			2,176,906	2,668,116
Capital lease				258,123		258,123
<b>Total</b>	<b>\$ 49,930,569</b>	<b>\$ 52,531,865</b>	<b>\$ 282,415,000</b>	<b>\$ 293,518,123</b>	<b>\$ 332,345,569</b>	<b>\$ 346,049,988</b>

The City of Rochester's total bonds and notes payable decreased by \$13,704,419 during the current fiscal year.

No new debt was issued by the City during 2014. 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 59.

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.

**Economic Factors and Next Year's Budgets and Rates**

- Rochester's unemployment rate declined by 0.5 percent to 4.2 percent by the end of March 2015. This remains below the state and U.S. averages of 4.5 percent and 5.6 percent respectively. The March Total employment over the last 12 months ending March of 2015 has shown an increase of 0.94% or a gain of 1,056 jobs. Both the goods producing and service providing sectors reported gains in the last year.
- Building activity continued its rebound in 2014 and into the first quarter of 2015. Total permit value of \$397.8 million in 2014 exceed the \$329.1 million of 2013 by nearly 21%. The first quarter of 2015 alone reflected a total of \$88.8 million in permit value and 439 permits. Most of this growth is, for the second year, in the commercial sector.
- The establishment of a University of Minnesota presence in the downtown is providing impetus for new development activity and service demands in this area. Current activity is focused on land assembly to accommodate their expansion plans.

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

**Economic Factors and Next Year's Budgets and Rates (Continued)**

- Destination Medical Center (DMC). By April 23, 2015, both the City Council and the Destination Medical Center Board had formally adopted the DMC Development Plan, a comprehensive framework for the 20-year project that will redefine downtown Rochester. The plan is similar to a strategic business plan that addresses land use, transportation, infrastructure, business development, marketing and operational strategies over the 20 year period. The State legislature approved final language amendments in early 2015 to the 2014 law, a \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future. This legislation secured State, City and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth.
- Construction contracts were awarded for the construction of the Mayo Civic Center expansion project. The total \$84 million project is funded by \$35 million in State bonding monies and \$49 million in City funds raised through an additional 3% lodging tax within the City. The expansion will nearly double the size of the facility, adding 188,000 square feet, adding 1,000 jobs in the near term and will add an estimated \$370 million to the Rochester area economy over the next 10 years.
- Projects were underway under the voter-approved extension of Rochester's 1/2-cent sales tax as authorized by 2011 State Legislature. The law provides for \$139.5 million of council-identified projects including infrastructure improvements to support development outlined in the Downtown Master Plan, \$20 million for the expansion of the City's recreation center and an adjacent new senior center, \$20 million for the above-noted Destination Medical Center improvements plus higher education improvements, economic development incentive funding in Rochester and \$5 million for economic development in surrounding communities.
- The City's tax levy was increased by approximately \$3.5 million or 7 percent for pay 2015 to keep pace with a growing community and to fill back demand from prior years when a lagging economy held levies down.
- Interest rates have remained at historical lows since 2010 making earnings of the City's investment portfolio fall significantly from prior levels. The most recent interest rate climb has provided somewhat better investment opportunities.

All of these factors were considered in preparing the City of Rochester's budget for the 2015 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

**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 4<sup>th</sup> Street SE, Room 204, Rochester, MN 55904.

**CITY OF ROCHESTER, MINNESOTA**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF NET POSITION**  
December 31, 2014  
With Comparative Totals as of December 31, 2013

	Primary Government				Component Unit DMCC 2014
	Governmental Activities	Business-Type Activities	Totals		
			2014	2013	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17,236,577	\$ 10,072,812	\$ 27,309,389	\$ 10,706,293	\$ 2,740
Investments	151,222,440	81,968,666	233,191,106	243,448,846	
Land held for resale	773,500		773,500	1,645,000	
Receivables (net of allowance for uncollectibles)	19,190,597	8,879,300	28,069,897	27,217,379	10,000
Internal balances	(2,757,167)	2,757,167			
Due from other governmental units	19,362,033	4,729	19,366,762	32,945,850	1,265,600
Accrued utility revenues		5,634,344	5,634,344	4,987,454	
Cash and investments with escrow agent		67,363,909	67,363,909	70,130,432	
Restricted and reserved cash and investments	43,208	25,204,225	25,247,433	36,926,162	
Inventory	921,870	5,819,564	6,741,434	6,843,003	
Prepaid items	215,353	42,878	258,231	183,310	14,138
Other assets		12,328,135	12,328,135	12,348,403	
Capital assets:					
Nondepreciable	189,360,199	59,018,179	248,378,378	222,148,329	
Depreciable, net	433,215,620	467,326,629	900,542,249	897,474,842	
Total Assets	<u>828,784,230</u>	<u>746,420,537</u>	<u>1,575,204,767</u>	<u>1,567,005,303</u>	<u>1,292,478</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Unamortized deferred amount on refunding		1,140,733	1,140,733	1,272,422	
Total Assets and Deferred Outflows of Resources	<u>828,784,230</u>	<u>747,561,270</u>	<u>1,576,345,500</u>	<u>1,568,277,725</u>	<u>1,292,478</u>
<b>LIABILITIES</b>					
Accounts and contracts payable	4,773,073	11,178,329	15,951,402	14,040,529	1,265,340
Deposits payable	424,893	1,041,040	1,465,933	1,494,478	
Accrued interest payable	927,363	3,213,651	4,141,014	4,263,341	
Accrued compensation and payroll taxes	3,144,519	1,095,465	4,239,984	4,020,167	
Accrued claims	1,831,532	62,223	1,893,755	2,216,351	
Due to other governmental units	2,278,488	565,378	2,843,866	1,835,319	3,000
Unearned revenue					24,138
Noncurrent liabilities:					
Due within one year	7,932,950	12,206,240	20,139,190	19,820,127	
Due in more than one year	55,449,078	293,778,677	349,227,755	364,625,248	
Total Liabilities	<u>76,761,896</u>	<u>323,141,003</u>	<u>399,902,899</u>	<u>412,315,560</u>	<u>1,292,478</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Advance payments on leases		912,329	912,329	943,902	
Total Liabilities and Deferred Inflows of Resources	<u>76,761,896</u>	<u>324,053,332</u>	<u>400,815,228</u>	<u>413,259,462</u>	<u>1,292,478</u>
<b>NET POSITION</b>					
Net investment in capital assets	572,584,985	314,444,519	887,029,504	856,555,486	
Restricted for:					
Airport	996,806		996,806	558,458	
CDBG loans	3,387,520		3,387,520	3,174,470	
Economic development loan	330,477		330,477	317,356	
Civic music endowment	43,208		43,208	41,803	
Park and recreation	106,328		106,328	99,202	
Debt service	1,468,630		1,468,630	1,537,349	
Children's playgrounds	655,080		655,080	668,732	
Flood control	21,304,989		21,304,989	23,039,732	
Tax increment financing	2,225,723		2,225,723	3,576,156	
Sales tax authorized projects	13,153,484		13,153,484	16,735,235	
Unrestricted	135,765,104	109,063,419	244,828,523	248,714,284	
Total Net Position	<u>\$ 752,022,334</u>	<u>\$ 423,507,938</u>	<u>\$ 1,175,530,272</u>	<u>\$ 1,155,018,263</u>	<u>\$</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

<u>Functions/Programs</u>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 8,609,956	\$ 509,453	\$ 23,855	\$
Public safety	42,417,692	6,389,114	2,363,958	19,633
Public works	41,087,966	460,541	491,368	19,437,486
Airport	6,259,156	2,953,979	567,239	2,258,256
Transit	8,076,205	2,203,876	4,650,831	1,564,598
Culture	9,351,564	374,321	1,301,823	123,286
Park and recreation/Mayo Civic Center	18,216,344	6,707,469	392,277	221,227
Economic development/tourism	4,621,378	2,815,791	95,452	462,791
Community reinvestment/unallocated	428,930			
Interest on long-term debt	2,276,231			
Total governmental activities	<u>141,345,422</u>	<u>22,414,544</u>	<u>9,886,803</u>	<u>24,087,277</u>
Business-Type activities:				
Parking	4,347,469	6,309,209		
Electric utility	131,936,203	142,961,216		
Water utility	8,753,706	8,286,713		984,702
Sewer utility	23,780,820	24,250,191		1,712,134
Storm water utility	3,881,151	5,301,271		2,360,923
Total business-type activities	<u>172,699,349</u>	<u>187,108,600</u>		<u>5,057,759</u>
Total	<u>\$ 314,044,771</u>	<u>\$ 209,523,144</u>	<u>\$ 9,886,803</u>	<u>\$ 29,145,036</u>
Component Unit:				
DMCC	<u>\$ 5,416,447</u>	<u>\$</u>	<u>\$ 5,416,447</u>	<u>\$</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, transfers and special item

Change in net position

Net position as restated - beginning (Note 6)

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue  
and Changes in Net Position

Primary Government		Totals		Component Unit DMCC
Governmental Activities	Business-Type Activities	2014	2013	2014
\$ (8,076,648)	\$	\$ (8,076,648)	\$ (8,174,902)	\$
(33,644,987)		(33,644,987)	(34,669,292)	
(20,698,571)		(20,698,571)	52,503,655	
(479,682)		(479,682)	(1,393,588)	
343,100		343,100	(786,027)	
(7,552,134)		(7,552,134)	(7,781,966)	
(10,895,371)		(10,895,371)	(9,621,482)	
(1,247,344)		(1,247,344)	(6,468,712)	
(428,930)		(428,930)	(506,967)	
(2,276,231)		(2,276,231)	(2,380,003)	
<u>(84,956,798)</u>		<u>(84,956,798)</u>	<u>(19,279,284)</u>	
	1,961,740	1,961,740	1,712,174	
	11,025,013	11,025,013	8,641,591	
	517,709	517,709	104,297	
	2,181,505	2,181,505	(2,001,793)	
	<u>3,781,043</u>	<u>3,781,043</u>	<u>2,502,849</u>	
	<u>19,467,010</u>	<u>19,467,010</u>	<u>10,959,118</u>	
<u>(84,956,798)</u>	<u>19,467,010</u>	<u>(65,489,788)</u>	<u>(8,320,166)</u>	
50,057,894		50,057,894	50,008,722	
2,525,457		2,525,457	2,969,470	
11,262,270		11,262,270	10,372,478	
9,304,678		9,304,678	5,815,897	
8,105,837	93,471	8,199,308	5,167,184	
1,683,017	1,059,897	2,742,914	2,725,223	
85,968		85,968	65,952	
471,553	(47,833)	423,720	(1,804,109)	
1,063,959	335,629	1,399,588	610,508	
6,806,405	(6,806,405)			
<u>91,367,038</u>	<u>(5,365,241)</u>	<u>86,001,797</u>	<u>75,931,325</u>	
6,410,240	14,101,769	20,512,009	67,611,159	
<u>745,612,094</u>	<u>409,406,169</u>	<u>1,155,018,263</u>	<u>1,087,407,104</u>	
<u>\$ 752,022,334</u>	<u>\$ 423,507,938</u>	<u>\$ 1,175,530,272</u>	<u>\$ 1,155,018,263</u>	<u>\$</u>

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**CITY OF ROCHESTER, MINNESOTA**  
**FUND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**CITY OF ROCHESTER, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2014

