

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2022

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the City of Rochester, Minnesota's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2022, and the respective changes in financial position, cash flows, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 60 percent, 50 percent, and 79 percent, respectively of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a blended component unit), which represent 0.7 percent, 0 percent, and 0 percent, respectively, of the total assets, fund balance, and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, 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.

Basis for Opinions

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

Emphasis of a Matter

As discussed in Note 1, the City adopted the provisions of GASB Statement No. 87, Leases, effective January 1, 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Rochester, Minnesota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Auditor’s Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Rochester, Minnesota’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion on pages 5 through 18 and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Minnesota’s basic financial statements. The combining and individual nonmajor fund financial statements and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical sections but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 28, 2023

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, 2022, with comparative data for the fiscal year ended December 31, 2021. 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 and deferred outflows of resources of the City of Rochester exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,723,690,057 (*net position*). Of this amount, \$397,397,063 (*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 \$106,785,501.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$287,665,546, an increase of \$17,663,127 in comparison with the prior year. Approximately 15 percent of this total amount, or \$43,376,362, 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 \$48,249,872 or approximately 49.6 percent of total general fund expenditures. This is above the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long-term debt obligations by \$57,978,047 during the current fiscal year. The decrease includes a payoff of \$30,525,000 for the 2012A Wastewater Treatment Plant Bonds which were refinanced with the 2020B Revenue Refunding Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Additional explanation of these sections of the financial statements follows.

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, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources is 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, economic development/tourism, and community reinvestment. The business-type activities of the City of Rochester include parking, electric utility, water utility, sewer utility, and the storm water utility. The electric and water utilities, comprising the Rochester Public Utilities (RPU), are under the direction of the Board of Public Utilities.

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

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*.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental funds (continued). The City of Rochester maintains twenty-one 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 capital improvement fund, both of which are considered to be major funds. Data from the other nineteen 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 100-110 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 26-27) and the special revenue funds (pages 104-110) to demonstrate compliance with the budget.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-94 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 100-115 of this report.

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

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 and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,723,690,057 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (73 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		Totals	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 377,084,915	\$ 347,839,148	\$ 297,095,732	\$ 275,834,922	\$ 674,180,647	\$ 623,674,070
Capital assets	843,702,363	819,721,491	716,081,659	696,229,551	1,559,784,022	1,515,951,042
Total assets	<u>1,220,787,278</u>	<u>1,167,560,639</u>	<u>1,013,177,391</u>	<u>972,064,473</u>	<u>2,233,964,669</u>	<u>2,139,625,112</u>
Deferred outflows of resources	79,045,805	46,752,322	9,310,397	11,656,987	88,356,202	58,409,309
Total assets and deferred outflows of resources	<u>1,299,833,083</u>	<u>1,214,312,961</u>	<u>1,022,487,788</u>	<u>983,721,460</u>	<u>2,322,320,871</u>	<u>2,198,034,421</u>
Long-term liabilities						
outstanding	130,251,398	149,172,691	206,335,028	251,795,452	336,586,426	400,968,143
Other liabilities	168,491,714	73,620,870	45,271,509	32,720,553	213,763,223	106,341,423
Total liabilities	<u>298,743,112</u>	<u>222,793,561</u>	<u>251,606,537</u>	<u>284,516,005</u>	<u>550,349,649</u>	<u>507,309,566</u>
Deferred inflows of resources	12,171,589	59,358,890	36,109,576	14,461,409	48,281,165	73,820,299
Total liabilities and deferred inflows of resources	<u>310,914,701</u>	<u>282,152,451</u>	<u>287,716,113</u>	<u>298,977,414</u>	<u>598,630,814</u>	<u>581,129,865</u>
Net position:						
Net investment in capital assets	725,640,067	683,201,796	524,936,814	487,264,202	1,250,576,881	1,170,465,998
Restricted	75,099,815	81,092,349	616,298	590,417	75,716,113	81,682,766
Unrestricted	188,178,500	167,866,365	209,218,563	196,889,427	397,397,063	364,755,792
Total net position	<u>\$ 988,918,382</u>	<u>\$ 932,160,510</u>	<u>\$ 734,771,675</u>	<u>\$ 684,744,046</u>	<u>\$ 1,723,690,057</u>	<u>\$ 1,616,904,556</u>

An additional portion of the City of Rochester's net position (4.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$397,397,063) 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.

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

Governmental activities. Governmental activities increased the City of Rochester's net position by \$56,757,872. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions, airport grants, and state grants for Destination Medical Center capital projects). Additional net position growth resulted from operating grants and contributions and unused contingency.

Business-type activities. Business-type activities increased the City of Rochester's net position by \$50,027,629. This increase is due to contributions of assets in the storm water, sewer, electric utilities, and water utilities as well as program revenues which exceeded expenses in all business activities.

A condensed version of the Statement of Activities follows:

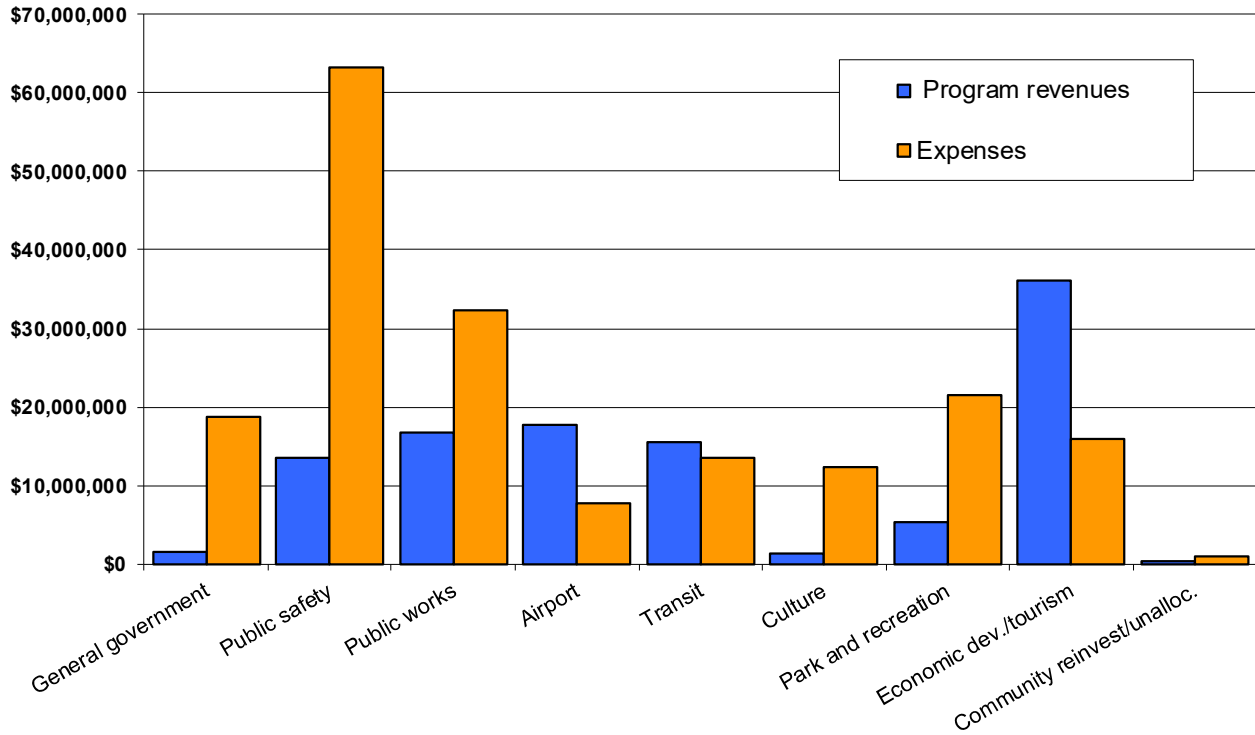
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Revenue:						
Program revenues:						
Charges for services	\$ 25,885,410	\$ 23,629,212	\$ 239,557,396	\$ 235,555,270	\$ 265,442,806	\$ 259,184,482
Operating grants and contributions	19,705,887	35,546,030		12,000	19,705,887	35,558,030
Capital grants and contributions	62,281,842	49,325,937	13,294,769	12,928,001	75,576,611	62,253,938
General revenues:						
Property taxes	86,509,296	80,426,235			86,509,296	80,426,235
Other taxes	42,725,434	38,677,757			42,725,434	38,677,757
Grants and contributions not restricted to specific programs						
Local government aid	6,372,634	6,372,634			6,372,634	6,372,634
Other	28,330	19,168			28,330	19,168
Miscellaneous	(4,339,820)	457,593	61,127	1,678,353	(4,278,693)	2,135,946
Total revenues	<u>239,169,013</u>	<u>234,454,566</u>	<u>252,913,292</u>	<u>250,173,624</u>	<u>492,082,305</u>	<u>484,628,190</u>
Expenses:						
General government	18,735,843	14,891,706			18,735,843	14,891,706
Public safety	63,336,181	56,133,204			63,336,181	56,133,204
Public works	32,242,937	32,317,332			32,242,937	32,317,332
Airport	7,724,803	8,172,986			7,724,803	8,172,986
Transit	13,566,701	11,520,951			13,566,701	11,520,951
Culture	12,383,510	11,706,026			12,383,510	11,706,026
Park and recreation	21,611,325	19,441,787			21,611,325	19,441,787
Economic development/tourism	15,907,783	19,773,316			15,907,783	19,773,316
Community reinvestment/unallocated	1,031,028	695,340			1,031,028	695,340
Interest on long-term debt	3,592,834	3,559,031			3,592,834	3,559,031
Parking			5,546,851	5,767,522	5,546,851	5,767,522
Electric			156,119,006	148,919,929	156,119,006	148,919,929
Water			11,550,948	11,215,782	11,550,948	11,215,782
Sewer			15,805,792	16,409,359	15,805,792	16,409,359
Storm water			6,141,262	5,573,105	6,141,262	5,573,105
Total expenses	<u>190,132,945</u>	<u>178,211,679</u>	<u>195,163,859</u>	<u>187,885,697</u>	<u>385,296,804</u>	<u>366,097,376</u>
Increase in net position before transfers	49,036,068	56,242,887	57,749,433	62,287,927	106,785,501	118,530,814
Transfers	<u>7,721,804</u>	<u>8,804,231</u>	<u>(7,721,804)</u>	<u>(8,804,231)</u>		
Increase in net position	56,757,872	65,047,118	50,027,629	53,483,696	106,785,501	118,530,814
Net position - beginning of year	<u>932,160,510</u>	<u>867,113,392</u>	<u>684,744,046</u>	<u>631,260,350</u>	<u>1,616,904,556</u>	<u>1,498,373,742</u>
Net position, end of year	<u>\$ 988,918,382</u>	<u>\$ 932,160,510</u>	<u>\$ 734,771,675</u>	<u>\$ 684,744,046</u>	<u>\$ 1,723,690,057</u>	<u>\$ 1,616,904,556</u>

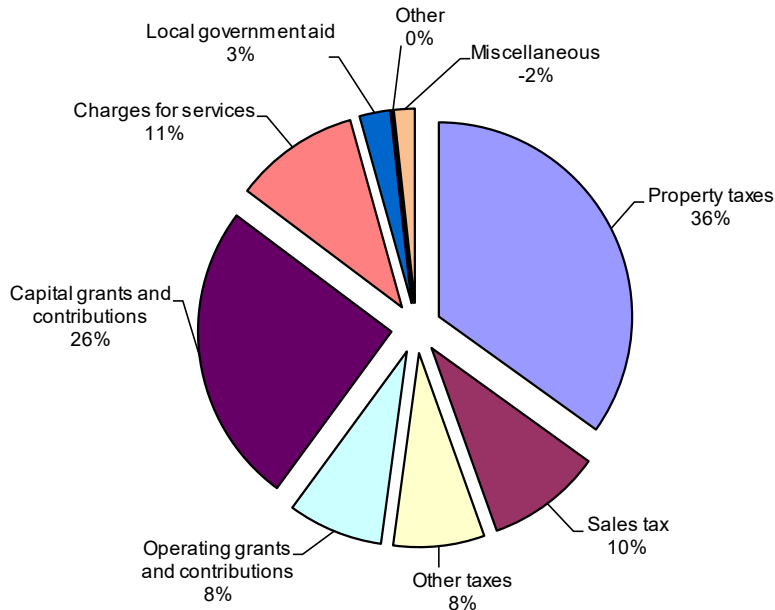
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



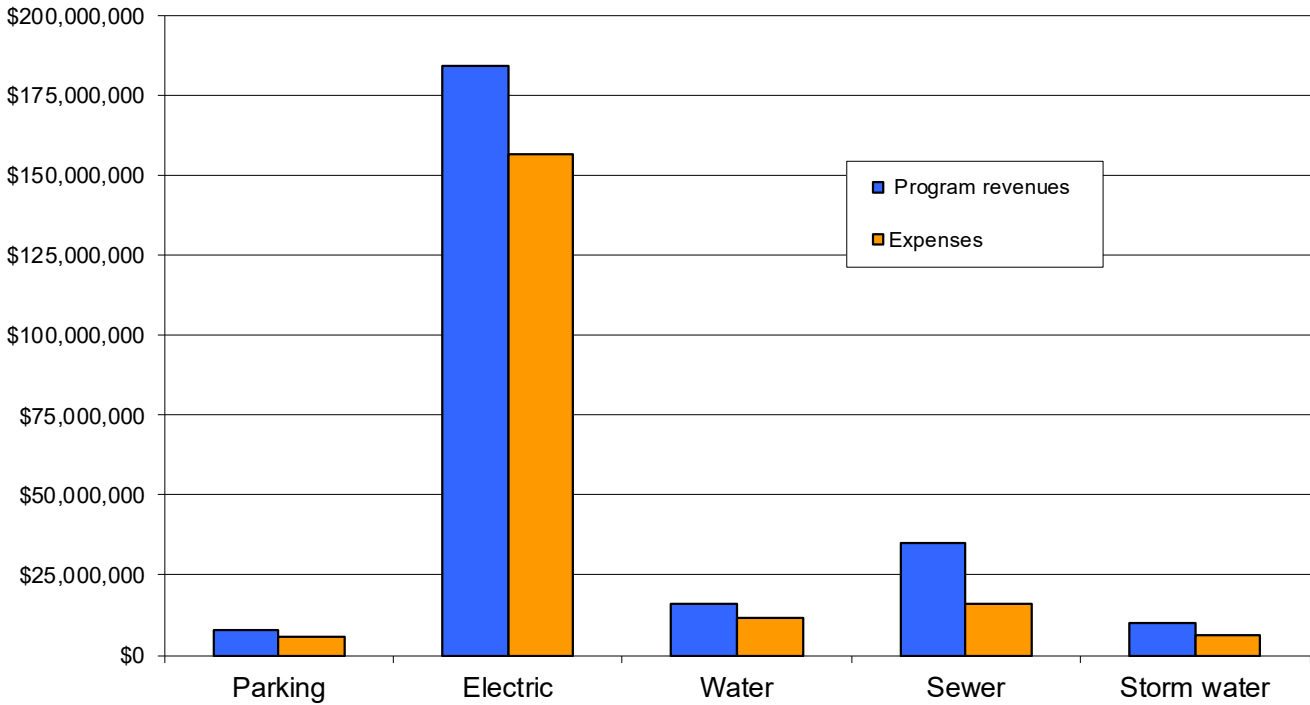
Revenues by Source - Governmental Activities



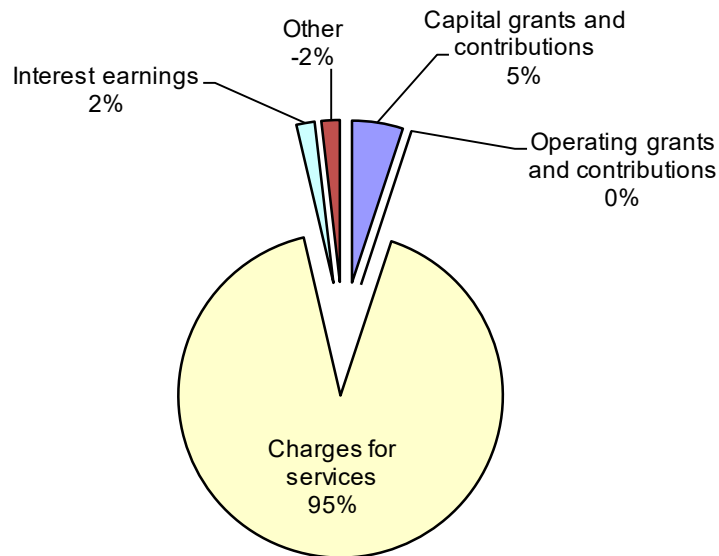
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

Fund balances are classified as follows:

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$287,665,546, an increase of \$17,663,127 from the prior year. The general fund increased fund balance by \$4.6 million due to increased permit revenue, operational savings of various departments, and remaining contingency balance. The capital improvement fund increased fund balance by \$10.8 million, largely due to sales tax collections and state funding for Destination Medical Center. Additionally, all other governmental funds reflected a net increase of \$2.3 million in fund balance, largely showing up in the Airport fund as well as the Municipal Recreation System and Transit Fund.

Approximately 15 percent of the total fund balance, or \$43,376,362, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,492,016 is considered to be nonspendable (prepaid or inventory), \$131,790,598 has been restricted by grantors, donors, debt covenants, or regulation, \$95,859,005 has been committed by council action for CIP projects, and \$15,147,565 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

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

Governmental funds (continued).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$4,560,005 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$45,334,500 while total fund balance amounted to \$49,606,875. 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 47 percent of total general fund expenditures, while total fund balance represents 51 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 42 percent.

The library fund decreased its fund balance by \$120,727 for the year. Much of this decrease was the result of a decrease in the fair value of investments. Operational expenditures were held \$1,518 below the approved budget.

The municipal recreation fund increased its fund balance by \$445,821 as charges for services were greater than expected and all divisions had operational savings.

The Mayo Civic Center fund decreased its fund balance by \$99,684, which can be attributed to \$225,428 being transferred out for repayment of an internal borrowing. The Mayo Civic Center operations are no longer reflected as revenues and expenditures of the City. Beginning January 1, 2020, the City contracted with the Rochester Convention and Visitors Bureau to manage operations of the facility. The expenditures related to the management contract with the Rochester Convention and Visitors Bureau are now reported in the general fund.

The airport fund increased its total fund balance by \$1,020,482 for the year to \$10,366,538, which can be attributed to rental revenues exceeding budget and continued grant support from the pandemic. Additionally, Council provided \$586,100 in budgeted tax levy for the airport in 2022 and there were no transfers to capital improvement projects all in an effort to restore fund balance in this area.

The transit fund saw an increase in fund balance of \$486,902 due to an increase in grant revenue, which was greater than the increase in expenditures, and a decrease in transfers out for capital improvement needs.

Minnesota Bio Science Center fund decreased fund balance by \$17,025, after \$921,172 was transferred out for debt service and repayment of internal borrowing. The facility continues to maintain a consistently high occupancy level.

Debt service fund balances increased by \$297,161.

The capital improvement fund increased fund balance by \$10,795,698 due in large part to the sales tax collections and state funding for Destination Medical Center projects.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The unrestricted net position in the respective proprietary funds are Parking - \$17,558,170 Electric - \$111,205,238, Water - \$11,526,053, Sewer - \$40,177,360, and Storm Water - \$27,831,369. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$18.3 million increase in net position for the year as transfers out decreased, and revenues improved from prior year to due scheduled rate increases. The Sewer Utility's rates were increased based upon a rate study completed during 2021, and the City Council adopted a six-year schedule of rate adjustments through 2027. In addition, the "plant investment fee" was increased to \$3,750 in 2022. The schedule of rate increases was necessary as sewer flows continued to fall below plan and funding is needed for significant capital needs.

The Water Utility's net position increased \$5.4 million in 2022 due in part to increased revenues. The utility's rates increased 2.5% in 2022 and increased 5.0% in January 2023. A water utility cost of service study was completed in 2022, with the Utility board and City Council accepting a five-year schedule of rate adjustments.

The Electric Utility net position increased \$16.4 million in 2022. This utility's rates increased 1.5% in 2022 and increased 2.5% in January 2023. A cost-of-service study was completed and accepted by the Utility Board and City Council in 2020.

The Parking Enterprise's net position increased \$3.4 million. Parking revenues increased during 2022. During 2018, the City Council approved a rate study setting rates for 2019 through 2023. The plan calls for rate increases every other year with the goal of continual support of operations and capital needs.

The Storm Water Utility's net position increased \$6.4 million in 2022 due in large part to capital contributions. There was no increase in Storm Water rates. The rate study completed in 2015 creating a five-year rate adjustment expired in 2020, and a new study has not been completed.

Internal Service funds. The City of Rochester's *internal service funds* account for its fleet of vehicles, its risk management program, and for its management information systems.

The equipment revolving fund's net position increased \$526,554 in 2022 primarily due to a decrease in equipment expenses.

The information technology revolving fund's net position increased \$395,039 in 2022 primarily due to an increase in equipment rental revenues.

The self-insurance fund's net position increased \$2,513 in 2022 primarily due to an increase in departmental insurance charges and a decrease in health insurance claims.

The employee benefit fund's net position increased \$808,751 in 2022 primarily due to transfers from other funds.

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

General Fund Budgetary Highlights

The City approved the 2022 general fund budget anticipating a 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 attorney budget due to appropriation of revenue.
- Reductions in unallocated contingency account to offset increases in city administrator, city clerk, elections and voter registration, DSIC and North Station Maintenance, and other initiatives.
- Increase in transfers out for capital improvement project.

At the close of the year, general fund total expenditures were \$5,825,544 below final budget while actual revenues were above final budget by \$1,596,058. These variances to budget can be traced to higher than expected lodging tax, licenses and permits revenue, Police and Fire State Aids, and savings in most divisions due to cost savings measures.

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, 2022, amounts to \$1,559,784,022 (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 \$43,832,980, or 2.8 percent. This increase is a result of significant construction activities on the Airport runway, in infrastructure including streets, underground mains, and continued improvements to the electric distribution and transmission systems.

City of Rochester's Capital Assets

(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Land	\$ 77,849,052	\$ 77,147,997	\$ 24,681,663	\$ 24,207,522	\$ 102,530,715	\$ 101,355,519
Buildings	266,516,504	272,479,518	315,501,998	312,575,365	582,018,502	585,054,883
Improvements other than buildings	49,316,828	29,776,504			49,316,828	29,776,504
Machinery and equipment	33,586,413	32,817,607	309,558,202	307,746,897	343,144,615	340,564,504
Infrastructure	350,339,697	340,567,939			350,339,697	340,567,939
Construction in progress	<u>66,093,869</u>	<u>66,931,926</u>	<u>66,339,796</u>	<u>51,699,767</u>	<u>132,433,665</u>	<u>118,631,693</u>
Total	<u>\$ 843,702,363</u>	<u>\$ 819,721,491</u>	<u>\$ 716,081,659</u>	<u>\$ 696,229,551</u>	<u>\$ 1,559,784,022</u>	<u>\$ 1,515,951,042</u>

Additional information on the City of Rochester's capital assets can be found in Note 3.E. on pages 58-60 of this report.