With Comparative Totals as of December 31, 2013

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2014	2013
<b>ASSETS</b>					
Cash and cash equivalents	\$ 6,249,899	\$ 5,454,740	\$ 2,278,610	\$ 13,983,249	\$ 3,464,475
Investments	24,498,367	78,559,573	7,394,200	110,452,140	116,150,710
Land held for resale		773,500		773,500	1,645,000
Accrued interest receivable	148,323	198,278	17,234	363,835	390,469
Accounts receivable (net of allowance for uncollectibles)	734,514	757,489	1,243,512	2,735,515	2,552,449
Loans receivable		216,850	3,387,520	3,604,370	3,730,876
Taxes receivable delinquent	328,614	33,208	130,139	491,961	563,209
Special assessments receivable:					
Deferred		11,419,542		11,419,542	11,900,499
Delinquent	18,472	386,455	72,843	477,770	422,447
Due from other funds	1,030,481	7,884,920	367	8,915,768	5,282,403
Advances to other funds		350,000	68,450	418,450	
Due from other governmental units	1,372,346	17,151,196	835,608	19,359,150	32,860,102
Prepaid items	112,375	100,000	2,978	215,353	106,672
Restricted cash and investments	43,208			43,208	41,803
Inventory	860,629		61,241	921,870	935,537
<b>TOTAL ASSETS</b>	<b>\$ 35,397,228</b>	<b>\$ 123,285,751</b>	<b>\$ 15,492,702</b>	<b>\$ 174,175,681</b>	<b>\$ 180,046,651</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
Liabilities:					
Accounts and contracts payable	\$ 943,927	\$ 3,204,479	\$ 514,435	\$ 4,662,841	\$ 2,298,637
Deposits payable	124,302		233,113	357,415	535,761
Accrued compensation and payroll taxes	2,548,812		595,052	3,143,864	2,947,214
Due to other funds	244,872	7,071,576	243,950	7,560,398	4,499,205
Advances from other funds		68,450	350,000	418,450	
Unearned revenue			4,696	4,696	
Due to other governmental units	177,227	1,872,584	186,987	2,236,798	1,242,094
Total Liabilities	4,039,140	12,217,089	2,128,233	18,384,462	11,522,911
Deferred Inflows of Resources:					
Unavailable revenue					
Property taxes	328,614	33,208	130,139	491,961	563,209
Special assessments	18,472	11,805,997	72,843	11,897,312	12,322,946
Loans receivable		10,415,947	3,387,520	13,803,467	26,929,973
Total Deferred Inflows of Resources	347,086	22,255,152	3,590,502	26,192,740	39,816,128
Fund Balance:					
Nonspendable	973,004	100,000	64,219	1,137,223	1,042,209
Restricted	43,208	37,121,001	3,120,516	40,284,725	46,574,023
Committed		51,592,509		51,592,509	47,141,420
Assigned	563,558		6,631,621	7,195,179	6,780,761
Unassigned	29,431,232		(42,389)	29,388,843	27,169,199
Total Fund Balance	31,011,002	88,813,510	9,773,967	129,598,479	128,707,612
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 35,397,228</b>	<b>\$ 123,285,751</b>	<b>\$ 15,492,702</b>	<b>\$ 174,175,681</b>	<b>\$ 180,046,651</b>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF NET POSITION IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**  
December 31, 2014

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

Total governmental fund balances (page 21)		\$ 129,598,479
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 884,613,976	
Less: Accumulated depreciation	<u>(274,460,837)</u>	610,153,139
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 969,731	
Deferred special assessments and utility connection agreements	11,419,542	
Due from other governments	10,199,097	
Loans receivable	<u>3,604,370</u>	26,192,740
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		45,867,771
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	\$ (49,205,569)	
Compensated absences	(9,605,822)	
Accrued interest	(918,139)	
Unamortized bond premium	<u>(60,265)</u>	<u>(59,789,795)</u>
Net position of governmental activities (page 18)		<u><u>\$ 752,022,334</u></u>

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

For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2014	2013
<b>REVENUES</b>					
General property taxes	\$ 33,165,857	\$ 3,254,305	\$ 13,480,841	\$ 49,901,003	\$ 49,813,611
Tax increments collection		1,424,338	1,102,758	2,527,096	2,968,753
Sales tax		11,262,270		11,262,270	10,372,478
Special assessments		3,020,900		3,020,900	3,373,890
Utility connection and availability		1,231,803		1,231,803	1,017,876
Nonproperty taxes	4,906,667	3,370,066	1,027,944	9,304,677	5,815,897
Licenses and permits	3,644,171			3,644,171	3,258,186
Fines and forfeits	454,196			454,196	501,266
Intergovernmental revenues	9,411,211	29,439,094	7,061,041	45,911,346	27,443,118
Charges for services	3,423,532	487,552	10,658,577	14,569,661	14,286,318
Interest earnings	153,569	1,207,182	47,830	1,408,581	1,620,760
Net increase (decrease) in the fair value of investments	107,453	229,100	17,100	353,653	(1,028,062)
Miscellaneous revenues	502,903	3,478,717	4,198,349	8,179,969	7,785,582
<b>Total Revenues</b>	<b>55,769,559</b>	<b>58,405,327</b>	<b>37,594,440</b>	<b>151,769,326</b>	<b>127,229,673</b>
<b>EXPENDITURES</b>					
Current:					
General government	8,305,825			8,305,825	8,247,598
Public safety	40,299,058		43,727	40,342,785	39,687,164
Public works	12,915,388			12,915,388	10,980,007
Airport operations			3,471,271	3,471,271	3,418,210
Transit			7,170,957	7,170,957	6,832,839
Culture	1,566,252		6,682,208	8,248,460	8,085,190
Park and recreation/Mayo Civic Center			13,397,123	13,397,123	13,101,852
Economic development/tourism	2,396,662		1,633,824	4,030,486	4,149,017
Community reinvestment and unallocated	428,928			428,928	506,968
Debt service			4,781,278	4,781,278	4,683,390
Capital outlay		58,825,813		58,825,813	38,465,142
<b>Total Expenditures</b>	<b>65,912,113</b>	<b>58,825,813</b>	<b>37,180,388</b>	<b>161,918,314</b>	<b>138,157,377</b>
Excess (deficiency) of revenues over (under) expenditures	(10,142,554)	(420,486)	414,052	(10,148,988)	(10,927,704)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	12,903,032	1,134,084	1,761,937	15,799,053	14,816,792
Transfers out	(462,865)	(2,909,189)	(1,387,144)	(4,759,198)	(6,658,226)
<b>Total other financing sources (uses)</b>	<b>12,440,167</b>	<b>(1,775,105)</b>	<b>374,793</b>	<b>11,039,855</b>	<b>8,158,566</b>
<b>Net change in fund balances</b>	<b>2,297,613</b>	<b>(2,195,591)</b>	<b>788,845</b>	<b>890,867</b>	<b>(2,769,138)</b>
Fund Balance - beginning	28,713,389	91,009,101	8,985,122	128,707,612	131,476,750
<b>Fund Balance - ending</b>	<b>\$ 31,011,002</b>	<b>\$ 88,813,510</b>	<b>\$ 9,773,967</b>	<b>\$ 129,598,479</b>	<b>\$ 128,707,612</b>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2014

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

Net change in fund balances - total governmental funds (page 23)		\$ 890,867
Governmental funds reported capital outlays as expenditures.		
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay-capitalized	\$ 35,466,634	
Depreciation expense	<u>(18,100,756)</u>	17,365,878
Infrastructure is contributed from governmental activities to business-type activities and from developers to governmental activities. The amounts affect governmental net position but do not affect fund balance.		
		(1,719,679)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
		(149,060)
Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues decreased by this amount this year.		
		(13,623,388)
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, 2014	\$ (9,605,822)	
Compensated absences, December 31, 2013	<u>9,644,553</u>	38,731
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal retirement on long-term debt	\$ 2,476,296	
Amortization of bond premium	14,362	
Change in accrued interest	<u>36,773</u>	2,527,431
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>1,079,460</u>
Change in net position of governmental activities (pages 19 and 20)		<u>\$ 6,410,240</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, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$ 33,071,961	\$ 33,071,961	\$ 33,165,857	\$ 93,896	\$ 33,793,856
Nonproperty taxes	4,604,619	4,867,170	4,906,667	39,497	4,806,229
Licenses and permits	2,942,654	2,942,654	3,644,171	701,517	3,258,186
Fines and forfeits	511,797	511,797	454,196	(57,601)	501,266
Intergovernmental	9,161,867	9,161,867	9,411,211	249,344	7,538,845
Charges for services	3,142,737	3,298,737	3,423,532	124,795	3,261,063
Interest earnings	230,049	230,049	153,569	(76,480)	175,947
Net increase (decrease) in the fair value of investments			107,453	107,453	(259,262)
Miscellaneous	344,627	373,427	502,903	129,476	581,986
<b>Total Revenues</b>	<b>54,010,311</b>	<b>54,457,662</b>	<b>55,769,559</b>	<b>1,311,897</b>	<b>53,658,116</b>
<b>EXPENDITURES</b>					
Current:					
General Government:					
Mayor and Council	711,390	758,115	785,463	(27,348)	806,019
City Administrator	656,917	656,917	632,478	24,439	641,003
Development District Administration	168,335	168,335	213,417	(45,082)	163,678
City Clerk	433,480	435,363	400,912	34,451	447,715
Elections and Voter Registration	169,589	169,589	143,682	25,907	207,655
Finance Department	1,402,799	1,406,425	1,371,966	34,459	1,306,389
Information Systems	1,673,275	1,700,998	1,498,009	202,989	1,342,128
City Attorney	1,416,520	1,477,304	1,425,624	51,680	1,403,777
Human Resources	1,341,552	1,371,050	1,280,553	90,497	1,339,116
Planning and Zoning	30,943	36,172	26,848	9,324	16,806
City Hall Maintenance	589,419	589,499	526,873	62,626	573,312
<b>Total General Government</b>	<b>8,594,219</b>	<b>8,769,767</b>	<b>8,305,825</b>	<b>463,942</b>	<b>8,247,598</b>
Public Safety:					
Police Department	22,286,917	22,570,547	22,242,035	328,512	21,372,554
Fire Department	14,132,624	14,186,149	13,999,131	187,018	14,223,184
Fire Hazmat Response Team		38,408	46,232	(7,824)	98,497
Building Safety	3,078,628	3,078,918	2,914,983	163,935	2,807,213
Animal Control	306,668	309,681	285,961	23,720	293,192
Drug Enforcement Administration		253,096	53,852	199,244	51,310
Flood Control	659,260	666,464	474,739	191,725	510,030
Emergency Mgmt/Safety Council	244,526	337,874	282,125	55,749	277,154
<b>Total Public Safety</b>	<b>40,708,623</b>	<b>41,441,137</b>	<b>40,299,058</b>	<b>1,142,079</b>	<b>39,633,134</b>

**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, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>EXPENDITURES (continued)</b>					
Current:					
Public Works:					
Engineering	\$ 2,634,654	\$ 2,643,010	\$ 2,468,443	\$ 174,567	\$ 2,401,677
PWTOC Building/Site Operations	37,305	37,305	49,986	(12,681)	43,715
Traffic Engineer	1,180,019	1,180,963	1,183,865	(2,902)	1,127,702
Street and Alley	6,035,042	7,784,561	7,989,755	(205,194)	6,178,661
City Lighting	1,289,725	1,289,725	1,223,339	66,386	1,228,252
Total Public Works	<u>11,176,745</u>	<u>12,935,564</u>	<u>12,915,388</u>	<u>20,176</u>	<u>10,980,007</u>
Culture:					
Art Center/Theatre	545,512	552,155	553,286	(1,131)	535,439
Music Department	991,367	1,245,798	1,012,966	232,832	895,755
Total Culture	<u>1,536,879</u>	<u>1,797,953</u>	<u>1,566,252</u>	<u>231,701</u>	<u>1,431,194</u>
Economic Development/Tourism	<u>2,107,330</u>	<u>2,439,881</u>	<u>2,396,662</u>	<u>43,219</u>	<u>2,288,016</u>
Community Reinvestment and Unallocated	<u>1,472,096</u>	<u>1,232,977</u>	<u>428,928</u>	<u>804,049</u>	<u>506,968</u>
Total Expenditures	<u>65,595,892</u>	<u>68,617,279</u>	<u>65,912,113</u>	<u>2,705,166</u>	<u>63,086,917</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,585,581)</u>	<u>(14,159,617)</u>	<u>(10,142,554)</u>	<u>4,017,063</u>	<u>(9,428,801)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	11,807,704	13,211,704	12,903,032	(308,672)	11,751,721
Transfers out	(393,992)	(393,992)	(462,865)	(68,873)	(1,234,240)
Total other financing sources (uses)	<u>11,413,712</u>	<u>12,817,712</u>	<u>12,440,167</u>	<u>(377,545)</u>	<u>10,517,481</u>
Net change in fund balances	<u>(171,869)</u>	<u>(1,341,905)</u>	<u>2,297,613</u>	<u>3,639,518</u>	<u>1,088,680</u>
Fund Balance - beginning	<u>28,713,389</u>	<u>28,713,389</u>	<u>28,713,389</u>		<u>27,624,709</u>
Fund Balance - ending	<u>\$28,541,520</u>	<u>\$27,371,484</u>	<u>\$31,011,002</u>	<u>\$ 3,639,518</u>	<u>\$28,713,389</u>

**CITY OF ROCHESTER, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION**  
 December 31, 2014  
 With Comparative Totals as of December 31, 2013