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

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$298,654,953 in debt outstanding. Of this amount, \$115,890,000 comprises debt backed by the full faith and credit of the government, \$181,472,000 represents bonds and notes secured solely by specified revenue sources, and \$1,292,953 represents financed purchases secured by park referendum dollars. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds, and Notes Payable

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 1,095,000	\$ 1,425,000	\$	\$	\$ 1,095,000	\$ 1,425,000
General obligation tax increment revenue bonds	18,390,000	19,205,000			18,390,000	19,205,000
General obligation lodging tax revenue bonds	33,550,000	35,200,000			33,550,000	35,200,000
General obligation equipment certificates of indebtedness	1,695,000	1,945,000			1,695,000	1,945,000
General obligation refunding bonds	15,805,000	16,460,000			15,805,000	16,460,000
General obligation sales tax revenue bonds	12,940,000	27,660,000			12,940,000	27,660,000
General obligation revenue crossover refunding bonds			32,415,000	64,950,000	32,415,000	64,950,000
Revenue bonds	26,732,000	27,963,000	154,740,000	161,825,000	181,472,000	189,788,000
Financed purchases	1,292,953				1,292,953	
Total	\$ 111,499,953	\$ 129,858,000	\$ 187,155,000	\$ 226,775,000	\$ 298,654,953	\$ 356,633,000

The City of Rochester's total outstanding debt decreased by \$57,978,047 during the current fiscal year.

There was one financed purchase issuance during 2022 for LED lighting in the amount of \$1,447,686.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt and the payoff of the 2012A bond, which was refunded in 2020. A more detailed breakdown of these obligations can be found in Note 3:H, beginning on page 66.

The City of Rochester maintains an AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has Aa3 bond rating from Moody's Investors Service and an AA rating from Fitch.

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

Economic Factors and Next Year's Budgets and Rates

- The City has been recovering from the impacts of the COVID-19 pandemic and the City continued to restore budget cuts enacted in 2020. The lodging tax has shown significant recovery and sales tax collections now exceed pre-pandemic levels. However, continued impacts are reflected in parking enterprise revenue and transit ridership as hybrid workers in the downtown is an ongoing reality. Budget planning for 2023 continues the use of ARPA dollars and fund reserve carryover to ease the impact on the tax levy.
- Rochester's unemployment rate increased by 0.3 percent to 2.7 percent by the end of March 2023. This remains below the state and U.S. averages of 3.1 percent and 3.6 percent, respectively. A gain of 4,014 jobs brought the total employment figure through March 2023 to 123,660 from the March 2022 level of 119,646.
- Building activity was up in 2022. Commercial and residential building permits issued for 2022 totaled \$562,379,893. Permit totals were up 8 percent from a year ago and up 53.4 percent from 2020. Permit values for the first quarter of 2023 totaled \$114,905,092. This represents a decrease of 30.1 percent over first quarter 2022 and an increase of 14.6 percent over the first quarter of 2021.
- The DMCC plan adopted by the City Council and the Destination Medical Center Board in 2015 is a strategic business plan to address land use, transportation, infrastructure, business development, marketing, and operational strategies over the 20-year period. It outlines a \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future. The program includes State, City, and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth. An additional 0.25% local option sales tax dedicated towards the City's share of this funding became effective January 1, 2016.

Construction of the "Heart of the City" was completed in early 2022 while the construction of the "Discovery Walk" area of the downtown is well underway. The transportation studies are complete and pre-design phase of the rapid transit project is underway. These are important steps in securing federal funding this significant project envisioned in the plan. Additionally, transit hub locations have been identified and secured as well as the electric buses and charging stations needed on the circulator routes to bring riders from the transit hubs to the downtown DMCC district and back.

All of these public improvements give confidence to the private sector which has now invested over \$1.46 billion in the DMCC district since initiation of the plan.

- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed. Further road and transit facility projects are planned for 2023.
- Construction is well underway on the important reconstruction work on the City's main runway 2/20 at the Rochester International Airport. This project is estimated to cost \$79.2 million and will require a mix of state, City, and federal funds to complete.
- The City's tax levy was increased by 6.85% for pay 2023, which was up from 6.5% for pay 2022. The council chose not to increase the tax levy for pay 2021 due to continued fiscal impacts the COVID-19 pandemic had on the community.

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

Economic Factors and Next Year's Budgets and Rates (continued)

- A Park and Recreation referendum was passed in November 2020. The referendum gives \$2 million per year to Park and Recreation beginning with pay 2021. The City issued a \$12.375 million general obligation bond in May of 2023 to fund a prioritized list of "accelerated park improvement projects". One-half of this annual referendum levy will be used to repay this bond.
- Interest rates have begun to rise after remaining at historical lows since 2010. We have begun to adjust our budget estimates to reflect this fact, however, inflationary impacts on fuel and many supplies will more than offset this gain in our returns on the investment portfolio.

All of these factors were considered in preparing the City of Rochester's budget for the 2023 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 4th Street SE, Room 204, Rochester, MN 55904.

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2022

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2022

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 16,778,941	\$ 7,284,615	\$ 24,063,556
Investments	303,479,763	194,235,952	497,715,715
Land held for resale	625,000		625,000
Receivables (net of allowance for uncollectibles)	20,317,966	31,807,540	52,125,506
Lease receivable	9,307,920	21,645,217	30,953,137
Internal balances	(912,801)	912,801	
Due from other governmental units	25,568,711	36,335	25,605,046
Accrued utility revenues		4,192,253	4,192,253
Restricted cash and investments	427,399	13,326,460	13,753,859
Restricted funds held in trust		48	48
Inventory	1,306,137	9,386,308	10,692,445
Prepaid items	185,879		185,879
Other assets		14,268,203	14,268,203
Capital assets:			
Nondepreciable	143,942,921	91,021,459	234,964,380
Depreciable, net	699,759,442	625,060,200	1,324,819,642
Total Assets	<u>1,220,787,278</u>	<u>1,013,177,391</u>	<u>2,233,964,669</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from OPEB activity	4,531,902		4,531,902
Deferred outflows from pension activity	74,513,903	7,683,988	82,197,891
Unamortized deferred amount on refunding		1,626,409	1,626,409
Total Deferred Outflows of Resources	<u>79,045,805</u>	<u>9,310,397</u>	<u>88,356,202</u>
LIABILITIES			
Accounts and contracts payable	7,608,528	13,439,139	21,047,667
Deposits payable	2,069	2,378,473	2,380,542
Accrued interest payable	1,528,854	951,885	2,480,739
Accrued compensation and payroll taxes	4,043,059	1,246,594	5,289,653
Accrued claims	2,911,412	6,000	2,917,412
Due to other governmental units	4,463,259	57,830	4,521,089
Unearned revenue	1,616,274	1,505,192	3,121,466
Noncurrent liabilities:			
Due within one year	12,684,151	18,336,267	31,020,418
Due in more than one year	117,567,247	187,998,761	305,566,008
Other post-employment benefit liability	18,937,207		18,937,207
Net pension liability	127,381,052	25,686,396	153,067,448
Total Liabilities	<u>298,743,112</u>	<u>251,606,537</u>	<u>550,349,649</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from OPEB activity	169,872		169,872
Deferred inflows from pension activity	2,693,797	419,611	3,113,408
Deferred inflows from leasing activity	9,307,920	21,063,615	30,371,535
Unamortized deferred amount on refunding		3,593,340	3,593,340
Solar choice deferred inflows of resources		323,808	323,808
Advance payments		10,709,202	10,709,202
Total Deferred Inflows of Resources	<u>12,171,589</u>	<u>36,109,576</u>	<u>48,281,165</u>
NET POSITION			
Net investment in capital assets	725,640,067	524,936,814	1,250,576,881
Restricted for:			
Airport	10,366,538		10,366,538
CDBG loans	3,897,422		3,897,422
Economic development loan	259,910		259,910
Civic music endowment	40,959		40,959
Park and recreation	111,353		111,353
Debt service	3,250,329	616,250	3,866,579
Children's playgrounds	687,810		687,810
Settlement funds	308,919		308,919
Flood control	12,506,308		12,506,308
Tax increment financing	7,028,014		7,028,014
Sales tax authorized projects	36,642,253		36,642,253
Funds held in trust		48	48
Unrestricted	<u>188,178,500</u>	<u>209,218,563</u>	<u>397,397,063</u>
Total Net Position	<u>\$ 988,918,382</u>	<u>\$ 734,771,675</u>	<u>\$ 1,723,690,057</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 18,735,843	\$ 1,281,870	\$ 99,136	\$ 131,637
Public safety	63,336,181	9,941,353	3,562,015	
Public works	32,242,937	669,806	1,277,609	14,702,473
Airport	7,724,803	4,448,899	1,441,090	11,768,361
Transit	13,566,701	1,822,799	11,009,921	2,647,092
Culture	12,383,510	62,575	1,325,976	
Park and recreation	21,611,325	4,327,054	670,425	322,136
Economic development/tourism	15,907,783	3,331,054		32,710,143
Community reinvestment/unallocated	1,031,028		319,715	
Interest on long-term debt	3,592,834			
Total governmental activities	190,132,945	25,885,410	19,705,887	62,281,842
Business-Type activities:				
Parking	5,546,851	7,646,052		71,685
Electric utility	156,119,006	175,193,033		8,824,343
Water utility	11,550,948	13,179,820		2,929,359
Sewer utility	15,805,792	33,831,223		975,041
Storm water utility	6,141,262	9,707,268		494,341
Total business-type activities	195,163,859	239,557,396		13,294,769
Total	\$ 385,296,804	\$ 265,442,806	\$ 19,705,887	\$ 75,576,611

General revenues:
General property taxes
Tax increments collection
Sales tax
Nonproperty taxes
Grants and contributions not restricted to specific programs:
Local government aid
Other
Interest earnings
Gain on disposition of property
Net decrease in the fair value of investments
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (17,223,200)	\$	\$ (17,223,200)
(49,832,813)		(49,832,813)
(15,593,049)		(15,593,049)
9,933,547		9,933,547
1,913,111		1,913,111
(10,994,959)		(10,994,959)
(16,291,710)		(16,291,710)
20,133,414		20,133,414
(711,313)		(711,313)
<u>(3,592,834)</u>		<u>(3,592,834)</u>
<u>(82,259,806)</u>		<u>(82,259,806)</u>
	2,170,886	2,170,886
	27,898,370	27,898,370
	4,558,231	4,558,231
	19,000,472	19,000,472
	<u>4,060,347</u>	<u>4,060,347</u>
	<u>57,688,306</u>	<u>57,688,306</u>
<u>(82,259,806)</u>	<u>57,688,306</u>	<u>(24,571,500)</u>
86,509,296		86,509,296
8,294,092		8,294,092
23,810,480		23,810,480
10,620,862		10,620,862
6,372,634		6,372,634
28,330		28,330
4,159,304	4,803,221	8,962,525
626,453	61,145	687,598
(10,686,199)	(6,950,600)	(17,636,799)
1,560,622	2,147,361	3,707,983
<u>7,721,804</u>	<u>(7,721,804)</u>	
<u>139,017,678</u>	<u>(7,660,677)</u>	<u>131,357,001</u>
56,757,872	50,027,629	106,785,501
<u>932,160,510</u>	<u>684,744,046</u>	<u>1,616,904,556</u>
<u>\$ 988,918,382</u>	<u>\$ 734,771,675</u>	<u>\$ 1,723,690,057</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2022