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,351,647	\$ 5,593,450	\$ 831,871
Investments	14,260,966	33,050,807	4,915,393
Accrued interest receivable	40,738		
Accounts receivable	228,672	8,110,443	339,901
Accrued utility revenues		5,484,280	150,064
Taxes receivable delinquent			
Inventory, material, supplies and fuel		5,667,947	146,253
Due from other funds			
Due from other governmental units			
Prepaid items		22,878	
Cash and investments with escrow agent			
Total Current Assets	<u>15,882,023</u>	<u>57,929,805</u>	<u>6,383,482</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	8,829,812	36,086,986	5,109,721
Depreciable	37,371,984	315,279,431	127,829,246
Less: Accumulated depreciation	(21,818,796)	(183,700,045)	(41,524,344)
Net capital assets	<u>24,383,000</u>	<u>167,666,372</u>	<u>91,414,623</u>
Restricted and reserved cash	3,249,734	15,662,769	
Restricted investments		6,291,722	
Other assets		12,283,656	
Total Noncurrent Assets	<u>27,632,734</u>	<u>201,904,519</u>	<u>91,414,623</u>
Total Assets	<u>43,514,757</u>	<u>259,834,324</u>	<u>97,798,105</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding		1,140,733	
Total Assets and Deferred Outflows of Resources	<u>43,514,757</u>	<u>260,975,057</u>	<u>97,798,105</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts and contracts payable	16,863	10,177,870	179,883
Deposits payable	46,962	605,249	84,059
Accrued interest payable		424,211	
Accrued compensation and payroll taxes	24,500	776,328	90,770
Accrued compensated absences	41,192	1,477,547	210,693
Due to other funds	250	2,457,847	1,132,492
Due to other governmental units	55,393	494,706	8,070
Accrued claims			
Bonds and capital lease payable		3,765,000	
Total Current Liabilities	<u>185,160</u>	<u>20,178,758</u>	<u>1,705,967</u>
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		114,438,372	
Obligation under capital lease			
Accrued compensated absences	62,536	1,083,693	151,991
Accrued claims		62,223	
Post employment benefit obligation			
Total Noncurrent Liabilities	<u>62,536</u>	<u>115,584,288</u>	<u>151,991</u>
Total Liabilities	<u>247,696</u>	<u>135,763,046</u>	<u>1,857,958</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Advance payments on leases		556,115	356,214
Total Liabilities and Deferred Inflows of Resources	<u>247,696</u>	<u>136,319,161</u>	<u>2,214,172</u>
<b>NET POSITION</b>			
Net investment in capital assets	24,383,000	72,558,225	91,414,623
Unrestricted	18,884,061	52,097,671	4,169,310
Total Net Position	<u>\$ 43,267,061</u>	<u>\$ 124,655,896</u>	<u>\$ 95,583,933</u>

Amounts reported by business-type activities in the statement of net position (page 18) are different because:

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

Net position of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2014	2013
		2014	2013 - Restated		
\$ 1,731,850	\$ 563,994	\$ 10,072,812	\$ 6,549,620	\$ 3,253,328	\$ 692,198
22,435,100	7,306,400	81,968,666	84,944,036	40,770,300	42,354,100
52,182	17,031	109,951	110,478	94,719	101,230
70,154	20,179	8,769,349	7,441,325		
		5,634,344	4,987,454	2,885	4,398
5,364		5,819,564	5,907,466		
2,052,211	407,428	2,459,639	2,327,613		
4,729		4,729	80,762	2,883	4,986
20,000		42,878	76,640		
67,363,909		67,363,909	70,130,432		
93,735,499	8,315,032	182,245,841	182,555,826	44,124,115	43,156,912
4,418,063	4,573,597	59,018,179	47,787,700	275,126	458,583
321,876,366	63,115,792	865,472,819	843,902,360	32,074,804	30,693,564
(140,924,409)	(10,178,596)	(398,146,190)	(378,262,377)	(19,927,250)	(19,612,662)
185,370,020	57,510,793	526,344,808	513,427,683	12,422,680	11,539,485
		18,912,503	29,455,012		
		6,291,722	7,429,347		
43,627	852	12,328,135	12,348,403		
185,413,647	57,511,645	563,877,168	562,660,445	12,422,680	11,539,485
279,149,146	65,826,677	746,123,009	745,216,271	56,546,795	54,696,397
		1,140,733	1,272,422		
279,149,146	65,826,677	747,263,742	746,488,693	56,546,795	54,696,397
246,659	557,054	11,178,329	11,683,488	110,234	58,404
304,770		1,041,040	876,968	62,782	81,750
2,782,896	6,544	3,213,651	3,297,971	9,224	10,458
169,568	34,299	1,095,465	1,062,023	655	10,930
267,618	19,190	2,016,240	1,934,400		
183,681	40,739	3,815,009	3,110,811		
6,675	534	565,378	580,988	41,690	12,237
				930,674	924,201
6,425,000		10,190,000	10,003,123	130,000	125,000
10,386,867	658,360	33,115,112	32,549,772	1,285,259	1,222,980
177,731,051		292,169,423	304,967,425	595,000	725,000
			258,123		
296,771	14,263	1,609,254	1,833,454	900,858	849,291
		62,223	442,859	3,785,373	3,197,806
178,027,822	14,263	293,840,900	307,501,861	5,281,231	4,772,097
188,414,689	672,623	326,956,012	340,051,633	6,566,490	5,995,077
		912,329	943,902		
188,414,689	672,623	327,868,341	340,995,536	6,566,490	5,995,077
68,577,878	57,510,793	314,444,519	302,966,488	11,697,680	10,689,485
22,156,579	7,643,261	104,950,882	102,526,669	38,282,625	38,011,835
\$ 90,734,457	\$ 65,154,054	419,395,401	405,493,157	\$ 49,980,305	\$ 48,701,320
		4,112,537	3,913,012		
		\$ 423,507,938	\$ 409,406,169		

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

For the Year Ended December 31, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 6,309,209	\$	\$
Sales and charges for services, pledged as security for revenue bonds		133,296,375	7,502,808
Miscellaneous		9,664,841	783,905
Total Operating Revenues	<u>6,309,209</u>	<u>142,961,216</u>	<u>8,286,713</u>
Operating Expenses:			
Purchased power		87,392,206	
Maintenance and operations	3,079,235	30,493,542	6,384,921
Amortization of regulatory assets		386,745	
Depreciation	1,271,476	10,058,878	2,325,370
Total Operating Expenses	<u>4,350,711</u>	<u>128,331,371</u>	<u>8,710,291</u>
Operating Income (Loss)	<u>1,958,498</u>	<u>14,629,845</u>	<u>(423,578)</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	116,155	368,718	62,774
Net increase (decrease) in the fair value of investments	44,200		
Interest and fiscal charges		(3,390,694)	(6)
Amortization of regulatory assets		(111,006)	
Gain (loss) on disposal of property			
Other income (expense)	8,181	(241,664)	(62,325)
Total Nonoperating Revenues (Expenses)	<u>169,113</u>	<u>(3,374,646)</u>	<u>443</u>
Income (Loss) Before Transfers and Capital Contributions	2,127,611	11,255,199	(423,135)
Capital contributions			2,167,173
Transfers in			
Transfers out	(857,270)	(8,263,570)	(339,948)
Change in net position	1,270,341	2,991,629	1,404,090
Net Position as Restated - Beginning (Note 6)	<u>41,996,720</u>	<u>121,664,267</u>	<u>94,179,843</u>
Net Position - End of Year	<u>\$ 43,267,061</u>	<u>\$ 124,655,896</u>	<u>\$ 95,583,933</u>

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

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

Change in net position of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2014	2013
		2014	2013 - Restated		
\$	\$ 4,965,786	\$ 11,274,995	\$ 10,933,812	\$ 19,161,216	\$ 18,418,909
24,107,648		164,906,831	163,011,417		
142,543	335,485	10,926,774	8,909,919		
<u>24,250,191</u>	<u>5,301,271</u>	<u>187,108,600</u>	<u>182,855,148</u>	<u>19,161,216</u>	<u>18,418,909</u>
		87,392,206	88,020,377		
8,664,933	2,705,174	51,327,805	51,012,711	16,069,197	15,322,026
		386,745	380,299		
<u>8,511,936</u>	<u>1,179,780</u>	<u>23,347,440</u>	<u>24,099,302</u>	<u>2,481,544</u>	<u>2,251,312</u>
<u>17,176,869</u>	<u>3,884,954</u>	<u>162,454,196</u>	<u>163,512,689</u>	<u>18,550,741</u>	<u>17,573,338</u>
<u>7,073,322</u>	<u>1,416,317</u>	<u>24,654,404</u>	<u>19,342,459</u>	<u>610,475</u>	<u>845,571</u>
				231,080	437,364
9,219	83,675	93,471	9,796	2,685	2,959
462,369	49,881	1,059,897	767,460	274,436	337,001
(100,533)	8,500	(47,833)	(409,347)	117,900	(366,700)
(6,538,501)		(9,929,201)	(10,241,568)	(22,384)	(25,325)
		(111,006)	(130,487)		
(100,482)		(100,482)	(31,245)	85,968	65,952
327,445		31,637	108,460		
<u>(5,940,483)</u>	<u>142,056</u>	<u>(9,003,517)</u>	<u>(9,926,931)</u>	<u>689,685</u>	<u>451,251</u>
1,132,839	1,558,373	15,650,887	9,415,528	1,300,160	1,296,822
2,776,841	4,326,023	9,270,037	3,228,860		
191,468	770,153	961,621	2,182,926	57,120	1,113,459
(1,720,127)	(799,386)	(11,980,301)	(11,367,581)	(78,295)	(87,370)
<u>2,381,021</u>	<u>5,855,163</u>	<u>13,902,244</u>	<u>3,459,733</u>	<u>1,278,985</u>	<u>2,322,911</u>
<u>88,353,436</u>	<u>59,298,891</u>			<u>48,701,320</u>	<u>46,378,409</u>
<u>\$ 90,734,457</u>	<u>\$ 65,154,054</u>			<u>\$ 49,980,305</u>	<u>\$ 48,701,320</u>
		199,525	196,193		
		<u>\$ 14,101,769</u>	<u>\$ 3,655,926</u>		

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

For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers	\$ 6,192,774	\$ 137,064,579	\$ 7,983,575
Cash received from other City funds	47,190	5,632,408	196,356
Cash received from employees			
Cash paid to employees	(377,237)	(13,903,986)	(1,700,300)
Cash paid to suppliers	(2,738,344)	(105,995,129)	(4,490,904)
Service territory acquisition		(489,603)	
Other income	8,181		
<b>Net Cash Provided By Operating Activities</b>	<u>3,132,564</u>	<u>22,308,269</u>	<u>1,988,727</u>
<b>Cash Flows From Noncapital Financing Activities:</b>			
General property taxes			
Intergovernmental revenues	577		
Transfers in			
Transfers out	(857,270)	(8,282,206)	(340,858)
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<u>(856,693)</u>	<u>(8,282,206)</u>	<u>(340,858)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Proceeds from the sale of property			
Proceeds from the issuance of bonds			
Principal payments on bonds		(4,558,123)	
Interest and fiscal charges		(5,210,705)	
Repayment of developer agreements			
Acquisition of capital assets	(699,788)	(20,139,107)	(2,532,931)
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<u>(699,788)</u>	<u>(29,907,935)</u>	<u>(2,532,931)</u>
<b>Cash Flows From Investing Activities:</b>			
Investment income	116,818	378,915	62,767
Net (increase) decrease in investments	(823,700)	5,645,373	858,122
<b>Net Cash Provided By (Used In) Invested Activities</b>	<u>(706,882)</u>	<u>6,024,288</u>	<u>920,889</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	869,201	(9,857,584)	35,827
Cash and Cash Equivalents, Beginning of Year	3,732,180	31,113,803	796,044
Cash and Cash Equivalents, End of Year	<u>\$ 4,601,381</u>	<u>\$ 21,256,219</u>	<u>\$ 831,871</u>
<b>Classified As:</b>			
Cash and Cash Equivalents	\$ 1,351,647	\$ 5,593,450	\$ 831,871
Restricted and Reserved Cash	3,249,734	15,662,769	
<b>Total Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,601,381</u>	<u>\$ 21,256,219</u>	<u>\$ 831,871</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2014	2013 - Restated
		2014	2013 - Restated		
\$ 24,142,308	\$ 5,157,916	\$ 180,541,152	\$ 178,441,204	\$ 17,675,343	\$ 17,100,728
99,098	195,313	6,170,365	6,051,981	1,487,976	1,317,870
(3,361,088)	(550,749)	(19,893,360)	(19,895,973)		
(5,302,588)	(2,181,505)	(120,708,470)	(116,856,352)	(15,381,631)	(14,856,053)
		(489,603)	(511,112)		
327,445		335,626	298,682		
<u>15,905,175</u>	<u>2,620,975</u>	<u>45,955,710</u>	<u>47,528,430</u>	<u>3,781,688</u>	<u>3,562,545</u>
				233,409	438,103
9,219	83,675	93,471	9,796	2,685	2,959
191,468	770,153	961,621	2,182,926	57,120	1,113,459
<u>(1,720,127)</u>	<u>(799,386)</u>	<u>(11,999,847)</u>	<u>(11,301,643)</u>	<u>(78,295)</u>	<u>(87,370)</u>
<u>(1,519,440)</u>	<u>54,442</u>	<u>(10,944,755)</u>	<u>(9,108,921)</u>	<u>214,919</u>	<u>1,467,151</u>
				87,543	85,116
			48,207,391		
(3,623,600)		(8,181,723)	(10,417,149)	(125,000)	(120,000)
(7,808,739)	6,544	(13,012,900)	(13,480,417)	(23,618)	(26,450)
	(140,523)	(140,523)	(128,242)		
<u>(1,729,263)</u>	<u>(574,935)</u>	<u>(25,676,024)</u>	<u>(30,163,998)</u>	<u>(3,357,049)</u>	<u>(3,548,146)</u>
<u>(13,161,602)</u>	<u>(708,914)</u>	<u>(47,011,170)</u>	<u>(5,982,415)</u>	<u>(3,418,124)</u>	<u>(3,609,480)</u>
134,594	46,976	740,070	334,728	280,947	326,622
88,533	(1,527,500)	4,240,828	(10,323,609)	1,701,700	(3,638,300)
<u>223,127</u>	<u>(1,480,524)</u>	<u>4,980,898</u>	<u>(9,988,881)</u>	<u>1,982,647</u>	<u>(3,311,678)</u>
1,447,260	485,979	(7,019,317)	22,448,213	2,561,130	(1,891,462)
<u>284,590</u>	<u>78,015</u>	<u>36,004,632</u>	<u>13,556,419</u>	<u>692,198</u>	<u>2,583,660</u>
<u>\$ 1,731,850</u>	<u>\$ 563,994</u>	<u>\$ 28,985,315</u>	<u>\$ 36,004,632</u>	<u>\$ 3,253,328</u>	<u>\$ 692,198</u>
\$ 1,731,850	\$ 563,994	\$ 10,072,812	\$ 6,549,620	\$ 3,253,328	\$ 692,198
		18,912,503	29,455,012		
<u>\$ 1,731,850</u>	<u>\$ 563,994</u>	<u>\$ 28,985,315</u>	<u>\$ 36,004,632</u>	<u>\$ 3,253,328</u>	<u>\$ 692,198</u>

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

For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

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

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 1,958,498	\$ 14,629,845	\$ (423,578)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,271,476	10,445,623	2,325,370
Other income (expense)	8,181	(242,405)	
Service territory payments		(489,603)	
Other		174,382	(48,165)
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	(77,124)	(2,139,002)	(49,305)
Inventory		93,803	(5,665)
Due from other funds			
Due from other governmental units	2,533		
Prepaid items			
Other assets		53,763	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(18,739)	(261,156)	105,935
Deposits payable	5,345	79,439	79,288
Accrued expenses and other liabilities	4,991		
Post employment benefit obligations			
Unearned revenues		(36,420)	4,847
Accrued claims			
Due to other funds	1		
Due to other governmental units	(22,598)		
Net Cash Provided By Operating Activities	<u>\$ 3,132,564</u>	<u>\$ 22,308,269</u>	<u>\$ 1,988,727</u>
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ 44,200	\$	\$
Receipt of contributed property			2,167,173
Equipment purchases in accounts payable at year end			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2014	2013
		2014	2013 - Restated		
\$ 7,073,322	\$ 1,416,317	\$ 24,654,404	\$ 19,342,459	\$ 610,475	\$ 845,571
8,511,936	1,179,780	23,734,185	24,479,602	2,481,544	2,251,312
327,445		93,221	152,461		
		(489,603)	(511,112)		
		126,217	78,505		
58,161	43,815	(2,163,455)	(292,163)		
(237)		87,901	2,158,074		
(134,647)	2,621	(132,026)	(26,102)		
73,500		76,033	15,077	2,103	(311)
(20,000)		(20,000)			
28,534	804	83,101	169,908		
(30,519)	(39,169)	(243,648)	1,621,867	41,749	(10,759)
		164,072	65,033	(18,968)	(3,427)
32,732	10,859	48,582	27,390	(10,275)	663
				587,567	628,253
		(31,573)	164,587		
(5,799)	5,522	(276)	45,692	58,040	(149,946)
(9,253)	426	(31,425)	37,152	29,453	1,189
<u>\$ 15,905,175</u>	<u>\$ 2,620,975</u>	<u>\$ 45,955,710</u>	<u>\$ 47,528,430</u>	<u>\$ 3,781,688</u>	<u>\$ 3,562,545</u>
\$ (100,533)	\$ 8,500	\$ (47,833)	\$ (409,347)	\$ 117,900	\$ (366,700)
2,776,841	4,326,023	9,270,037	3,228,860	29,113	7,662
			1,075,908		

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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

The City of Rochester has two component units, the Rochester Economic Development Authority (REDA) and the Destination Medical Center Corporation (DMCC). The REDA was created to account for development allowable only under specific State statutes. The board of directors of the REDA is comprised of City Council members and the REDA directly provides all of its services to the City. There were no activities in the REDA in 2014 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The REDA is reported as a blended component unit. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. The Corporation was established to benefit the City, and more broadly, Olmsted County and the State of Minnesota by researching, preparing, and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center. Separate audited financial statements for the year ended December 31, 2014 are available from the DMCC. The DMCC is discretely presented to emphasize its legal separation from the City.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

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

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

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

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

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

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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, Deferred Inflows, Deferred Outflows, and Net Position

1. Deposits and investments

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

1. Deposits and investments (continued)

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

2. Cash and investments with escrow agent

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

3. Receivables, payables, and deferred inflows of resources

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

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

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Receivables, payables, and deferred inflows of resources (continued)

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

4. Other Assets

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

5. Inventory

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

6. Deferred outflows of resources

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

7. Capital assets

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

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

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

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

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

8. Utility connection charges

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

9. Compensated absences benefits

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

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

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

10. Long-term obligations

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

11. Deferred Inflow of Resources

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

12. Fund equity

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

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

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

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 1: Summary of Significant Accounting Policies (continued)

12. Fund equity (continued)

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

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

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

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

E. 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, 2013 from which the summarized information was derived.

F. Transactions between the City and its Component Unit

The City conducts transactions with its component unit. Significant transactions between the City and its component unit during 2014 are described in footnote 3:C. Also, for the year ended December 31, 2014, revenues of the DMCC were entirely provided by the City.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information (continued)

5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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, 2014 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

Investment Policy

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk

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

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

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2014, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2014 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&amp;P</u>	<u>MOODY</u>
Commercial Paper	\$ 15,788,811	0.10 - 0.50	A-1	P1
Municipal Bond	2,009,720	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	35,958,830	0.33 - 3.67	AA+	Aaa
Federal Home Loan Bank	42,070,658	0.24 - 3.31	AA+	Aaa
Federal Home Loan Mortgage Corporation	44,303,465	0.24 - 3.25	AA+	Aaa
Federal National Mortgage Association	37,232,013	0.20 - 2.94	AA+	Aaa
Treasury Note	<u>58,537,070</u>	0.50 - 3.18	AA+	Aaa
Sub-total Investments	235,900,567			
Cash and Deposits	<u>117,211,270</u>			
Total	<u>\$ 353,111,837</u>			

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

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk

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

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 35,958,830
Federal Home Loan Bank	Federal Agency Securities	42,070,658
Federal Home Loan Mortgage Corporation	Federal Agency Securities	44,303,465
Federal National Mortgage Association	Federal Agency Securities	37,232,013
Treasury Note	United States Treasury Securities	58,537,070

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, 2014 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

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

Cash and cash equivalents	\$ 27,309,389
Investments	233,191,106
Cash and investments with escrow agent	67,363,909
Restricted and reserved cash and investments	<u>25,247,433</u>
Total	<u>\$ 353,111,837</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

B. Land Held for Resale

In 2009, 2011, 2012, and 2014 the City acquired parcels of land from private parties for a total purchase price of \$1,668,500. The City intends to resell these properties in connection with the expansion of the University of Minnesota Rochester Campus and for private development. In 2014, the City sold certain parcels of land with a cost basis totaling \$895,000. The remaining parcels held for resale totaling \$773,500, is reported in the Construction Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2014.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2014 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	City of Rochester	Other	Total
General	\$ 19,248	\$ 702,642	\$ 528,386	\$	\$ 122,070	\$ 1,372,346
Special Revenue	286,978	294,183	155,187		88,589	824,937
Capital Project	929,357	16,086,915	134,924			17,151,196
Debt Service			10,671			10,671
Enterprise		518	4,211			4,729
Internal Service	1,201		1,682			2,883
Totals	<u>\$ 1,236,784</u>	<u>\$ 17,084,258</u>	<u>\$ 835,061</u>	<u>\$</u>	<u>\$ 210,659</u>	<u>\$ 19,366,762</u>
DMCC	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,265,600</u>	<u>\$</u>	<u>\$ 1,265,600</u>

Amounts due to other governmental units as of December 31, 2014 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	DMCC	Other	Total
General	\$	\$ 27,952	\$ 147,605	\$	\$ 1,670	\$ 177,227
Special Revenue	9,077	39,963	128,557		9,390	186,987
Capital Project		137,379	469,605	1,265,600		1,872,584
Enterprise		503,426	61,952			565,378
Internal Service	16,028	25,662				41,690
Totals	<u>\$ 25,105</u>	<u>\$ 734,382</u>	<u>\$ 807,719</u>	<u>\$ 1,265,600</u>	<u>\$ 11,060</u>	<u>\$ 2,843,866</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

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

Restricted cash are deposits held for specifically required purposes. Reserved cash are deposits reserved by council action for a particular purpose. Cash and investments with escrow agent are deposits into an irrevocable trust with an escrow agent held for specifically required purposes. Descriptions of the items and balances as of December 31, 2014 are as follows:

*Restricted Cash -*

General Fund

Civic Music Endowment:	
Rochester Area Foundation Endowment	\$ 43,208

Enterprise Funds

Electric Fund:	
Construction Fund	15,662,769

*Restricted Investments -*

Enterprise Funds

Electric Fund:	
Debt Service Reserve Accounts	5,623,831
CAPX 2020 Expense Reserve	667,891

*Reserved Cash -*

Enterprise Funds:

Parking Fund:	
Bioscience Building Debt Service Reserve	3,249,734

*Cash and Investments with Escrow Agent -*

Enterprise Funds

Sewer Fund:	
Waste Water Debt Service and Refunding Account	67,363,909

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility. Provisions of these revenue bonds require that the electric utility fund debt service accounts in an amount equal to the following year's 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 \$60,840,000 of GO Waste Water Revenue Crossover Refunding Bonds in May 2012 to refund the GO Waste Water Revenue Bonds issued in 2004 to fund the waste water treatment plant expansion. Debt service is to be paid from sewer rate revenue by the sewer fund. Bond proceeds of \$73.1 million were deposited into an irrevocable trust with an escrow agent for payment of the first three years of interest on the crossover refunding bond and the redemption of principal of the Series 2004A bond.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

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, 2014 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 66,718,459	\$ 1,560,825	\$ 145,097	\$ 68,134,187
Construction in progress	107,642,170	35,039,998	21,456,156	121,226,012
Total capital assets, not being depreciated	<u>174,360,629</u>	<u>36,600,823</u>	<u>21,601,253</u>	<u>189,360,199</u>
Capital assets, being depreciated:				
Buildings	173,399,518	879,521		174,279,039
Improvements other than buildings	48,052,643	308,223		48,360,866
Infrastructure	414,604,588	12,766,699		427,371,287
Machinery and equipment	72,371,621	8,660,902	3,440,008	77,592,515
Total capital assets, being depreciated	<u>708,428,370</u>	<u>22,615,345</u>	<u>3,440,008</u>	<u>727,603,707</u>
Less accumulated depreciation for:				
Buildings	73,065,567	4,449,193		77,514,760
Improvements other than buildings	19,615,705	1,607,906		21,223,611
Infrastructure	133,632,997	9,146,713		142,779,710
Machinery and equipment	50,279,242	5,378,488	2,787,724	52,870,006
Total accumulated depreciation	<u>276,593,511</u>	<u>20,582,300</u>	<u>2,787,724</u>	<u>294,388,087</u>
Total capital assets, being depreciated, net	<u>431,834,859</u>	<u>2,033,045</u>	<u>652,284</u>	<u>433,215,620</u>
Governmental activities capital assets, net	<u>\$ 606,195,488</u>	<u>\$ 38,633,868</u>	<u>\$ 22,253,537</u>	<u>\$ 622,575,819</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2014 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	\$ 14,668,248	\$ 534,037	\$	\$ 15,202,285
Construction in progress	33,119,452	23,706,516	13,010,074	43,815,894
Total capital assets, not being depreciated	<u>47,787,700</u>	<u>24,240,553</u>	<u>13,010,074</u>	<u>59,018,179</u>
Capital assets, being depreciated:				
Buildings and improvements	416,271,075	10,742,828	874,364	426,139,539
Machinery and equipment	427,631,285	15,160,437	3,458,442	439,333,280
Total capital assets, being depreciated	<u>843,902,360</u>	<u>25,903,265</u>	<u>4,332,806</u>	<u>865,472,819</u>
Less accumulated depreciation for:				
Buildings and improvements	163,236,447	9,240,139	695,947	171,780,639
Machinery and equipment	215,025,930	14,107,301	2,767,680	226,365,551
Total accumulated depreciation	<u>378,262,377</u>	<u>23,347,440</u>	<u>3,463,627</u>	<u>398,146,190</u>
Total capital assets, being depreciated, net	<u>465,639,983</u>	<u>2,555,825</u>	<u>869,179</u>	<u>467,326,629</u>
Business-type activities capital assets, net	<u>\$ 513,427,683</u>	<u>\$ 26,796,378</u>	<u>\$ 13,879,253</u>	<u>\$ 526,344,808</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2014 was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 643,069
Public safety	2,881,980
Public works	6,904,595
Airport operations	2,059,455
Transit	904,383
Culture	1,196,309
Park and recreation/Mayo Civic Center	2,921,159
Economic development/tourism	589,806
Subtotal	<u>18,100,756</u>
Internal Service Funds:	
Equipment revolving	2,271,249
Information technology	<u>210,295</u>