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,066,526	\$ 3,712,505	\$ 3,921,621	\$ 13,700,652
Investments	42,286,663	192,455,200	25,375,600	260,117,463
Land held for resale		625,000		625,000
Accrued interest receivable	688,968	956,003	138,532	1,783,503
Accounts receivable (net of allowance for uncollectibles)	1,502,314	1,147,868	2,508,303	5,158,485
Lease receivable			9,307,920	9,307,920
Loans receivable		309,563	3,897,422	4,206,985
Taxes receivable delinquent	1,101,361	74,024	224,900	1,400,285
Special assessments receivable:				
Deferred		7,050,282		7,050,282
Delinquent	35,596	20,118	127,540	183,254
Due from other funds	1,104,986	3,003,253	168,490	4,276,729
Due from other governmental units	2,281,713	21,503,330	1,780,448	25,565,491
Prepaid items	50,850		135,029	185,879
Restricted cash and investments	40,959	49,677	336,763	427,399
Inventory	1,265,194		40,943	1,306,137
TOTAL ASSETS	\$ 56,425,130	\$ 230,906,823	\$ 47,963,511	\$ 335,295,464
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts and contracts payable	\$ 1,037,595	\$ 4,168,373	\$ 1,713,750	\$ 6,919,718
Accrued compensation and payroll taxes	3,428,338		614,721	4,043,059
Due to other funds	615,844	209,491	327,474	1,152,809
Advances from other funds		5,562,744	1,900,000	7,462,744
Unearned revenue	350,697	437,459	679,181	1,467,337
Due to other governmental units	248,824	79,721	4,106,980	4,435,525
Total Liabilities	5,681,298	10,457,788	9,342,106	25,481,192
Deferred Inflows of Resources:				
Unavailable revenue:				
Property taxes	1,101,361	74,024	224,900	1,400,285
Special assessments	35,596	7,070,400	127,540	7,233,536
Leases receivable			9,307,920	9,307,920
Loans receivable		309,563	3,897,422	4,206,985
Total Deferred Inflows of Resources	1,136,957	7,453,987	13,557,782	22,148,726
Fund Balance:				
Nonspendable	1,316,044		175,972	1,492,016
Restricted	40,959	117,136,043	14,613,596	131,790,598
Committed		95,859,005		95,859,005
Assigned	2,915,372		12,232,193	15,147,565
Unassigned	45,334,500		(1,958,138)	43,376,362
Total Fund Balance	49,606,875	212,995,048	25,063,623	287,665,546
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 56,425,130	\$ 230,906,823	\$ 47,963,511	\$ 335,295,464

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, 2022

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

Total governmental fund balances (page 22)		\$ 287,665,546
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,287,956,622	
Less: Accumulated depreciation	<u>(458,941,193)</u>	829,015,429
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 1,583,539	
Deferred special assessments	7,050,282	
Loans receivable	<u>4,206,985</u>	12,840,806
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and deferred outflows of resources and liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		
		45,019,825
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	\$ 74,513,903	
Deferred inflows related to pensions	<u>(2,693,797)</u>	71,820,106
Long-term liabilities, including bonds payable and financed purchase leases payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (108,512,000)	
Financed purchase leases payable	(1,292,953)	
Net pension liability	(127,381,052)	
Compensated absences	(12,139,425)	
Accrued interest	(1,505,880)	
Unamortized bond premium	<u>(6,612,020)</u>	<u>(257,443,330)</u>
Net position of governmental activities (page 19)		<u>\$ 988,918,382</u>

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

For the Year Ended December 31, 2022

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 58,908,119	\$ 7,636,571	\$ 20,116,876	\$ 86,661,566
Tax increment collection		7,896,342	397,750	8,294,092
Sales tax		23,810,480		23,810,480
Special assessments		1,645,060		1,645,060
Utility connection and availability		659,610		659,610
Nonproperty taxes	6,176,571	4,009,716	434,575	10,620,862
Licenses and permits	5,793,773			5,793,773
Fines and forfeits	378,545			378,545
Intergovernmental revenues	11,267,391	57,326,479	14,984,845	83,578,715
Charges for services	5,726,169	351,686	8,485,249	14,563,104
Interest earnings	541,238	2,662,454	350,822	3,554,514
Net decrease in the fair value of investments	(1,541,698)	(6,658,901)	(938,000)	(9,138,599)
Rental revenues	49,663	739,316	4,584,696	5,373,675
Miscellaneous revenues	836,221	2,354,533	970,523	4,161,277
Total Revenues	88,135,992	102,433,346	49,387,336	239,956,674
EXPENDITURES				
Current:				
General government	15,727,960			15,727,960
Public safety	58,896,906		20,357	58,917,263
Public works	16,076,468			16,076,468
Airport operations			5,245,742	5,245,742
Transit			11,775,180	11,775,180
Culture	1,407,733		8,932,696	10,340,429
Park and recreation			13,826,834	13,826,834
Economic development/tourism	4,200,697		4,469,521	8,670,218
Community reinvestment and unallocated	1,031,338			1,031,338
Debt service			23,436,536	23,436,536
Capital outlay		75,350,553		75,350,553
Total Expenditures	97,341,102	75,350,553	67,706,866	240,398,521
Excess (deficiency) of revenues over (under) expenditures	(9,205,110)	27,082,793	(18,319,530)	(441,847)
OTHER FINANCING SOURCES (USES)				
Issuance of debt		1,447,686		1,447,686
Sale of assets		513,652		513,652
Transfers in	15,284,558	4,547,051	23,975,328	43,806,937
Transfers out	(1,519,443)	(22,795,484)	(3,348,374)	(27,663,301)
Total other financing sources (uses)	13,765,115	(16,287,095)	20,626,954	18,104,974
Net change in fund balances	4,560,005	10,795,698	2,307,424	17,663,127
Fund Balance - beginning	45,046,870	202,199,350	22,756,199	270,002,419
Fund Balance - ending	\$ 49,606,875	\$ 212,995,048	\$ 25,063,623	\$ 287,665,546

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, 2022

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

Net change in fund balances - total governmental funds (page 24)		\$ 17,663,127
<p>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.</p>		
Capital outlay-capitalized	\$ 63,655,071	
Depreciation expense	<u>(28,186,411)</u>	35,468,660
<p>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.</p>		
		(10,694,664)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
		(84,741)
<p>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 increased by this amount this year.</p>		
		(1,711,633)
<p>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.</p>		
Compensated absences December 31, 2022	\$ (12,139,425)	
Compensated absences December 31, 2021	<u>12,224,933</u>	85,508
<p>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.</p>		
Principal retirement on long-term debt	\$ 19,401,000	
Change in pension activity	(4,160,257)	
Amortization of bond premium	477,738	
Change in accrued interest	<u>42,438</u>	15,760,919
<p>Some capital asset additions are financed through financed purchase leases. In governmental funds, a financed purchase lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.</p>		
Repayment of financed purchased lease principal	\$ 154,733	
Issuance of debt	<u>(1,447,686)</u>	(1,292,953)
<p>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</p>		
		<u>1,563,649</u>
Change in net position of governmental activities (pages 20 and 21)		<u>\$ 56,757,872</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, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 58,945,373	\$ 58,945,373	\$ 58,908,119	\$ (37,254)
Nonproperty taxes	5,818,205	5,818,205	6,176,571	358,366
Licenses and permits	4,684,645	4,684,645	5,793,773	1,109,128
Fines and forfeits	332,308	434,096	378,545	(55,551)
Intergovernmental revenues	10,054,230	10,611,117	11,267,391	656,274
Charges for services	5,111,711	5,279,454	5,726,169	446,715
Interest earnings	235,000	237,423	541,238	303,815
Net decrease in the fair value of investments			(1,541,698)	(1,541,698)
Rental revenues	41,416	51,131	49,663	(1,468)
Miscellaneous revenues	286,940	478,490	836,221	357,731
Total Revenues	85,509,828	86,539,934	88,135,992	1,596,058
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	1,200,674	1,200,674	1,141,004	59,670
City Administrator	2,455,966	2,711,682	2,615,552	96,130
Development District Administration	114,533	114,533		114,533
City Clerk	981,210	990,027	819,896	170,131
Elections and Voter Registration	374,172	580,172	580,039	133
Finance Department	2,130,039	2,142,677	1,941,087	201,590
Information Systems	2,678,553	2,678,553	2,577,555	100,998
City Attorney	1,996,165	2,217,290	1,678,540	538,750
Human Resources	2,401,431	2,465,220	2,095,088	370,132
Community Development	916,412	925,912	682,877	243,035
Planning Services	754,850	754,850	729,769	25,081
DSIC and North Station Maintenance	299,667	356,217	335,156	21,061
City Hall Maintenance	577,244	587,881	528,847	59,034
Joint Facilities Maintenance		2,550	2,550	
Total General Government	16,880,916	17,728,238	15,727,960	2,000,278
Public Safety:				
Police Department	32,908,287	34,078,050	32,822,920	1,255,130
Fire Department	20,047,161	20,476,157	20,463,296	12,861
Fire Hazmat Response Team		75,865	95,971	(20,106)
Building Safety	4,198,290	4,242,172	4,089,910	152,262
Animal Control	396,535	462,013	441,860	20,153
Drug Enforcement Administration		491,453	51,112	440,341
Flood Control	878,173	878,173	629,650	248,523
Emergency Mgmt/Safety Council	401,550	401,550	302,187	99,363
Total Public Safety	58,829,996	61,105,433	58,896,906	2,208,527

See Notes to the Financial Statements

**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, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Current:				
Public Works:				
Engineering	3,719,632	3,719,632	3,314,054	405,578
PWTOC Building/Site Operations	32,496	43,548	42,834	714
Traffic Engineer	1,601,408	1,761,432	1,473,029	288,403
Infrastructure Maintenance	9,842,810	10,091,881	9,935,968	155,913
City Lighting	1,092,124	1,100,909	1,310,583	(209,674)
Total Public Works	<u>16,288,470</u>	<u>16,717,402</u>	<u>16,076,468</u>	<u>640,934</u>
Culture:				
Art Center/Theatre/Senior Center	315,420	325,420	313,412	12,008
Music Department	1,134,909	1,454,509	1,094,321	360,188
Total Culture	<u>1,450,329</u>	<u>1,779,929</u>	<u>1,407,733</u>	<u>372,196</u>
Economic Development/Tourism	4,194,000	4,201,000	4,200,697	303
Unallocated:				
Community Reinvestment and Unallocated	2,066,063	1,634,644	1,031,338	603,306
Total Unallocated	<u>2,066,063</u>	<u>1,634,644</u>	<u>1,031,338</u>	<u>603,306</u>
Total Expenditures	<u>99,709,774</u>	<u>103,166,646</u>	<u>97,341,102</u>	<u>5,825,544</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,199,946)</u>	<u>(16,626,712)</u>	<u>(9,205,110)</u>	<u>7,421,602</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	15,068,477	15,614,613	15,284,558	(330,055)
Transfers out	(1,518,586)	(1,631,466)	(1,519,443)	112,023
Total other financing sources (uses)	<u>13,549,891</u>	<u>13,983,147</u>	<u>13,765,115</u>	<u>(218,032)</u>
Net change in fund balances	(650,055)	(2,643,565)	4,560,005	7,203,570
Fund Balance - beginning	45,046,870	45,046,870	45,046,870	
Fund Balance - ending	<u>\$44,396,815</u>	<u>\$42,403,305</u>	<u>\$49,606,875</u>	<u>\$ 7,203,570</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2022

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 128,696	\$ 5,986,721	\$ 815,509
Investments	14,435,952	97,869,461	13,331,739
Accrued interest receivable	69,697		
Accounts receivable	285,276	29,855,873	750,451
Accrued utility revenues		4,043,512	148,741
Lease receivable current		418,597	819,572
Taxes receivable delinquent			
Inventory, material, supplies and fuel		9,088,307	289,459
Due from other funds			
Advances to other funds	3,116,348		
Due from other governmental units	22,571		
Restricted and reserved cash		1,140,822	
Other assets		2,427,798	78,527
Total Current Assets	18,058,540	150,831,091	16,233,998
Noncurrent Assets:			
Capital assets:			
Nondepreciable	13,436,645	39,154,417	8,847,588
Depreciable	73,277,267	519,824,608	161,813,068
Less: Accumulated depreciation	(30,560,221)	(273,600,164)	(62,206,745)
Net capital assets	56,153,691	285,378,861	108,453,911
Lease receivable noncurrent		321,289	19,534,381
Restricted and reserved cash	114,548		
Restricted investments		12,071,090	
Restricted funds held in trust		48	
Other assets		11,751,712	
Total Noncurrent Assets	56,268,239	309,523,000	127,988,292
Total Assets	74,326,779	460,354,091	144,222,290
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		1,626,409	
Deferred outflows from OPEB activity			
Deferred outflows from pension activity	110,719	5,698,371	698,500
Total Deferred Outflows of Resources	110,719	7,324,780	698,500
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	249,305	12,143,052	272,645
Deposits payable		2,243,461	135,012
Accrued interest payable		524,572	
Accrued compensation and payroll taxes	15,676	880,429	114,650
Accrued compensated absences	38,500	2,188,891	309,164
Due to other funds	574	4,623,928	1,653,587
Due to other governmental units	43,455		
Unearned revenue			
Accrued claims			
Current maturities of long term debt		7,395,000	
Total Current Liabilities	347,510	29,999,333	2,485,058
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		158,662,410	
Accrued compensated absences	15,655	1,596,699	217,221
Net pension liability	356,826	19,014,462	2,400,013
Unearned revenue		1,505,192	
Accrued claims		6,000	
Total post employment benefit obligation			
Total Noncurrent Liabilities	372,481	180,784,763	2,617,234
Total Liabilities	719,991	210,784,096	5,102,292
DEFERRED INFLOWS OF RESOURCES			
Advance payments		10,688,202	21,000
Deferred charge on refunding			
Solar choice deferred inflows of resources		323,808	
Deferred inflows from leasing activity		734,653	19,777,584
Deferred inflows from OPEB activity			
Deferred inflows from pension activity	5,646	307,625	39,951
Total Deferred Inflows of Resources	5,646	12,054,288	19,838,535
Total Liabilities and Deferred Inflows of Resources	725,637	222,838,384	24,940,827
NET POSITION			
Net investment in capital assets	56,153,691	133,018,951	108,453,910
Restricted:			
Debt service		616,250	
Funds held in trust		48	
Unrestricted	17,558,170	111,205,238	11,526,053
Total Net Position	\$ 73,711,861	\$ 244,840,487	\$ 119,979,963