Total depreciation expense - governmental activities	<u>\$ 20,582,300</u>
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**Business-Type Activities:**

Parking	\$ 1,271,475
Electric utility	10,058,878
Water utility	2,325,370
Sewer utility	8,511,937
Storm water utility	<u>1,179,780</u>

Total depreciation expense - business type activities	<u>\$ 23,347,440</u>
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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

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, 2014, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 1,030,481	\$ 244,872
Construction improvement	7,884,920	7,071,576
Subtotal	8,915,401	7,316,448
Non-Major Governmental Funds:		
Special Revenue -		
Library		6,890
Edward Byrne Memorial JAG		5,435
Community Development Projects		107,698
Municipal recreation system		62,347
Mayo Civic Center	367	36,505
Airport operations		24,182
Transit		893
Subtotal	367	243,950
Total Governmental Funds	8,915,768	7,560,398
Proprietary Funds:		
Enterprise -		
Parking		250
Electric utility		2,457,847
Water utility		1,132,492
Sewer utility	2,052,211	183,681
Storm water utility	407,428	40,739
Total Proprietary Funds	2,459,639	3,815,009
Total All Funds	\$ 11,375,407	\$ 11,375,407

The amounts advanced to and from other funds as of December 31, 2014, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Construction improvement	\$ 350,000	\$ 68,450
FE Williams Estate	68,450	
Airport Operations		350,000
Total All Funds	\$ 418,450	\$ 418,450

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Transfers during the year ended December 31, 2014 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 12,903,032	\$ 462,865
Capital Project	1,134,084	2,909,189
Other Governmental Funds		
Library		22,445
Municipal Recreation System	2,436	250,734
Mayo Civic Center		41,401
Airport Operations		89,395
Minnesota Bio Science Center		896,140
Community Development Projects Fund		67,029
F.E. Williams Estate		20,000
Tax Increment Bonds		
Airport Hangar Construction Notes	26,394	
Facility Energy Improvements Loan	566,967	
Economic Development Authority Bond	1,166,140	
Subtotal Other Governmental Funds	1,761,937	1,387,144
Subtotal Governmental Funds	15,799,053	4,759,198
Enterprise	961,621	11,980,301
Internal Service	57,120	78,295
Totals	<u>\$ 16,817,794</u>	<u>\$ 16,817,794</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.

Other significant transfers include the Sanitary Sewer Fund transfer of \$220,626 and Storm Water Fund transfer of \$398,298 to the Construction Improvement Capital Project Fund for capital construction.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

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

Governmental Funds:	
Transfer in	\$ 15,799,053
Transfers out	(4,759,198)
Internal Service Funds:	
Transfer in	57,120
Transfers out	(78,295)
Capital assets transferred from Govt- Activities to Business-type activities	(4,212,275)
Government-wide Statement of Activities - Transfers in/out	\$ 6,806,405

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, 2014 totaled \$393,511.

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

Years ending December 31:	
2015	\$ 45,447
2016	46,356
2017	47,283
2018	48,229
2019	49,194

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2014, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/14
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 540,273
District 36, Series 2009A	8,035,000	2.6-6.0%	2033	7,355,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	70,780,000
Revenue Bonds, Series 2007A	30,455,000	4.0-5.0%	2026	25,270,000
Variable Rate Revenue Bonds, Series 2007B	19,500,000	Variable	2026	14,100,000
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	60,840,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	1.0-5.15%	2036	24,615,000
Direct Pay, Series 2010A - Equipment	425,000	0.85-3.70%	2020	285,000
GO Equipment Certificates of Indebtedness, Series 2009B				
	815,000	2.5-3.5%	2019	440,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	70,660,000
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	38,370,000
Bonds, Series 2013A	3,960,000	2.0%	2017	2,395,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	8,630,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	5,840,000
Notes Payable:				
Airport Hangar - 2006	263,944	0%	2016	48,390
Energy Loan Payable	5,715,795	4.10%	2018	2,176,906
Compensated Absences				13,231,316
Post Employment Benefit Obligation				3,785,372
Less: Unamortized premium				20,004,688
Total Long-term Debt				<u>\$ 369,366,945</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, 2014**

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 Bonds

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

Revenue Bonds and Notes – Electric Utility

Revenue Bonds and Notes 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.

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

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

Notes Payable

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

Energy Loan Payable

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

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 compliance with these requirements.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

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, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
Taxable Tax Increment Bonds					
District 7, Series 1997	\$ 958,965	\$	\$ 418,692	\$ 540,273	\$
District 36, Series 2009A	7,590,000		235,000	7,355,000	245,000
GO Equipment Certificates of Indebtedness, Series 2009B	520,000		80,000	440,000	(1) 85,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	25,450,000		835,000	24,615,000	845,000
Direct Pay, Series 2010A - Equipment	330,000		45,000	285,000	(1) 45,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	8,910,000		280,000	8,630,000	290,000
REDA Lease Revenue Bonds, Series 2008	6,030,000		190,000	5,840,000	195,000
Notes Payable:					
Airport Hangar 2006	74,784		26,394	48,390	26,394
Municipal Loan Payable:					
Energy Loan	2,668,116		491,210	2,176,906	511,556
Less: Unamortized Premium on Bonds	74,627		14,362	60,265	
Other Liabilities:					
Compensated Absences	9,644,553	6,084,767	6,123,498	9,605,822	5,690,000
Post-Employment Benefit Obligation	3,197,805	867,526	279,959	3,785,372	(1)
Governmental Activities Long-term Liabilities	<u>65,448,850</u>	<u>6,952,293</u>	<u>9,019,115</u>	<u>63,382,028</u>	<u>7,932,950</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Bonds, Series 2004A	74,600,000		3,820,000	70,780,000	4,735,000
Revenue Bonds, Series 2007A	26,895,000		1,625,000	25,270,000	1,690,000
Variable Rate Demand Revenue Bonds, Series 2007B	15,200,000		1,100,000	14,100,000	
Revenue Crossover Refunding Series 04A Bonds, Series 2012A	60,840,000			60,840,000	
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2007	71,945,000		1,285,000	70,660,000	2,305,000
Series 2013B	38,370,000			38,370,000	670,000
Series 2013A	3,175,000		780,000	2,395,000	790,000
Revenue Note:					
Electric Utility Note of 2005	880,000		880,000		
Electric Utility Note of 2009A	1,355,000		1,355,000		
Less: Unamortized Premium	21,710,548		1,766,125	19,944,423	
Other Liabilities:					
Obligation Under Capital Lease	258,123		258,123		
Compensated Absences	3,767,854	1,550,339	1,692,699	3,625,494	2,016,240
Business-type Activities Long-term Liabilities	<u>318,996,525</u>	<u>1,550,339</u>	<u>14,561,947</u>	<u>305,984,917</u>	<u>12,206,240</u>
Total	<u>\$ 384,445,375</u>	<u>\$ 8,502,632</u>	<u>\$ 23,581,062</u>	<u>\$ 369,366,945</u>	<u>\$ 20,139,190</u>

(1) Debt recorded in the internal service funds.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

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.

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 2012, the Sewer Utility issued \$60.84 million in Crossover Refunding Revenue Bonds, Series 2012A, to be used for a crossover refunding of the outstanding Series 2004A bonds, which were issued to fund the treatment plant expansion. The net proceeds of \$73.1 million (after payment of issuance costs) were used to purchase securities of the U.S. Government. Those securities were deposited into an irrevocable trust with an escrow agent to provide for three years of interest payments on the Series 2012A Bonds and the 2016-2026 maturities of the Series 2004A Bonds until the call date of the refunded issue at which time the bonds will be called and paid by the escrow agent. Until the call date, both the refunded and refunding bonds will be reported in the financial statements.

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

Bond Issue	Amount	Average Interest	Proceeds	Bonds to be Called			
				Bond Issue	Average Interest	Call Date	Balance to be Called
G.O. Revenue Refunding, 2012A	\$60,840,000	4.5%	\$73,087,001	G.O. Revenue 2004A	4%	2/1/2015	\$66,045,000

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

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, 2014, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Bonds*		Revenue Bonds and Notes		Energy Loan Payable		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2015	\$ 1,220,000	\$ 1,459,690	\$ 485,000	\$ 669,266	\$ 511,556	\$ 84,062	\$ 26,394	\$
2016	1,230,000	1,428,844	510,000	645,864	532,745	62,874	21,996	
2017	1,265,000	1,393,252	535,000	621,286	554,812	40,808		
2018	1,300,000	1,352,947	560,000	595,532	577,793	17,827		
2019	1,335,000	1,306,481	585,000	568,601				
2020-2024	6,580,000	5,736,122	3,375,000	2,391,886				
2025-2029	7,810,000	4,126,323	4,250,000	1,499,413				
2030-2034	8,920,000	1,926,667	4,170,000	403,371				
2035-2036	3,035,000	157,719						
Totals	<u>\$ 32,695,000</u>	<u>\$ 18,888,045</u>	<u>\$ 14,470,000</u>	<u>\$ 7,395,219</u>	<u>\$ 2,176,906</u>	<u>\$ 205,571</u>	<u>\$ 48,390</u>	<u>\$</u>
	General Obligation Revenue Bonds							
	Principal	Interest						
<u>Business-Type Activities</u>								
2015	\$ 72,470,000	\$ 5,815,185	\$ 3,765,000	\$ 5,090,525				
2016	6,250,000	3,848,685	3,895,000	4,939,375				
2017	6,495,000	3,531,810	4,060,000	4,782,125				
2018	6,830,000	3,218,635	4,445,000	4,610,675				
2019	7,100,000	2,891,160	4,660,000	4,395,775				
2020-2024	40,590,000	8,921,369	26,495,000	18,804,588				
2025-2029	31,255,000	861,783	33,055,000	12,241,838				
2030-2034			13,475,000	5,393,250				
2035-2039			8,885,000	3,362,700				
2039-2043			8,690,000	1,113,000				
Totals	<u>\$ 170,990,000</u>	<u>\$ 29,088,627</u>	<u>\$ 111,425,000</u>	<u>\$ 64,733,851</u>				

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2014, the City had not utilized \$143,840,290 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$2,233,271,000 and the balance outstanding at December 31, 2014 totals \$2,212,999,638.

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, 2014 there were approximately 52 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, 2014 there were 9 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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

The following table shows the components of the City's annual OPEB cost for 2014, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 858,440
Interest on net OPEB obligations	143,901
Adjustment to ARC	<u>(134,816)</u>
Annual OPEB Cost	867,525
Contributions during the year	<u>(279,959)</u>
Increase in net OPEB obligation	587,566
Net OPEB beginning of year	<u>3,197,806</u>
Net OPEB end of year	<u><u>\$ 3,785,372</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 660,687	\$ 2,108,405	\$ 199,539	30.20%	\$ 2,569,553
December 31, 2013	831,625	2,569,553	203,372	24.45%	3,197,806
December 31, 2014	867,525	3,197,806	279,959	32.27%	3,785,372

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 )
1/1/2012		\$ 5,461,629	\$ 5,461,629	0.00%	\$ 58,195,067	9.39%
1/1/2013		6,738,892	6,738,892	0.00%	59,633,786	11.30%
1/1/2014		7,351,265	7,351,265	0.00%	61,870,053	11.88%

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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.

In the January 1, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using underlying long-term inflation assumption of 3% and a 3.75% annual increase in covered payroll. The annual healthcare cost trend rate is 9.0% initially, reduced incrementally to an ultimate rate of 5% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2007.

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2014 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 112,375	\$ 100,000	\$ 2,978	\$ 215,353
Inventory	860,629		61,241	921,870
Total Nonspendable	<u>973,004</u>	<u>100,000</u>	<u>64,219</u>	<u>1,137,223</u>
<u>Restricted for:</u>				
Civic music endowment	43,208			43,208
Flood control		21,304,989		21,304,989
Economic development loans		330,477		330,477
Park and recreation		106,328		106,328
Tax increment financing		2,225,723		2,225,723
Sales tax authorized projects		13,153,484		13,153,484
Airport operations			996,806	996,806
Children's playgrounds			655,080	655,080
Debt service			1,468,630	1,468,630
Total Restricted	<u>43,208</u>	<u>37,121,001</u>	<u>3,120,516</u>	<u>40,284,725</u>
<u>Committed to:</u>				
Capital improvement projects		51,592,509		51,592,509
Total Committed		<u>51,592,509</u>		<u>51,592,509</u>
<u>Assigned to:</u>				
Subsequent year budgets	213,130			213,130
Encumbrances	350,428			350,428
Library operations			2,416,382	2,416,382
Parks and recreation			2,713,599	2,713,599
Transit			619,084	619,084
Minnesota Bio Science Center			882,556	882,556
Total Assigned	<u>563,558</u>		<u>6,631,621</u>	<u>7,195,179</u>
<u>Unassigned</u>	<u>29,431,232</u>		<u>(42,389)</u>	<u>29,388,843</u>
Total Fund Balances	<u>\$ 31,011,002</u>	<u>\$ 88,813,510</u>	<u>\$ 9,773,967</u>	<u>\$ 129,598,479</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Position

	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 43,208	\$	\$
Construction Improvement Fund:				
Flood Control				21,304,989
Economic Development Loans	330,477			
Park and Recreation		106,328		
Tax Increment Financing				2,225,723
Sales Tax Authorized Projects				13,153,484
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	655,080			
CDBG Loans	3,387,520			
Airport Operations				996,806
Debt Service Funds:				
Debt Service			1,468,630	
Total Restricted Net Position	\$ 4,373,077	\$ 149,536	\$ 1,468,630	\$ 37,681,002

L. Deficit Fund Balances

At December 31, 2014, the following fund had a deficit balance:

Mayo Civic Center	\$ 19,980
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The City intends to fund this accumulated deficit through additional revenue sources.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014**

NOTE 4: Other Information

A. Risk Management

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

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

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$1,831,532 reported in the Fund at December 31, 2014 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, 2014 and 2013 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2014	\$ 1,773,492	\$ 12,581,555	\$ (12,523,515)	\$ 1,831,532
2013	1,923,438	12,553,581	(12,703,527)	1,773,492

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 4: Other Information (continued)

B. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("RPU") has entered into two agreements with the Minnesota Municipal Power Agency (MMPA) to sell a maximum of 100 megawatts of power annually from its Silver Lake Plant to MMPA. Under the terms of the agreements, 100 megawatts of power is sold at fixed rates for providing the availability of generating capacity. The Utility is reimbursed for the fuel-related costs of generating power for one quarter of the energy production. The remaining three quarters of the energy produced is sold into the Midwest Independent System Operator (MISO) market at market-based rates under a margin-sharing arrangement. The Utility has an additional agreement with MMPA to market energy from its Cascade Creek combustion turbines (approximately 82 megawatts) into the MISO market, also under a margin-sharing arrangement. These agreements expire May 31, 2015.

CapX2020:

Since 2007, the Electric Utility has participated in the CapX2020 initiative, a joint initiative among Midwest utilities intended to expand the transmission grid through construction of transmission lines primarily in Minnesota, Wisconsin and the surrounding region. In December 2012, the Utility Board and City Council approved the Project Agreements for the Utility's participation in the La Crosse Project portion of the CapX2020 initiative which consists of plans to build a 345 kilovolt (kV) line from Hampton, MN to Rochester, MN and on to La Crosse, WI. The project includes a transmission substation near Rochester where two associated 161 kV lines are routed to the Utility's Northern Hills and Chester Substations. Five utilities have an ownership interest in the La Crosse Project. The other participants in the La Crosse Project are Dairyland Power Cooperative ("DPC"), Northern States Power Company, a Minnesota corporation ("NSP-MN"), Northern States Power Company, a Wisconsin corporation ("NSP-WI"), Southern Minnesota Municipal Power Agency (SMMPA), and Wisconsin Public Power, Inc. (WPPI).

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 4: Other Information (continued)

B. Commitments (continued)

The La Crosse transmission line will improve reliability for the Twin Cities, Rochester and La Crosse areas, as well as improve access to generation in the southern part of Minnesota. The Utility is sharing in the project cost based on its load ratio shared between the five participating utilities, which is calculated to be 9% or approximately \$43.4 million. Construction began in 2013 and is expected to be completed by the end of 2015. NSP-MN is acting as the Construction Manager for the La Crosse Project and administers a trust account where the five participating utilities make required deposits based on expenditure plans provided by the Construction Manager, and from which the Construction Manager withdraws funds as construction expenditures occur. As of December 31, 2014 and 2013, respectively, RPU had \$667,891 and \$1,841,156 on deposit in the trust account.

Service Territory Settlements:

Under settlement agreements with People's Cooperative Services (PCS), the Electric Utility is required to make payments to PCS related to the acquisitions of certain electric service rights from PCS. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 12.73 mills (tenths of a cent) per kWh to 16.23 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

Southern Minnesota Municipal Power Agency:

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,230,433,003 and 1,243,336,4712 kilowatt hours totaling \$86,967,411 and \$87,239,794 from SMMPA during the years ended December 31, 2014 and 2013, respectively. The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a noncancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and lease revenues are being recognized ratably over the lease term.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 4: Other Information (continued)

C. Commitments (continued)

Purchase Commitments/Encumbrances:

The City has active construction projects and equipment purchase commitments. As of December 31, 2014, the City's commitments with contractors and vendors were as follows:

	Remaining Commitment
Construction Projects	
Major Street Projects	\$ 3,464,205
Sewer and Water Projects	992,589
Sidewalk Projects	1,909,932
Traffic Projects	157,181
Bridge Projects	2,333,333
Storm Water / Storm Sewer Projects	98,118
Water Reclamation Projects	75,810
Parking Ramp Rehabilitation	237,777
Airport Projects	1,436,650
Civic Center Expansion & Improvements	330,334
Golf Projects	58,943
Plummer House HVAC Upgrades	7,804
Parks Projects - Various	148,111
Fire Station Construction	3,622,873
Building Work - City Hall	42,608
CapX 2020	20,308,097
Other Electric Projects	1,178,809
Other Water Projects	211,116
Software Consulting	850,758
Total Construction Projects	\$ 37,465,048
Equipment Purchase Commitments	
Fiber - Station #5	\$ 7,828
GIS Work Management Software	245,028
LEC Electronic Citation System	264,316
Electronic Fareboxes	803,450
Buses	3,360,336
Water equipment	15,012
Electric equipment	447,137
Total Equipment Purchase Commitments	\$ 5,143,107
General Fund Encumbrances	
General Fund Equipment Purchase Commitments	\$ 350,428
Total General Fund Encumbrances	\$ 350,428

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 4: Other Information (continued)

D. 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, 2014, 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.

E. 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, 2014**

NOTE 4: Other Information (continued)

F. 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 General Employees Retirement Fund (GERF) 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 GERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://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.

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, 2014**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

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 6.25% respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City of Rochester was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.3% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$3,136,364, \$3,087,768, and \$3,018,670, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$3,004,241, \$2,779,630, and \$2,676,251 respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2014**

NOTE 5: New Accounting Pronouncements Not Yet Issued

GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27*, will be effective for the City beginning with its year ending December 31, 2015. This Statement requires the reporting of unfunded pension liabilities in the government-wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

NOTE 6: Restatement

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

Activities/Fund	Net Position December 31, 2012 as Previously Reported	Restatement for Overstatement of Capital Contributions	Net Position December 31, 2012 as Restated
Business Type Activities	\$ 407,371,762	\$ 1,621,519	\$ 405,750,243
Proprietary Funds:			
Water Utility Fund	\$ 93,827,118	\$ 1,621,519	\$ 92,205,599

Activities/Fund	Net Position December 31, 2013 as Previously Reported	Restatement for Overstatement of Capital Contributions	Net Position December 31, 2013 as Restated
Business Type Activities	\$ 411,601,910	\$ 2,195,741	\$ 409,406,169
Proprietary Funds:			
Water Utility Fund	\$ 96,375,584	\$ 2,195,741	\$ 94,179,843

NOTE 7: Accounting for the Effects of Rate Regulation

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

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**CITY OF ROCHESTER, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2014**

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS**  
**December 31, 2014**

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 )
1/1/2012	\$	\$ 5,461,629	\$ 5,461,629	0.00%	\$ 58,195,067	9.39%
1/1/2013		6,738,892	6,738,892	0.00%	59,633,786	11.30%
1/1/2014		7,351,265	7,351,265	0.00%	61,870,053	11.88%

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

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL NONMAJOR**  
**FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2014**

# CITY OF ROCHESTER, MINNESOTA

## NONMAJOR FUNDS

DECEMBER 31, 2014

### SPECIAL REVENUE FUNDS

**Library Fund:**

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

**Municipal Recreation System Fund:**

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

**Mayo Civic Center Fund:**

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

**Edward Byrne Memorial JAG Fund:**

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

**Airport Operations Fund:**

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

**The F.E. Williams Estate Fund:**

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

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

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

**Community Development Projects Fund:**

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

### 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.

# CITY OF ROCHESTER, MINNESOTA

## NONMAJOR FUNDS

DECEMBER 31, 2014

### DEBT SERVICE FUNDS (continued)

#### **Airport Hangar Construction Notes Fund:**

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

#### **Facility Energy Improvements Loan Fund:**

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

#### **Economic Development Authority Bond Fund:**

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

#### **Public Works and Transit Operation Center Bond Fund:**

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

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2014

	Special Revenue								
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F. E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
<b>ASSETS</b>									
Cash and cash equivalents	\$ 95,443	\$ 572	\$ 73,011	\$	\$ 509,720	\$ 41,978	\$ 43,349	\$ 56,578	\$
Investments	2,620,600	2,812,400			106,800	543,400	562,700	748,300	
Accrued interest receivable	5,907	6,809			246	1,252	1,296	1,724	
Accounts receivable (net of allowance for uncollectibles)	2,828	250,805	94,375		805,206		14,027	76,271	
Loans receivable									3,387,520
Taxes receivable delinquent	54,186	57,126			2,426		2,089		
Special assessments receivable delinquent		72,843							
Due from other funds			367						
Advances to other funds						68,450			
Due from other governmental units	39,535	192,667	241,282	5,435	50,699		92,229		203,090
Prepaid items	2,978								
Inventory		3,750	22,409				35,082		
<b>TOTAL ASSETS</b>	<b>\$ 2,821,477</b>	<b>\$ 3,396,972</b>	<b>\$ 431,444</b>	<b>\$ 5,435</b>	<b>\$ 1,475,097</b>	<b>\$ 655,080</b>	<b>\$ 750,772</b>	<b>\$ 882,873</b>	<b>\$ 3,590,610</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 71,819	\$ 50,135	\$ 125,856	\$	\$ 92,606	\$	\$ 89,459	\$	\$ 84,560
Deposits payable	6,817	128,325	97,971						
Accrued compensation and payroll taxes	247,993	256,555	86,404				4,100		
Due to other funds	6,890	62,347	36,505	5,435	24,182		893		107,698
Advances from other funds					350,000				
Unearned revenue		2,406	2,290						
Due to other governmental units	14,412	49,886	102,398		9,077		65	317	10,832
Total Liabilities	347,931	549,654	451,424	5,435	475,865		94,517	317	203,090
<b>Deferred Inflows of Resources:</b>									
Unavailable revenue									
Property taxes	54,186	57,126			2,426		2,089		
Special assessments		72,843							
Loans receivable									3,387,520
Total Deferred Inflows of Resources	54,186	129,969			2,426		2,089		3,387,520
<b>Fund Balance:</b>									
Nonspendable	2,978	3,750	22,409				35,082		
Restricted					996,806	655,080			
Assigned	2,416,382	2,713,599					619,084	882,556	
Unassigned			(42,389)						
Total Fund Balance	2,419,360	2,717,349	(19,980)		996,806	655,080	654,166	882,556	
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 2,821,477</b>	<b>\$ 3,396,972</b>	<b>\$ 431,444</b>	<b>\$ 5,435</b>	<b>\$ 1,475,097</b>	<b>\$ 655,080</b>	<b>\$ 750,772</b>	<b>\$ 882,873</b>	<b>\$ 3,590,610</b>