Amounts reported by business-type activities in the statement of net position (page 19) 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			
Sewer Utility Fund	Storm Water Utility Fund	Total	Governmental Activities- Internal Service Funds
\$ 183,851	\$ 169,838	\$ 7,284,615	\$ 3,078,289
41,377,500	27,221,300	194,235,952	43,362,300
189,510	130,461	389,668	204,807
301,671	224,601	31,417,872	323,367
		4,192,253	
48,928		1,287,097	
			6,998
8,542		9,386,308	
2,686,889	748,254	3,435,143	
		3,116,348	4,346,396
13,764		36,335	3,220
		1,140,822	
		2,506,325	
<u>44,810,655</u>	<u>28,494,454</u>	<u>258,428,738</u>	<u>51,325,377</u>
20,028,656	9,554,153	91,021,459	868,189
345,077,261	101,950,490	1,201,942,694	48,388,165
(187,305,926)	(23,209,438)	(576,882,494)	(34,569,420)
<u>177,799,991</u>	<u>88,295,205</u>	<u>716,081,659</u>	<u>14,686,934</u>
502,450		20,358,120	
		114,548	
		12,071,090	
		48	
10,166		11,761,878	
<u>178,312,607</u>	<u>88,295,205</u>	<u>760,387,343</u>	<u>14,686,934</u>
<u>223,123,262</u>	<u>116,789,659</u>	<u>1,018,816,081</u>	<u>66,012,311</u>
		1,626,409	
			4,531,902
1,022,679	153,719	7,683,988	
<u>1,022,679</u>	<u>153,719</u>	<u>9,310,397</u>	<u>4,531,902</u>
652,512	121,625	13,439,139	688,810
		2,378,473	2,069
427,313		951,885	22,974
205,011	30,828	1,246,594	
337,988	51,724	2,926,267	
212,882	68,092	6,559,063	
14,335	40	57,830	27,734
			148,937
			1,791,311
8,015,000		15,410,000	260,000
<u>9,865,041</u>	<u>272,309</u>	<u>42,969,251</u>	<u>2,941,835</u>
27,176,594		185,839,004	1,435,000
298,872	31,310	2,159,757	
3,410,629	504,466	25,686,396	
		1,505,192	
		6,000	1,120,101
			18,937,207
<u>30,886,095</u>	<u>535,776</u>	<u>215,196,349</u>	<u>21,492,308</u>
<u>40,751,136</u>	<u>808,085</u>	<u>258,165,600</u>	<u>24,434,143</u>
		10,709,202	
3,593,340		3,593,340	
		323,808	
551,378		21,063,615	
			169,872
57,670	8,719	419,611	
<u>4,202,388</u>	<u>8,719</u>	<u>36,109,576</u>	<u>169,872</u>
<u>44,953,524</u>	<u>816,804</u>	<u>294,275,176</u>	<u>24,604,015</u>
139,015,057	88,295,205	524,936,814	12,991,934
		616,250	
		48	
40,177,360	27,831,369	208,298,190	32,948,264
<u>\$ 179,192,417</u>	<u>\$ 116,126,574</u>	<u>733,851,302</u>	<u>\$ 45,940,198</u>
		920,373	
		<u>\$ 734,771,675</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2022

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 7,646,052	\$	\$ 11,026,301
Sales and charges for services, pledged as security for revenue bonds		158,302,939	
Miscellaneous		16,890,094	2,153,519
Total Operating Revenues	<u>7,646,052</u>	<u>175,193,033</u>	<u>13,179,820</u>
Operating Expenses:			
Purchased power		88,583,253	
Maintenance and operations	4,067,795	46,775,727	8,665,242
Amortization of regulatory assets		449,465	
Depreciation	1,505,276	14,567,066	2,862,083
Total Operating Expenses	<u>5,573,071</u>	<u>150,375,511</u>	<u>11,527,325</u>
Operating Income	<u>2,072,981</u>	<u>24,817,522</u>	<u>1,652,495</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Interest earnings	1,877,404	806,324	1,142,909
Net decrease in the fair value of investments	(545,800)	(3,426,978)	(466,822)
Interest and fiscal charges:			
Revenue bonds		(5,358,095)	
Amortization of deferred charge		(105,140)	
Amortization of regulatory assets		(105,140)	
Gain (loss) on disposal of property			
Other income (expense)	2,028,573	(355,941)	(34,140)
Total Nonoperating Revenues (Expenses)	<u>3,360,177</u>	<u>(8,439,830)</u>	<u>641,947</u>
Income Before Transfers and Capital Contributions	5,433,158	16,377,692	2,294,442
Capital contributions	71,685	8,824,343	3,464,426
Transfers in	200,000		
Transfers out	(2,285,944)	(8,755,700)	(402,133)
Change in net position	3,418,899	16,446,335	5,356,735
Net Position - Beginning of Year	<u>70,292,962</u>	<u>228,394,152</u>	<u>114,623,228</u>
Net Position - End of Year	<u>\$ 73,711,861</u>	<u>\$ 244,840,487</u>	<u>\$ 119,979,963</u>

Amounts reported by business-type activities in the statement of activities (pages 20-21) are different because:

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

Change in net position of business-type activities

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$	\$ 8,934,923	\$ 27,607,276	\$ 33,271,757
33,684,113		191,987,052	
147,110	772,345	19,963,068	
<u>33,831,223</u>	<u>9,707,268</u>	<u>239,557,396</u>	<u>33,271,757</u>
		88,583,253	
10,102,216	4,206,799	73,817,779	28,710,997
		449,465	
5,909,862	1,942,278	26,786,565	3,166,290
<u>16,012,078</u>	<u>6,149,077</u>	<u>189,637,062</u>	<u>31,877,287</u>
<u>17,819,145</u>	<u>3,558,191</u>	<u>49,920,334</u>	<u>1,394,470</u>
			332,756
616,221	360,363	4,803,221	604,790
(1,514,800)	(996,200)	(6,950,600)	(1,547,600)
(784,539)		(6,142,634)	(55,816)
1,165,409		1,165,409	
		(105,140)	
(162,487)		(162,487)	180,404
114,489	4,372	1,757,353	22,631
<u>(565,707)</u>	<u>(631,465)</u>	<u>(5,634,878)</u>	<u>(462,835)</u>
17,253,438	2,926,726	44,285,456	931,635
4,685,904	5,366,427	22,412,785	105,038
886	29,287	230,173	1,196,289
<u>(3,644,530)</u>	<u>(1,981,686)</u>	<u>(17,069,993)</u>	<u>(500,105)</u>
18,295,698	6,340,754	49,858,421	1,732,857
<u>160,896,719</u>	<u>109,785,820</u>		<u>44,207,341</u>
<u>\$ 179,192,417</u>	<u>\$ 116,126,574</u>		<u>\$ 45,940,198</u>

169,208

\$ 50,027,629

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 8,157,217	\$ 160,256,400	\$ 12,472,443
Cash received from other City funds	44,215	5,987,128	206,976
Cash received from employees			
Cash paid to employees	(513,298)	(20,545,088)	(2,550,189)
Cash paid to suppliers	(3,541,015)	(106,400,894)	(5,897,855)
Service territory acquisition		(160,835)	
Other income	2,028,573		
Net Cash Provided By Operating Activities	<u>6,175,692</u>	<u>39,136,711</u>	<u>4,231,375</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Transfers in	200,000		
Transfers out	(2,285,944)	(8,711,096)	(400,550)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(2,085,944)</u>	<u>(8,711,096)</u>	<u>(400,550)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Principal payments on bonds		(7,085,000)	
Interest and fiscal charges		(6,608,917)	
Capital contributions received		8,578,343	193,494
Acquisition of capital assets	(2,247,024)	(22,608,269)	(3,456,068)
Net Cash Used In Capital and Related Financing Activities	<u>(2,247,024)</u>	<u>(27,723,843)</u>	<u>(3,262,574)</u>
Cash Flows From Investing Activities:			
Investment income	1,847,631	1,278,146	676,014
Net decrease in investments	(3,817,300)	(28,745,707)	(4,252,441)
Net Cash Used In Investing Activities	<u>(1,969,669)</u>	<u>(27,467,561)</u>	<u>(3,576,427)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(126,945)	(24,765,789)	(3,008,176)
Cash and Cash Equivalents, Beginning of Year	370,189	31,893,332	3,823,685
Cash and Cash Equivalents, End of Year	<u>\$ 243,244</u>	<u>\$ 7,127,543</u>	<u>\$ 815,509</u>
Classified As:			
Cash and Cash Equivalents	\$ 128,696	\$ 5,986,721	\$ 815,509
Restricted and Reserved Cash	114,548	1,140,822	
Total Cash and Cash Equivalents, End of Year	<u>\$ 243,244</u>	<u>\$ 7,127,543</u>	<u>\$ 815,509</u>

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 33,814,634	\$ 9,374,668	\$ 224,075,362	\$
119,171	318,064	6,675,554	30,710,904
(4,877,438)	(731,022)	(29,217,035)	2,927,109
(4,976,135)	(3,387,514)	(124,203,413)	(27,746,210)
114,489	4,372	(160,835)	22,631
<u>24,194,721</u>	<u>5,578,568</u>	<u>79,317,067</u>	<u>5,914,434</u>
886	29,287	230,173	334,157
(3,644,530)	(1,981,686)	(17,023,806)	1,196,289
<u>(3,643,644)</u>	<u>(1,952,399)</u>	<u>(16,793,633)</u>	<u>(500,105)</u>
56,156		56,156	180,404
(32,535,000)		(39,620,000)	(250,000)
(2,190,275)		(8,799,192)	(59,205)
(3,009,477)	(1,222,191)	8,771,837	(2,091,994)
<u>(37,678,596)</u>	<u>(1,222,191)</u>	<u>(32,543,029)</u>	<u>(2,091,994)</u>
546,804	318,774	4,667,369	547,777
(8,414,700)	(3,121,700)	(48,351,848)	(3,129,300)
<u>(7,867,896)</u>	<u>(2,802,926)</u>	<u>(43,684,479)</u>	<u>(2,581,523)</u>
(24,995,415)	(398,948)	(53,295,273)	2,142,457
25,179,266	568,786	61,835,258	935,832
<u>\$ 183,851</u>	<u>\$ 169,838</u>	<u>\$ 8,539,985</u>	<u>\$ 3,078,289</u>
\$ 183,851	\$ 169,838	\$ 7,284,615	\$ 3,078,289
		1,255,370	
<u>\$ 183,851</u>	<u>\$ 169,838</u>	<u>\$ 8,539,985</u>	<u>\$ 3,078,289</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2022