Total	Debt Service						Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Total	
\$ 820,651	\$	\$ 2,200	\$ 160,273	\$ 1,172	\$ 1,294,314	\$ 1,457,959	\$ 2,278,610
7,394,200							7,394,200
17,234							17,234
1,243,512							1,243,512
3,387,520							3,387,520
115,827					14,312	14,312	130,139
72,843							72,843
367							367
68,450							68,450
824,937					10,671	10,671	835,608
2,978							2,978
61,241							61,241
<u>\$ 14,009,760</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 160,273</u>	<u>\$ 1,172</u>	<u>\$ 1,319,297</u>	<u>\$ 1,482,942</u>	<u>\$ 15,492,702</u>
\$ 514,435	\$	\$	\$	\$	\$	\$	\$ 514,435
233,113							233,113
595,052							595,052
243,950							243,950
350,000							350,000
4,696							4,696
186,987							186,987
<u>2,128,233</u>							<u>2,128,233</u>
115,827					14,312	14,312	130,139
72,843							72,843
<u>3,387,520</u>							<u>3,387,520</u>
<u>3,576,190</u>					<u>14,312</u>	<u>14,312</u>	<u>3,590,502</u>
64,219							64,219
1,651,886		2,200	160,273	1,172	1,304,985	1,468,630	3,120,516
6,631,621							6,631,621
(42,389)							(42,389)
<u>8,305,337</u>		<u>2,200</u>	<u>160,273</u>	<u>1,172</u>	<u>1,304,985</u>	<u>1,468,630</u>	<u>9,773,967</u>
<u>\$ 14,009,760</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 160,273</u>	<u>\$ 1,172</u>	<u>\$ 1,319,297</u>	<u>\$ 1,482,942</u>	<u>\$ 15,492,702</u>

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2014

	Special Revenue								
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
<b>REVENUES</b>									
General property taxes	\$ 5,540,548	\$ 5,768,983	\$ 4,580	\$	\$ 442,285	\$	\$ 217,380	\$	\$
Tax increments									
Nonproperty tax			1,027,944						
Intergovernmental revenues	877,528	78,897		43,727	567,239		4,651,306		498,168
Charges for services	166,219	3,787,536	2,953,546		1,653,810		2,097,466		
Interest earnings	13,004	15,373	(865)		6,058	3,848	3,452	3,656	
Net increase (decrease) in the fair value of investments	6,800	7,000			(400)	2,500	1,400	(200)	
Miscellaneous revenues	253,548	140,632	34,070		1,330,022		131,433	2,211,754	96,890
<b>Total Revenues</b>	<b>6,857,647</b>	<b>9,798,421</b>	<b>4,019,275</b>	<b>43,727</b>	<b>3,999,014</b>	<b>6,348</b>	<b>7,102,437</b>	<b>2,215,210</b>	<b>595,058</b>
<b>EXPENDITURES</b>									
Culture	6,682,208								
Park and recreation		9,399,269	3,997,854						
Public safety				43,727					
Airport operations					3,471,271				
Transit							7,170,957		
Economic development/tourism								1,101,550	528,029
Debt service									
<b>Total Expenditures</b>	<b>6,682,208</b>	<b>9,399,269</b>	<b>3,997,854</b>	<b>43,727</b>	<b>3,471,271</b>		<b>7,170,957</b>	<b>1,101,550</b>	<b>528,029</b>
Excess (deficiency) of revenues over (under) expenditures	175,439	399,152	21,421		527,743	6,348	(68,520)	1,113,660	67,029
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in		2,436							
Transfers out	(22,445)	(250,734)	(41,401)		(89,395)	(20,000)		(896,140)	(67,029)
<b>Total Other Financing Sources (Uses)</b>	<b>(22,445)</b>	<b>(248,298)</b>	<b>(41,401)</b>		<b>(89,395)</b>	<b>(20,000)</b>		<b>(896,140)</b>	<b>(67,029)</b>
Net change in fund balances	152,994	150,854	(19,980)		438,348	(13,652)	(68,520)	217,520	
Fund Balances - beginning	2,266,366	2,566,495			558,458	668,732	722,686	665,036	
<b>Fund Balances - ending</b>	<b>\$ 2,419,360</b>	<b>\$ 2,717,349</b>	<b>\$ (19,980)</b>	<b>\$</b>	<b>\$ 996,806</b>	<b>\$ 655,080</b>	<b>\$ 654,166</b>	<b>\$ 882,556</b>	<b>\$</b>

Total	Debt Service					Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$11,973,776	\$ 1,102,758	\$	\$	\$	\$ 1,507,065	\$ 1,507,065	\$13,480,841
1,027,944						1,102,758	1,102,758
6,716,865					344,176	344,176	1,027,944
10,658,577							7,061,041
44,526			823		2,481	3,304	10,658,577
17,100							47,830
4,198,349							17,100
34,637,137	1,102,758		823		1,853,722	2,957,303	4,198,349
6,682,208							37,594,440
13,397,123							6,682,208
43,727							13,397,123
3,471,271							43,727
7,170,957							3,471,271
1,629,579					4,245	4,245	7,170,957
	1,102,758	26,394	595,620	1,161,851	1,894,655	4,781,278	1,633,824
32,394,865	1,102,758	26,394	595,620	1,166,096	1,894,655	4,785,523	4,781,278
2,242,272		(26,394)	(594,797)	(1,166,096)	(40,933)	(1,828,220)	37,180,388
2,436		26,394	566,967	1,166,140		1,759,501	414,052
(1,387,144)							1,761,937
(1,384,708)		26,394	566,967	1,166,140		1,759,501	(1,387,144)
857,564			(27,830)	44	(40,933)	(68,719)	374,793
7,447,773		2,200	188,103	1,128	1,345,918	1,537,349	788,845
\$ 8,305,337	\$	\$ 2,200	\$ 160,273	\$ 1,172	\$ 1,304,985	\$ 1,468,630	8,985,122
							\$ 9,773,967

**CITY OF ROCHESTER, MINNESOTA**  
**LIBRARY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$5,545,547	\$5,545,547	\$5,540,548	\$ (4,999)	\$5,385,789
Intergovernmental	844,352	877,528	877,528		845,040
Charges for services	160,300	160,300	166,219	5,919	172,618
Interest earnings	9,000	12,956	13,004	48	12,907
Net increase (decrease) in the fair value of investments	(3,000)	(3,000)	6,800	9,800	(22,000)
Miscellaneous					
Contributions		253,130	253,130		389,580
Other	6,500	6,510	418	(6,092)	1,264
Total Revenues	<u>6,562,699</u>	<u>6,852,971</u>	<u>6,857,647</u>	<u>4,676</u>	<u>6,785,198</u>
<b>EXPENDITURES</b>					
Public Library	6,549,515	6,601,339	6,473,644	127,695	6,239,906
Gifts appropriations		807,642	208,564	599,078	414,090
Total Expenditures	<u>6,549,515</u>	<u>7,408,981</u>	<u>6,682,208</u>	<u>726,773</u>	<u>6,653,996</u>
Excess (deficiency) of revenues over (under) expenditures	13,184	(556,010)	175,439	731,449	131,202
<b>OTHER FINANCING USES</b>					
Transfers out	(22,445)	(22,445)	(22,445)		(52,446)
Net change in fund balance	<u>(9,261)</u>	<u>(578,455)</u>	<u>152,994</u>	<u>731,449</u>	<u>78,756</u>
Fund Balance - beginning	<u>2,266,366</u>	<u>2,266,366</u>	<u>2,266,366</u>		<u>2,187,610</u>
Fund Balance - ending	<u>\$2,257,105</u>	<u>\$1,687,911</u>	<u>\$2,419,360</u>	<u>\$ 731,449</u>	<u>\$2,266,366</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, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$ 5,773,658	\$ 5,773,658	\$5,768,983	\$ (4,675)	\$5,567,321
Intergovernmental	28,770	28,770	78,897	50,127	36,297
Charges for services	4,155,367	4,166,257	3,787,536	(378,721)	4,004,724
Interest earnings	18,200	18,200	15,373	(2,827)	16,986
Net increase (decrease) in the fair value of investments	(7,700)	(7,700)	7,000	14,700	(24,600)
Miscellaneous					
Contributions	6,250	30,147	30,147		16,197
Other	91,350	91,356	110,485	19,129	108,569
Total Revenues	<u>10,065,895</u>	<u>10,100,688</u>	<u>9,798,421</u>	<u>(302,267)</u>	<u>9,725,494</u>
<b>EXPENDITURES</b>					
Administration	504,040	504,040	480,187	23,853	475,271
Recreation Department	696,615	708,077	595,006	113,071	690,673
Golf	1,488,490	1,526,887	1,392,996	133,891	1,308,118
Tennis Center	45,821	45,821	46,020	(199)	45,529
Volleyball Center	324,751	330,751	327,119	3,632	311,558
Swimming Pools	196,053	196,053	208,361	(12,308)	184,257
Graham Arenas	671,471	671,471	745,829	(74,358)	696,767
Park	4,532,243	4,547,643	4,233,468	314,175	4,268,093
Plummer House	59,970	59,970	61,569	(1,599)	72,819
Recreation Center	1,317,134	1,317,134	1,308,714	8,420	1,270,820
Total Expenditures	<u>9,836,588</u>	<u>9,907,847</u>	<u>9,399,269</u>	<u>508,578</u>	<u>9,323,905</u>
Excess (deficiency) of revenues over (under) expenditures	<u>229,307</u>	<u>192,841</u>	<u>399,152</u>	<u>206,311</u>	<u>401,589</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in		2,436	2,436		10,825
Transfers out	(250,734)	(250,734)	(250,734)		(488,149)
Total Other Financing Sources (Uses)	<u>(250,734)</u>	<u>(248,298)</u>	<u>(248,298)</u>		<u>(477,324)</u>
Net change in fund balance	<u>(21,427)</u>	<u>(55,457)</u>	<u>150,854</u>	<u>206,311</u>	<u>(75,735)</u>
Fund Balance - beginning	<u>2,566,495</u>	<u>2,566,495</u>	<u>2,566,495</u>		<u>2,642,230</u>
Fund Balance - ending	<u>\$ 2,545,068</u>	<u>\$ 2,511,038</u>	<u>\$2,717,349</u>	<u>\$ 206,311</u>	<u>\$2,566,495</u>

**CITY OF ROCHESTER, MINNESOTA**  
**MAYO CIVIC CENTER**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$	\$	\$ 4,580	\$ 4,580	\$
Nonproperty taxes	949,381	949,381	1,027,944	78,563	1,009,668
Charges for services	2,791,244	2,791,244	2,953,546	162,302	2,817,844
Interest earnings	(4,800)	(4,800)	(865)	3,935	(2,566)
Other	28,500	28,500	34,070	5,570	25,109
Total Revenues	<u>3,764,325</u>	<u>3,764,325</u>	<u>4,019,275</u>	<u>254,950</u>	<u>3,850,055</u>
<b>EXPENDITURES</b>					
Mayo Civic Center	<u>3,722,924</u>	<u>3,731,774</u>	<u>3,997,854</u>	<u>(266,080)</u>	<u>3,777,947</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,401</u>	<u>32,551</u>	<u>21,421</u>	<u>(11,130)</u>	<u>72,108</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in					237,418
Transfers out	<u>(41,401)</u>	<u>(41,401)</u>	<u>(41,401)</u>		<u>(41,402)</u>
Total Other Financing Sources (Uses)	<u>(41,401)</u>	<u>(41,401)</u>	<u>(41,401)</u>		<u>196,016</u>
Net change in fund balance		(8,850)	(19,980)	(11,130)	268,124
Fund Balance - beginning					<u>(268,124)</u>
Fund Balance - ending	<u>\$</u>	<u>\$ (8,850)</u>	<u>\$ (19,980)</u>	<u>\$ (11,130)</u>	<u>\$</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, 2014