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income	\$ 2,072,981	\$ 24,817,522	\$ 1,652,495
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:			
Depreciation and amortization expense	1,505,276	15,016,531	2,862,083
Other income	2,028,573		
Service territory payments		(160,835)	
Bad debts		(592,689)	(10,652)
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	258,236	(9,557,607)	54,968
Inventory		(2,338,213)	(69,470)
Due from other funds			
Due from other governmental units	28,440		
Advances due from other funds	268,652		
Prepaid items	231		
Deferred outflows from pension activity	17,635	1,503,571	249,396
Deferred outflows from OPEB activity			
Other assets		(505,466)	32,524
Increase (Decrease) In:			
Accounts and contracts payable, operations	(43,956)	11,119,061	102,320
Deposits payable		184,053	35,185
Accrued expenses and other liabilities	609		
Post employment benefit obligations			
Deferred inflows from pension activity	(156,039)	(8,964,316)	(1,186,124)
Net pension liability	178,501	8,908,402	1,064,020
Unearned revenues		(241,811)	21,000
Solar choice deferred inflow		(46,258)	
Lease deferred inflow/receivable		(5,234)	(576,370)
Accrued claims			
Due to other funds	52		
Due to other governmental units	16,501		
Net Cash Provided By Operating Activities	\$ 6,175,692	\$ 39,136,711	\$ 4,231,375
Non Cash Transactions:			
Decrease in fair value of investments	\$ (545,800)	\$ (3,426,978)	\$ (466,822)
Amortization of bond premiums, discounts, and refunding		(1,227,912)	
Amortization of bond issue costs		105,140	
Receipt of contributed property		246,000	3,270,932
Capital assets in accounts payable at year end	204,621		

See Notes to the Financial Statements

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$ 17,819,145	\$ 3,558,191	\$ 49,920,334	\$ 1,394,470
5,909,862	1,942,278	27,236,030	3,166,290
114,489	4,372	2,147,434	22,631
		(160,835)	
		(603,341)	
(5,036)	(64,071)	(9,313,510)	(320,153)
(4,220)		(2,411,903)	
37,341	(6,458)	30,883	18,750
74,711	48,111	151,262	(243)
		268,652	667,902
	231	462	
307,648	41,430	2,119,680	
			(815,020)
114		(472,828)	
(9,945)	46,090	11,213,570	62,391
(5,375)		213,863	876
29,777	4,227	34,613	
			2,249,949
(1,638,228)	(235,504)	(12,180,211)	(42,469)
1,551,829	232,352	11,935,104	
		(220,811)	(34,760)
		(46,258)	
		(581,604)	
			(468,688)
941	7,882	8,875	
11,668	(563)	27,606	12,508
<u>\$ 24,194,721</u>	<u>\$ 5,578,568</u>	<u>\$ 79,317,067</u>	<u>\$ 5,914,434</u>
\$ (1,514,800)	\$ (996,200)	\$ (6,950,600)	\$ (1,547,600)
		(1,227,912)	
		105,140	
4,685,904	5,366,427	13,569,263	105,038
591,829	3,878	800,328	283,601

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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.

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 2022 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The REDA is reported as a blended component unit. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. The Corporation was established to benefit the City, and more broadly, Olmsted County and the State of Minnesota by researching, preparing, and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center. The DMCC is fiscally dependent on the City as the DMCC is required to have its annual budget approved by the City Council. Also, the City has a financial benefit or burden relationship with the DMCC as it is the beneficiary and sole member of the DMCC and the recipient of all residual assets upon liquidation. The DMCC is reported as a blended component unit.

Separate audited financial statements for the year ended December 31, 2022 are available from the DMCC.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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, 2022

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 which the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

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

The *capital 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, employee benefits, information technology, and equipment revolving services provided to other departments of the City on a cost reimbursement basis.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

1. Deposits and investments

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables, payables, and deferred inflows of resources

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

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

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred inflow of resources in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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.

3. Other assets

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

4. Inventory

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

5. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Purchases are reported as expenditures when the prepaid 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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The City has three items that qualify for reporting in this category. The deferred charge on advance refunding of revenue bonds, deferred outflows from pension activity, and deferred outflows from OPEB activity. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt. This difference is being amortized and charged to operations over the bond term using the effective interest method.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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 acquisition 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 is expensed as incurred with the exception of the electric and water funds which capitalize interest as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period. The electric and water fund have applied the provisions of GASB statement No. 62, see note 5.

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.

	Useful Life <u>in Years</u>
Buildings	10 - 40
Infrastructure	15 - 80
Other Improvements	5 - 40
Machinery and Equipment	3 - 20

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

8. 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.

9. 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, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

10. Deferred inflows 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has received advance payments on leases and electric capacity sales, deferred inflows from pension activity, OPEB, leasing, and solar choice, and an unamortized amount on refunding that qualifies for reporting in this category.

Under the modified accrual basis of accounting, the City reports unavailable revenues in the governmental funds balance sheet as deferred inflows of resources. These amounts will be recognized as revenue in the period the corresponding tax, assessment and loan repayment revenues become available.

11. Unearned revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2018 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2022, \$246,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2022, \$1,230,000 of the potential refund remained recorded as an unearned revenue. The amount of unearned revenue will be reduced each year through the remainder of the ten-year term, having either been refunded to the customer if load requirement has been met, or recorded as a contribution in aid of construction if not met. The substation went in service in May 2017.

As of December 31, 2022, customers had paid the Electric Utility \$275,192 as advances for construction of utility infrastructure, which is reflected as unearned revenue. When the construction has been completed, such amounts will be recorded as capital contributions.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Net Position/Fund Balance

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.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Net Position/Fund Balance (continued)

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. Pensions

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

F. Leases

For leases with term exceeding 12 months, the City recognizes a lease liability and a right to use lease asset in the government-wide financial statements.

The right to use lease asset is calculated at the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus certain initial direct costs incurred, minus any lease incentives received. Subsequently, the right to use lease asset is amortized on a straight-line basis over its useful life. The City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. Remeasurement of the right to use lease asset and lease liability occurs when certain changes occur that are likely to have a significant impact on the lease liability.

Right to use lease assets are report with capital assets and lease liabilities are reported with long-term debt on the statement of net position.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

F. Leases (continued)

The City leases office spaces, a building, and land to external parties. Lease receivables and deferred inflows of resources are recorded based on the present value of expected receipts over the term of the respective leases. The expected payments and receipts are discounted using the interest rate charged on the lease, if available, and are otherwise discounted using the City's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. For leases featuring payments tied to an index or market rate, the valuation is based on the initial index or market rate. The City does not have any leases subject to a residual value guarantee.

G. Accounting Pronouncements Issued But Not Yet Implemented

GASB has approved GASB Statements No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangement, No. 96, Subscription-Based Information Technology Arrangements, and No. 101, Compensated Absences. When they become effective, application of these standards may restate portions of these financial statements.

H. Implementation of New Accounting Pronouncements

During the year, the City implemented GASB Statement No. 87, Leases. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The implementation of this standard resulted in changing the presentation of the financial statement by including the lease receivable and deferred inflows from leases as of January 1, 2022. The beginning fund balance/net position has not been impacted by the implementation.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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, the Minnesota Bio Science Center Fund, Settlement Fund, and the Edward Byrne Memorial JAG 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 Improvement Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information.

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

1. The City Administrator submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 28, the budget is legally enacted through the passage of a budget resolution.
4. Any changes to the budget at the functional level must be by formal resolution of the City Council. Generally, budget amendments result in utilization of contingency appropriations and do not alter the total expenditure budget of the City. Monitoring of budgets is maintained at the department level by departments or divisions. However, expenditures in excess of the departmental budget require administrative approval.
5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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

A. Budgetary Information (continued)

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 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, 2022 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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, 2022

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, 2022, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2022 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Municipal Bonds	\$ 24,172,901	3.43	AAA/AA+/AA	Aaa/Aa1/Aa2
4M Plus	7,968,884	N/A	N/A	N/A
4M Certificates of Deposit	30,000,000	0.74	N/A	N/A
4M Term Series	5,000,000	1.04	N/A	N/A
US Government and Agency Securities:				
Federal Farm Credit Bank	58,095,725	2.90	N/A	N/A
Federal Home Loan Bank	73,893,894	3.49	N/A	N/A
Federal Home Loan Mortgage Corporation	37,979,636	3.53	N/A	N/A
Federal National Mortgage Association	59,765,205	4.03	N/A	N/A
Treasury Note	200,839,470	3.22	N/A	N/A
Sub-total Investments	497,715,715			
Cash and Deposits	37,817,415			
Total	\$ 535,533,130			

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

The 4M Fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows guidance under GASB Statement No. 79. The City's investment in the 4M Fund is measured at an amortized cost method that approximates fair value. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

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
4M	Certificates of Deposit	\$ 30,000,000
Federal Farm Credit Bank	Federal Agency Securities	58,095,725
Federal Home Loan Bank	Federal Agency Securities	73,893,894
Federal Home Loan Mortgage Corporation	Federal Agency Securities	37,979,636
Federal National Mortgage Association	Federal Agency Securities	59,765,205
Treasury Note	United States Treasury Securities	200,839,470

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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, 2022 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	\$ 24,063,556
Investments	497,715,715
Restricted cash and investments	13,753,859
 Total Cash and Investments	 \$ 535,533,130

Fair Value Measurements

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Fair Value Measurements (continued)

The City's investments within the fair value hierarchy at December 31, 2022 were as follows:

	At December 31, 2022			
	Fair Value Hierarchy Level			Total
	Level 1	Level 2	Level 3	
Municipal Bonds	\$	\$ 24,172,901	\$	\$ 24,172,901
US Government and Agency Securities:				
Federal Farm Credit Bank		58,095,725		58,095,725
Federal Home Loan Bank		73,893,894		73,893,894
Federal Home Loan Mortgage Corporation		37,979,636		37,979,636
Federal National Mortgage Association		59,765,205		59,765,205
Treasury Note		200,839,470		200,839,470
Investments measured at amortized cost				42,968,884
Total	\$	\$ 454,746,831	\$	\$ 497,715,715

B. Land Held for Resale

In 2014 and 2016 the City acquired parcels of land for a total purchase price of \$648,500. The City used a portion of the land towards a fire station construction project and the remaining parcels held for resale totaling \$625,000, are reported in the Capital Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2022.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2022 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,929	\$ 1,126,553	\$ 1,135,350	\$ 17,881	\$ 2,281,713
Special Revenue	1,242,215	215,040	294,175	1,268	1,752,698
Capital Project	11,762,361	9,659,800	81,169		21,503,330
Debt Service			27,750		27,750
Enterprise	22,571	348	4,337	9,079	36,335
Internal Service			3,220		3,220
Totals	<u>\$ 13,029,076</u>	<u>\$ 11,001,741</u>	<u>\$ 1,546,001</u>	<u>\$ 28,228</u>	<u>\$ 25,605,046</u>

Amounts due to other governmental units as of December 31, 2022 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 53,669	\$ 189,034	\$ 6,121	\$ 248,824
Special Revenue	3,062	3,860,081	232,610	11,227	4,106,980
Capital Project		8,665	71,056		79,721
Enterprise		41,033	16,797		57,830
Internal Service		25,714	2,020		27,734
Totals	<u>\$ 3,062</u>	<u>\$ 3,989,162</u>	<u>\$ 511,517</u>	<u>\$ 17,348</u>	<u>\$ 4,521,089</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Investments

Restricted cash are deposits held for specifically required purposes. Descriptions of the items and balances as of December 31, 2022 are as follows:

Restricted Cash and Investments -

General Fund

Civic Music Endowment:	
Rochester Area Foundation Endowment	\$ 40,959

Capital Improvement Fund

Air Service Grant	49,677
-------------------	--------

Debt Service Fund

Lease Revenue 2020A Bond	336,763
--------------------------	---------

Enterprise Funds:

Parking Fund:	
Bioscience Building Debt Service	114,548

Electric Fund:	
Debt Service	1,140,822
Debt Service Reserve Accounts	12,071,090
Funds Held in Trust	48

Total	\$ 13,753,907
-------	---------------

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

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, 2022 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 77,147,997	\$ 714,655	\$ 13,600	\$ 77,849,052
Construction in progress	66,931,926	52,804,300	53,642,357	66,093,869
Total capital assets, not being depreciated	<u>144,079,923</u>	<u>53,518,955</u>	<u>53,655,957</u>	<u>143,942,921</u>
Capital assets, being depreciated:				
Buildings	399,582,043	3,957,106		403,539,149
Improvements other than buildings	62,357,219	21,463,004		83,820,223
Infrastructure	562,136,548	22,676,956		584,813,504
Machinery and equipment	116,189,636	7,451,306	2,543,763	121,097,179
Total capital assets, being depreciated	<u>1,140,265,446</u>	<u>55,548,372</u>	<u>2,543,763</u>	<u>1,193,270,055</u>
Less accumulated depreciation for:				
Buildings	127,102,525	9,920,120		137,022,645
Improvements other than buildings	32,580,715	1,922,680		34,503,395
Infrastructure	221,568,609	12,905,198		234,473,807
Machinery and equipment	83,372,029	6,604,703	2,465,966	87,510,766
Total accumulated depreciation	<u>464,623,878</u>	<u>31,352,701</u>	<u>2,465,966</u>	<u>493,510,613</u>
Total capital assets, being depreciated, net	<u>675,641,568</u>	<u>24,195,671</u>	<u>77,797</u>	<u>699,759,442</u>
Governmental activities capital assets, net	<u>\$ 819,721,491</u>	<u>\$ 77,714,626</u>	<u>\$ 53,733,754</u>	<u>\$ 843,702,363</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2022 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	\$ 24,207,522	\$ 474,141	\$	\$ 24,681,663
Construction in progress	51,699,767	29,985,387	15,345,358	66,339,796
Total capital assets, not being depreciated	<u>75,907,289</u>	<u>30,459,528</u>	<u>15,345,358</u>	<u>91,021,459</u>
Capital assets, being depreciated:				
Buildings and improvements	555,011,148	13,883,040	7,255,013	561,639,175
Machinery and equipment	623,185,781	18,281,710	1,163,972	640,303,519
Total capital assets, being depreciated	<u>1,178,196,929</u>	<u>32,164,750</u>	<u>8,418,985</u>	<u>1,201,942,694</u>
Less accumulated depreciation for:				
Buildings and improvements	242,435,783	10,737,764	7,036,370	246,137,177
Machinery and equipment	315,438,884	16,048,801	742,368	330,745,317
Total accumulated depreciation	<u>557,874,667</u>	<u>26,786,565</u>	<u>7,778,738</u>	<u>576,882,494</u>
Total capital assets, being depreciated, net	<u>620,322,262</u>	<u>5,378,185</u>	<u>640,247</u>	<u>625,060,200</u>
Business-type activities capital assets, net	<u>\$ 696,229,551</u>	<u>\$ 35,837,713</u>	<u>\$ 15,985,605</u>	<u>\$ 716,081,659</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2022 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 1,165,749
Public safety	2,974,794
Public works	11,854,687
Airport operations	2,421,460
Transit	1,560,239
Culture	1,147,643
Park and recreation/Mayo Civic Center	6,237,815
Economic development/tourism	824,024
Subtotal	28,186,411
Internal Service Funds:	
Equipment revolving	2,944,905
Information technology	221,385

Total depreciation expense - governmental activities	\$ 31,352,701
--	---------------

Business-Type Activities:

Parking	\$ 1,505,276
Electric utility	14,567,066
Water utility	2,862,083
Sewer utility	5,909,862
Storm water utility	1,942,278

Total depreciation expense - business type activities	\$ 26,786,565
---	---------------

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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, 2022, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 1,104,986	\$ 615,844
Capital Improvement	3,003,253	209,491
Subtotal	4,108,239	825,335
Non-Major Governmental Funds:		
Special Revenue -		
Library		7,160
Municipal Recreation System		54,762
Airport Operations		36,890
Transit		542
Community Development Projects		127,120
DMCC	168,490	101,000
Subtotal	168,490	327,474
Total Governmental Funds	4,276,729	1,152,809
Proprietary Funds:		
Enterprise -		
Parking		574
Electric Utility		4,623,928
Water Utility		1,653,587
Sewer Utility	2,686,889	212,882
Storm Water Utility	748,254	68,092
Total Proprietary Funds	3,435,143	6,559,063
Total All Funds	\$ 7,711,872	\$ 7,711,872

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and from other funds as of December 31, 2022, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Governmental Funds:		
Capital Improvement	\$	\$ 5,562,744
Economic Development Authority Bond		1,900,000
Proprietary Fund:		
Parking	3,116,348	
Internal Service Fund:		
Self-Insurance	4,346,396	
Total All Funds	<u>\$ 7,462,744</u>	<u>\$ 7,462,744</u>

Transfers during the year ended December 31, 2022 were as follows:

Funds	Transfers In	Transfers Out
General	<u>\$ 15,284,558</u>	<u>\$ 1,519,443</u>
Capital Improvement	<u>4,547,051</u>	<u>22,795,484</u>
Other Governmental Funds:		
Library		23,000
Municipal Recreation System	60,994	211,662
Mayo Civic Center		225,428
Transit		444,500
Minnesota Bio Science Center		921,172
Community Development Projects		134,062
DMCC	2,009,266	
TIF Revenue Bond	1,455,282	
Economic Development Authority Bond	2,271,372	
Public Works and Transit Operation Center Bond		38,350
Lodging Tax Revenue Bond	2,985,538	
GO Variable Rate Sales Tax Bond	15,154,526	
Lease Revenue 2020A Bond		1,350,200
2020C GO Refunding Bond	38,350	
Subtotal Other Governmental Funds	<u>23,975,328</u>	<u>3,348,374</u>
Subtotal Governmental Funds	43,806,937	27,663,301
Enterprise	230,173	17,069,993
Internal Service	1,196,289	500,105
Totals	<u>\$ 45,233,399</u>	<u>\$ 45,233,399</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

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

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

Governmental Funds:	
Transfer in	\$ 43,806,937
Transfers out	(27,663,301)
Internal Service Funds:	
Transfer in	1,196,289
Transfers out	(500,105)
Capital assets transferred from Govt- activities to Business-type activities	(9,118,016)
Government-wide Statement of Activities - Transfers in/out	\$ 7,721,804

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

G. Leases

Lease Receivables

The City is a lessor in various long-term commercial office space and land within the governmental activities. Within business-type activities, the City is a lessor in long-term building, tower space, and utility pole leases. The leases have various lengths of term through 2065. The interest rate for the leases are implicit in the lease agreements and therefore, the City has applied estimated incremental borrowing rates of 2% to 3% for these leases.

A summary of outstanding leases as of December 31, 2022 is as follows:

<u>Governmental Activities</u>	<u>Original Lease Date</u>	<u>Expiration Date Including Options</u>	<u>Year Ended December 31, 2022</u>		<u>As of December 31, 2022</u>	
			<u>Lease Revenue</u>	<u>Lease Interest</u>	<u>Lease Receivable</u>	<u>Deferred Inflows of Resources</u>
Commercial Space	10/1/2016	9/30/2027	\$ 933,656	\$ 163,108	\$ 4,928,900	\$ 4,928,900
Commercial Space	7/1/2011	6/30/2036	68,472	36,072	1,165,143	1,165,143
Commercial Space	10/1/2021	11/30/2026	125,496	19,500	581,701	581,701
Commercial Space	4/1/2015	3/31/2025	159,535	15,065	414,923	414,923
Land	7/1/2016	6/30/2065		25,050	1,154,417	1,154,417
Land	10/1/2005	9/30/2050	9,432	12,960	426,863	426,863
Land	4/1/2022	9/30/2024	318,163	11,837	635,973	635,973
Totals			<u>\$ 1,614,754</u>	<u>\$ 283,592</u>	<u>\$ 9,307,920</u>	<u>\$ 9,307,920</u>
<u>Business-Type Activities</u>						
Building	6/1/2022	5/31/2031	\$ 29,320	\$ 8,480	\$ 551,378	\$ 551,378
Utility Pole Space	3/19/2019 - 1/1/2020	3/18/2024 - 12/31/2024	417,817	10,630	739,886	734,653
Antenna Space	11/15/2013 - 3/1/2022	12/31/2028 - 12/31/2042	1,343,993	477,086	20,353,953	19,777,584
Totals			<u>\$ 1,791,130</u>	<u>\$ 496,196</u>	<u>\$ 21,645,217</u>	<u>\$ 21,063,615</u>

Regulated Leases

The City does not recognize a lease receivable and deferred inflow of resources for regulated leases. Regulated leases include certain airport related leases that are subject to external laws, regulations, or legal rulings of the Federal Aviation Administration. The future expected minimum rentals to be received from these regulated leases as of December 31, 2022 is as follows:

<u>Year Ending December 31,</u>	<u>Minimum Lease Revenue</u>
2023	\$ 973,381
2024	955,917
2025	957,403
2026	958,919
2027	960,464
Thereafter	7,758,640
Total	<u>\$ 12,564,724</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2022, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/22
General Obligation Bonds:				
GO Taxable Tax Increment Bonds				
District 36, Series 2009A	\$ 8,035,000	5.3-5.5%	2025	\$ 1,095,000
GO Tax Increment Revenue				
Bond Series 2017B	21,265,000	2.0-5.0%	2038	18,390,000
GO Lodging Tax Revenue Bonds:				
Bonds, Series 2015A	42,795,000	2.5-5.0%	2035	33,550,000
GO Revenue Bonds:				
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2026	9,035,000
Revenue Refunding Bonds, Series 2020B	23,380,000	4.0%	2026	23,380,000
GO Variable Rate Sales Tax Revenue				
Bonds, Series 2015C	40,880,000	Variable	2025	12,940,000
GO Taxable Refunding Bonds,				
Series 2020C	16,460,000	1.25-5.0%	2036	15,805,000
GO Equipment Certificates				
of Indebtedness, Series 2018A	2,225,000	3.25%	2028	1,695,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2015E	39,970,000	3.0-5.0%	2030	26,325,000
Bonds, Series 2017A	108,255,000	2.0-5.0%	2047	93,630,000
Refunding Bonds, Series 2021A	37,170,000	1.375-2.3%	2043	34,785,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	4,704,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	3,188,000
Lease Bonds, Series 2020A	20,300,000	2.0-5.0%	2040	18,840,000
Financed Purchase Leases Payable	1,447,686	4.424%	2031	1,292,953
Compensated Absences				17,225,449
Less: Unamortized premium				20,706,024
Total Long-term Debt				\$ 336,586,426

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

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.

In 2017, the City issued \$21,265,000 of General Obligation Tax Increment Revenue Bonds, Series 2017B. The proceeds of the issue are to assist in the funding of the Parking Ramp #6 Project. The debt is to be repaid using tax increments and parking revenues and is backed by the full faith credit and taxing power of the City.

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 2015, the Sewer Utility issued \$19,805,000 of General Obligation Wastewater Revenue Refunding Bonds to refinance the 2007A Wastewater Revenue Bonds. In 2020, the Sewer Utility issued \$23,380,000 of General Obligation Revenue Refunding Bonds to refinance the 2012A Revenue Crossover Refunding Bonds. The 2012A Revenue Crossover Refunding Bonds were called in 2022.

Revenue Bonds – Electric Utility

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

Lease Revenue Bonds – Economic Development Authority

Lease Revenue 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.

Lease Revenue Bonds issued in 2020 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 the taxing power of the City. The proceeds of this bond issue were to fund the construction of a Development Services Infrastructure Center and North Precinct.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Lodging Tax Revenue Bonds

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

General Obligation Sales Tax Revenue Bonds

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

General Obligation Equipment Certificates of Indebtedness

In 2018, the City issued \$2,225,000 of General Obligation Equipment Certificates of Indebtedness, Series 2018A. The proceeds of the issue were used to finance the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles 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 bonds are payable from the general tax levy and is backed by the full faith, credit, and taxing power of the City.