With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Intergovernmental	\$	\$	\$ 43,727	\$ 43,727	\$ 54,030
<b>EXPENDITURES</b>					
Public Safety					
Law enforcement block grant			43,727	(43,727)	54,030
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, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$ 444,495	\$ 444,495	\$ 442,285	\$ (2,210)	\$ 227
Intergovernmental	214,752	283,100	567,239	284,139	259,770
Charges for services	1,777,248	1,777,248	1,653,810	(123,438)	1,484,241
Interest earnings	14,000	10,000	6,058	(3,942)	5,635
Net decrease in the fair value of investments	(7,000)	(7,000)	(400)	6,600	(1,700)
Miscellaneous	1,109,000	1,109,000	1,330,022	221,022	1,243,151
Total Revenues	<u>3,552,495</u>	<u>3,616,843</u>	<u>3,999,014</u>	<u>382,171</u>	<u>2,991,324</u>
<b>EXPENDITURES</b>					
Airport operations	3,297,100	3,365,448	3,302,943	62,505	3,260,811
US customs operations	166,000	166,000	168,328	(2,328)	157,399
Total Expenditures	<u>3,463,100</u>	<u>3,531,448</u>	<u>3,471,271</u>	<u>60,177</u>	<u>3,418,210</u>
Excess (deficiency) of revenues over (under) expenditures	89,395	85,395	527,743	442,348	(426,886)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	<u>(89,395)</u>	<u>(89,395)</u>	<u>(89,395)</u>		<u>(528,894)</u>
Net change in fund balance		(4,000)	438,348	442,348	(955,780)
Fund Balance - beginning	<u>558,458</u>	<u>558,458</u>	<u>558,458</u>		<u>1,514,238</u>
Fund Balance - ending	<u>\$ 558,458</u>	<u>\$ 554,458</u>	<u>\$ 996,806</u>	<u>\$ 442,348</u>	<u>\$ 558,458</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, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Interest earnings	\$ 6,000	\$ 6,000	\$ 3,848	\$ (2,152)	\$ 5,428
Net increase (decrease) in the fair value of investments	<u>(2,000)</u>	<u>(2,000)</u>	<u>2,500</u>	<u>4,500</u>	<u>(5,800)</u>
Total Revenues	<u>4,000</u>	<u>4,000</u>	<u>6,348</u>	<u>2,348</u>	<u>(372)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>		
Net change in fund balance	(16,000)	(16,000)	(13,652)	2,348	(372)
Fund Balance - beginning	<u>668,732</u>	<u>668,732</u>	<u>668,732</u>		<u>669,104</u>
Fund Balance - ending	<u>\$ 652,732</u>	<u>\$ 652,732</u>	<u>\$ 655,080</u>	<u>\$ 2,348</u>	<u>\$ 668,732</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, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Budgeted Amounts		2014 Actual Amounts	Variance with Final Budget - Positive (Negative)	2013 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
General property taxes	\$ 217,635	\$ 217,635	\$ 217,380	\$ (255)	\$ 218,123
Intergovernmental revenues	4,643,530	4,648,307	4,651,306	2,999	4,333,086
Charges for services	2,399,445	2,399,445	2,097,466	(301,979)	2,103,957
Interest earnings	6,800	6,800	3,452	(3,348)	7,115
Net increase (decrease) in the fair value of investments	(2,000)	(2,000)	1,400	3,400	(4,100)
Miscellaneous	80,000	92,495	131,433	38,938	79,606
Total Revenues	<u>7,345,410</u>	<u>7,362,682</u>	<u>7,102,437</u>	<u>(260,245)</u>	<u>6,737,787</u>
<b>EXPENDITURES</b>					
Fixed route	6,599,438	6,617,854	6,374,865	242,989	6,097,544
Demand response - ZIPS	745,972	750,749	796,092	(45,343)	735,295
Total Expenditures	<u>7,345,410</u>	<u>7,368,603</u>	<u>7,170,957</u>	<u>197,646</u>	<u>6,832,839</u>
Net change in fund balance		(5,921)	(68,520)	(62,599)	(95,052)
Fund Balance - beginning	<u>722,686</u>	<u>722,686</u>	<u>722,686</u>		<u>817,738</u>
Fund Balance - ending	<u>\$ 722,686</u>	<u>\$ 716,765</u>	<u>\$ 654,166</u>	<u>\$ (62,599)</u>	<u>\$ 722,686</u>

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL**  
**FUND STATEMENTS AND SCHEDULES (CONTINUED)**  
**INTERNAL SERVICE FUNDS**  
**DECEMBER 31, 2014**

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

**Equipment Revolving Fund:**

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

**Information Technology Revolving Fund:**

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

**Self-Insurance Fund:**

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

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
December 31, 2014  
With Comparative Totals as of December 31, 2013

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2014	2013
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$ 445,864	\$ 262,043	\$ 2,545,421	\$ 3,253,328	\$ 692,198
Investments	5,775,600	3,394,700	31,600,000	40,770,300	42,354,100
Accrued interest receivable	13,405	7,920	73,394	94,719	101,230
Taxes receivable delinquent	1,542	1,343		2,885	4,398
Due from other governmental units	2,316	567		2,883	4,986
Total Current Assets	<u>6,238,727</u>	<u>3,666,573</u>	<u>34,218,815</u>	<u>44,124,115</u>	<u>43,156,912</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	275,126			275,126	458,583
Machinery and equipment	30,083,722	1,991,082		32,074,804	30,693,564
Less: Accumulated depreciation	<u>(18,491,297)</u>	<u>(1,435,953)</u>		<u>(19,927,250)</u>	<u>(19,612,662)</u>
Total capital assets (net of accumulated depreciation)	<u>11,867,551</u>	<u>555,129</u>		<u>12,422,680</u>	<u>11,539,485</u>
Total Assets	<u>18,106,278</u>	<u>4,221,702</u>	<u>34,218,815</u>	<u>56,546,795</u>	<u>54,696,397</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	29,113	782	80,339	110,234	58,404
Accrued interest payable	9,224			9,224	10,458
Deposits payable			62,782	62,782	81,750
Accrued compensation and payroll taxes			655	655	10,930
Due to other governmental units			41,690	41,690	12,237
Accrued claims			930,674	930,674	1,038,677
Bonds payable	130,000			130,000	125,000
Total Current Liabilities	<u>168,337</u>	<u>782</u>	<u>1,116,140</u>	<u>1,285,259</u>	<u>1,337,456</u>
Noncurrent Liabilities:					
Bonds payable	595,000			595,000	725,000
Accrued claims			900,858	900,858	734,815
Post employment benefit obligation			3,785,373	3,785,373	3,197,806
Total Noncurrent Liabilities	<u>595,000</u>		<u>4,686,231</u>	<u>5,281,231</u>	<u>4,657,621</u>
Total Liabilities	<u>763,337</u>	<u>782</u>	<u>5,802,371</u>	<u>6,566,490</u>	<u>5,995,077</u>
<b>NET POSITION</b>					
Net investment in capital assets	11,142,551	555,129		11,697,680	10,689,485
Unrestricted	6,200,390	3,665,791	28,416,444	38,282,625	38,011,835
Total Net Position	<u>\$ 17,342,941</u>	<u>\$ 4,220,920</u>	<u>\$ 28,416,444</u>	<u>\$ 49,980,305</u>	<u>\$ 48,701,320</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2014	2013
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 2,262,764	\$ 866,667	\$	\$ 3,129,431	\$ 2,905,125
Copy center charges	27,700			27,700	29,251
Departmental workers' compensation charges			434,684	434,684	399,487
Departmental insurance charges			14,061,494	14,061,494	13,747,824
Departmental flex charges			19,931	19,931	19,352
Employee insurance charges			756,334	756,334	634,053
Employee flex benefit contributions			731,642	731,642	683,817
Total Operating Revenues	<u>2,290,464</u>	<u>866,667</u>	<u>16,004,085</u>	<u>19,161,216</u>	<u>18,418,909</u>
Operating Expenses:					
Copy center	20,446			20,446	18,701
Minor equipment		503,681		503,681	148,809
Workers' compensation benefits			473,168	473,168	321,316
Workers' compensation insurance premiums			109,341	109,341	72,275
Health insurance claims			13,273,146	13,273,146	12,923,544
Flex benefits			749,791	749,791	695,458
Property and liability insurance			584,145	584,145	508,683
Property and liability claims			66,169	66,169	301,880
Other	4,705	284,605		289,310	331,360
Depreciation	<u>2,271,249</u>	<u>210,295</u>		<u>2,481,544</u>	<u>2,251,312</u>
Total Operating Expenses	<u>2,296,400</u>	<u>998,581</u>	<u>15,255,760</u>	<u>18,550,741</u>	<u>17,573,338</u>
Operating Income (Loss)	<u>(5,936)</u>	<u>(131,914)</u>	<u>748,325</u>	<u>610,475</u>	<u>845,571</u>
Nonoperating Revenues (Expenses):					
General property taxes	156,623	74,457		231,080	437,364
Interest earnings	38,578	22,533	213,325	274,436	337,001
Net increase (decrease) in the fair value of investments	24,500	11,200	82,200	117,900	(366,700)
Interest and fiscal charges	(22,384)			(22,384)	(25,325)
Gain on disposal of property	85,968			85,968	65,952
Intergovernmental revenues	<u>2,685</u>			<u>2,685</u>	<u>2,959</u>
Total Nonoperating Revenues	<u>285,970</u>	<u>108,190</u>	<u>295,525</u>	<u>689,685</u>	<u>451,251</u>
Income Before Transfers	280,034	(23,724)	1,043,850	1,300,160	1,296,822
Transfers in		57,120		57,120	1,113,459
Transfers out	<u>(4,925)</u>	<u>(73,370)</u>		<u>(78,295)</u>	<u>(87,370)</u>
Change in Net Position	275,109	(39,974)	1,043,850	1,278,985	2,322,911
Total Net Position - beginning	<u>17,067,832</u>	<u>4,260,894</u>	<u>27,372,594</u>	<u>48,701,320</u>	<u>46,378,409</u>
Total Net Position - ending	<u>\$ 17,342,941</u>	<u>\$ 4,220,920</u>	<u>\$ 28,416,444</u>	<u>\$ 49,980,305</u>	<u>\$ 48,701,320</u>

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

For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2014	2013
<b>Cash Flows From Operating Activities:</b>					
Cash received from other departments	\$ 2,290,645	\$ 868,589	\$ 14,516,109	\$ 17,675,343	\$ 17,100,728
Cash received from employees			1,487,976	1,487,976	1,317,870
Cash paid to suppliers	(14,147)	(801,311)	(14,566,173)	(15,381,631)	(14,856,053)
<b>Net Cash Provided by     Operating Activities</b>	<u>2,276,498</u>	<u>67,278</u>	<u>1,437,912</u>	<u>3,781,688</u>	<u>3,562,545</u>
<b>Cash Flows From Noncapital Financing Activities:</b>					
General property taxes	157,578	75,831		233,409	438,103
Intergovernmental revenues	2,685			2,685	2,959
Transfers in		57,120		57,120	1,113,459
Transfers out	(4,925)	(73,370)		(78,295)	(87,370)
<b>Net Cash Provided by     Noncapital Financing Activities</b>	<u>155,338</u>	<u>59,581</u>		<u>214,919</u>	<u>1,467,151</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Principal and interest payments on bonds	(148,618)			(148,618)	(146,450)
Proceeds from sale of property	87,543			87,543	85,116
Acquisition of capital assets	(3,202,394)	(154,655)		(3,357,049)	(3,548,146)
<b>Net Cash Used in Capital     and Related Financing Activities</b>	<u>(3,263,469)</u>	<u>(154,655)</u>		<u>(3,418,124)</u>	<u>(3,609,480)</u>
<b>Cash Flows From Investing Activities:</b>					
Investment income	42,036	23,423	215,488	280,947	326,622
Net (increase) decrease in investments	1,137,800	215,400	348,500	1,701,700	(3,638,300)
<b>Net Cash Provided by (Used in)     Investing Activities</b>	<u>1,179,836</u>	<u>238,823</u>	<u>563,988</u>	<u>1,982,647</u>	<u>(3,311,678)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>348,203</u>	<u>211,027</u>	<u>2,001,900</u>	<u>2,561,130</u>	<u>(1,891,462)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>97,661</u>	<u>51,016</u>	<u>543,521</u>	<u>692,198</u>	<u>2,583,660</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 445,864</u>	<u>\$ 262,043</u>	<u>\$ 2,545,421</u>	<u>\$ 3,253,328</u>	<u>\$ 692,198</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2014  
With Comparative Totals for the Year Ended December 31, 2013

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2014	2013
Operating Income (Loss)	\$ (5,936)	\$ (131,914)	\$ 748,325	\$ 610,475	\$ 845,571
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	2,271,249	210,295		2,481,544	2,251,312
(Increase) Decrease In:					
Due from other governmental units	181	1,922		2,103	(311)
Increase (Decrease) In:					
Accounts payable	11,370	(12,933)	43,312	41,749	(10,759)
Deposits payable			(18,968)	(18,968)	(3,427)
Accrued compensation and payroll taxes			(10,275)	(10,275)	663
Due to other governmental units	(366)	(92)	29,911	29,453	1,189
Post employment benefit obligation			587,567	587,567	628,253
Accrued claims			58,040	58,040	(149,946)
Net Cash Provided by Operating Activities	<u>\$ 2,276,498</u>	<u>\$ 67,278</u>	<u>\$ 1,437,912</u>	<u>\$ 3,781,688</u>	<u>\$ 3,562,545</u>
Non Cash Transactions:					
Increase (Decrease) in fair value of investments	\$ 24,500	\$ 11,200	\$ 82,200	\$ 117,900	\$ (366,700)
Equipment purchases in accounts payable at year end	29,113			29,113	7,622

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