General Obligation Taxable Refunding Bonds

In 2020, the City issued \$16,460,000 of General Obligation Taxable Bonds to refinance the 2010A General Obligation Taxable Build America Bonds. 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.

Financed Purchases

In 2022, the City entered into a financed purchase lease payable of \$1,447,686 for LED Lighting. Park referendum dollars approved in 2020 will be utilized to repay the lease.

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, 2022

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, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
GO Taxable Tax Increment Bonds					
District 36, Series 2009A	\$ 1,425,000	\$	\$ 330,000	\$ 1,095,000	\$ 345,000
GO Tax Increment Revenue Bond					
Series 2017B	19,205,000		815,000	18,390,000	855,000
GO Lodging Tax Revenue					
Bonds, Series 2015A	35,200,000		1,650,000	33,550,000	1,795,000
GO Taxable Refunding Bonds					
Series 2020C	16,460,000		655,000	15,805,000	825,000
GO Variable Rate Sales Tax Revenue					
Bonds, Series 2015C	27,660,000		14,720,000	12,940,000	
GO Equipment Certificates of Indebtedness,					
Series 2018A	1,945,000		250,000	1,695,000	(1) 260,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	5,024,000		320,000	4,704,000	336,000
REDA Lease Revenue Bonds, Series 2008	3,404,000		216,000	3,188,000	228,000
REDA Lease Revenue Bonds, Series 2020A	19,535,000		695,000	18,840,000	730,000
Financed Purchases:					
LED Lighting Lease		1,447,686	154,733	1,292,953	120,151
Plus: Unamortized Premium on Bonds	7,089,758		477,738	6,612,020	
Other Liabilities:					
Compensated Absences	12,224,933	7,482,077	7,567,585	12,139,425	7,190,000
Governmental Activities Long-term Liabilities	<u>149,172,691</u>	<u>8,929,763</u>	<u>27,851,056</u>	<u>130,251,398</u>	<u>12,684,151</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Crossover Refunding Series 04A					
Bonds, Series 2012A	30,525,000		30,525,000		
Revenue Crossover Refunding					
Bonds, Series 2015B	11,045,000		2,010,000	9,035,000	2,085,000
Revenue Refunding					
Bonds, Series 2020B	23,380,000			23,380,000	5,930,000
Revenue Bonds:					
Electric Utility Revenue Refunding Bonds-					
Series 2015E	29,075,000		2,750,000	26,325,000	2,885,000
Electric Utility Revenue Bonds-					
Series 2017A	96,625,000		2,995,000	93,630,000	3,145,000
Electric Utility Revenue Refunding Bonds-					
Series 2021A	36,125,000		1,340,000	34,785,000	1,365,000
Plus: Unamortized Premium	20,058,884		5,964,880	14,094,004	
Other Liabilities:					
Compensated Absences	4,961,568	806,617	682,161	5,086,024	2,926,267
Business-type Activities Long-term Liabilities	<u>251,795,452</u>	<u>806,617</u>	<u>46,267,041</u>	<u>206,335,028</u>	<u>18,336,267</u>
Total	<u>\$ 400,968,143</u>	<u>\$ 9,736,380</u>	<u>\$ 74,118,097</u>	<u>\$ 336,586,426</u>	<u>\$ 31,020,418</u>

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

In 2015, the Sewer Utility issued \$14.2 million in Refunding Revenue Bonds, Series 2015D, to be used for a refunding of the outstanding Series 2007B bonds. The crossover refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,878,134. This difference, reported in the financial statements as a deferred refunding balance, is being amortized and charged to operations over the bond term using the straight-line method. As of December 31, 2022, the balance totaled \$800,684.

In 2020, the Sewer Utility issued \$23.38 million in Refunding Revenue Bonds, Series 2020B, to be used for a refunding of the outstanding Series 2012A bonds. The crossover refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,792,656. This difference, reported in the financial statements as a deferred refunding balance, is being amortized and charged to operations over the bond term using the straight-line method. As of December 31, 2022, the balance totaled \$2,792,656.

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2022, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Bonds & Notes		Revenue Bonds	
	Principal	Interest *	Principal	Interest
<u>Governmental Activities</u>				
2023	\$ 4,080,000	\$ 3,025,703	\$ 1,294,000	\$ 953,753
2024	4,350,000	2,818,335	1,357,000	889,188
2025	17,575,000	2,050,018	1,416,000	821,650
2026	4,560,000	1,850,554	1,488,000	750,921
2027	4,775,000	1,634,395	1,565,000	676,561
2028-2032	25,460,000	5,482,011	8,960,000	2,238,939
2033-2037	21,245,000	1,449,914	6,792,000	754,756
2038-2040	1,430,000	22,344	3,860,000	124,206
Totals	\$ 83,475,000	\$ 18,333,274	\$ 26,732,000	\$ 7,209,974
<u>Business-Type Activities</u>				
	General Obligation Revenue Bonds		Utility Revenue Bonds	
	Principal	Interest	Principal	Interest
2023	\$ 8,015,000	\$ 1,268,350	\$ 7,395,000	\$ 6,294,868
2024	8,330,000	922,800	7,730,000	5,966,068
2025	8,525,000	566,050	8,005,000	5,681,868
2026	7,545,000	224,250	8,305,000	5,386,368
2027			8,625,000	5,062,768
2028-2032			36,305,000	20,145,888
2033-2037			23,480,000	14,927,593
2038-2042			28,485,000	9,920,888
2043-2047			26,410,000	3,826,746
Totals	\$ 32,415,000	\$ 2,981,450	\$ 154,740,000	\$ 77,213,055

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2022.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The future minimum payments under the financed purchase leases payable outstanding as of December 31, 2022, over the life of the lease, is summarized below:

	Financed Purchase Leases Payable	
	Principal	Interest
2023	\$ 120,151	\$ 57,040
2024	125,452	51,739
2025	130,859	46,332
2026	136,759	40,432
2027	142,792	34,399
2028-2031	636,940	71,824
Totals	\$ 1,292,953	\$ 301,766

As of December 31, 2022, the capitalized cost of the LED lighting under the financed purchase lease was \$1,447,686.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2022, the City had not utilized \$316,307,510 of its net legal debt margin.

Conduit Debt

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 \$2,874,473,988 and the balance outstanding at December 31, 2022 totals \$2,218,435,522.

Bond Refunding

On February 10, 2021, taxable bonds in the amount of \$37,170,000 were issued with an average interest rate of 1.94% to advance refund \$33,995,000 of outstanding bonds with an average interest rate of 4.74%. The cash flow requirements on the old bonds prior to the advance refunding were \$55,960,475 from 2021 through 2043. The cash flow requirements on the new bonds are \$46,632,758. The advance refunding resulted in an economic gain of \$6,641,823. The bonds are callable on December 1, 2023. At December 31, 2022, \$33,995,000 of bonds outstanding are considered defeased.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Revenue Pledged

Future revenue pledged for the payment of long-term debt is as follows:

Bond Issue - Revenue Bonds	Use of Proceeds	Type	Revenue Pledged		Remaining Principal and Interest	Current Year	
			Percent of Total Debt Service	Term of Pledge		Principal Paid	Pledged Revenue Received
General Obligation Bonds:							
Wastewater Treatment Plant							
Revenue Crossover Refunding Series 04A Bonds, Series 2012A	Refund 2004A issue	Utility Revenue	100%	2012 - 2026	\$	\$ 31,227,825	\$ 6,592,825
Revenue Crossover Refunding Bonds, Series 2015B	Refund 2007A issue	Utility Revenue	100%	2015 - 2026	10,194,250	2,562,250	2,562,250
Revenue Refunding Bonds, Series 2020B	Refund 2012A issue	Utility Revenue	100%	2020 - 2026	25,202,200	935,200	935,200
Revenue Bonds:							
REDA Lease Revenue Bonds, Series 2007	Bio Science building	Lease Revenue	100%	2007 - 2033	6,020,752	548,608	548,608
REDA Lease Revenue Bonds, Series 2008	Bio Science building	Lease Revenue	100%	2008 - 2033	4,082,241	371,242	371,242
REDA Lease Revenue Bonds, Series 2020A	DSIC building	Lease Revenue	100%	2020 - 2040	23,838,981	1,326,399	1,326,399
Electric Utility Revenue Refunding Bonds-							
Series 2015E	Advance refund a portion of 2007C issue	Utility Revenue	100%	2015 - 2030	30,520,400	3,818,750	3,818,750
Electric Utility Revenue Bonds-							
Series 2017A	Finance Westside Energy Station, and Electric substation and improvements	Utility Revenue	100%	2017 - 2047	158,483,750	7,826,250	7,826,250
Electric Utility Revenue Refunding Bonds-							
Series 2021A	Advance refund 2013B issue	Utility Revenue	100%	2021 - 2043	42,948,905	2,048,917	2,048,917

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2022.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits

A. Plan Description

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, 2022, the most recent valuation date, there were 898 active participants, 267 retirees receiving benefits, and 12 spouses receiving benefits.

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.

B. Total OPEB Liability

The City's total OPEB liability was measured as of January 1, 2022 and was determined by an actuarial valuation as of January 1, 2022. The components of the total OPEB liability of the City at year-end were as follows:

Total OPEB liability	<u>\$ 18,937,207</u>
Covered-employee payroll	<u>\$ 80,805,811</u>
Total OPEB liability as a % of payroll	<u>23%</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

C. Funded Status and Funding Progress

As of January 1, 2022, the most recent measurement date, the actuarial accrued liability for benefits was \$18,937,207 all of which was unfunded. The covered-employee payroll (annual payroll of active employees covered by the plan) was \$80,805,811 and the ratio of the unfunded actuarial accrued liability to the covered-employee payroll was 23 percent. The projection of future benefit payments for an ongoing plan involves 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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Methods and Assumptions

In the January 1, 2022 actuarial valuation, the entry age level percentage of pay method was used. 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. Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

D. Methods and Assumptions (continued)

The total OPEB liability was determined by an actuarial valuation as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.00%
20-year Municipal Bond Yield	2.00%
Inflation rate	2.00%
Mortality	Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Safety) with MP-2021 Generational Improvement Scale.
Medical trend rate	6.5% as of January 1, 2022 grading to 5.0% over 6 years and then to 4.0% over the next 48 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in Actuarial Assumptions:

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Safety) with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Safety) with MP-2021 Generational Improvement Scale.
- The salary increase rates were updated to reflect the latest experience study.
- The retirement and withdrawal rates were updated to reflect the latest experience study.
- The inflation rate changed from 2.50% to 2.00%

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

E. Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 1/1/2022	\$ 16,687,258
Changes for the year:	
Service cost	1,116,742
Interest cost	349,415
Assumption changes	503,957
Differences between expected and actual economic experience	949,631
Benefit payments	<u>(669,796)</u>
Net Changes	<u>2,249,949</u>
Balance End of Year 12/31/2022	<u>\$ 18,937,207</u>

F. Total OPEB Liability Sensitivity to Discount and Health-Care Trend Rate Changes

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it would be calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>Total OPEB Liability</u>
1% decrease in Discount Rate (1.0%)	\$ 20,833,197
Current Discount Rate (2.0%)	18,937,207
1% increase in Discount Rate (3.0%)	17,263,956

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it would be calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>Total OPEB Liability</u>
1% decrease in Trend Rates	\$ 16,835,763
Current Trend Rates	18,937,207
1% increase in Trend Rates	21,399,388

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

G. OPEB Expense and Related Deferred Outflows/Inflows of Resources

As of the year ended December 31, 2022, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ 2,266,279	\$ 169,872
Liability losses	1,568,254	
Contributions paid to OPEB subsequent to the measurement date	697,369	
	\$ 4,531,902	\$ 169,872

Contributions subsequent to the measurement date of \$697,369 will be recognized as a reduction of the OPEB liability in the year ended December 31, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2023	\$ 623,672
2024	623,672
2025	623,672
2026	623,676
2027	666,133
Thereafter	503,836

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 3: Detailed Notes on All Funds (continued)

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2022 were classified as follows:

	General Fund	Capital Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid Items	\$ 50,850	\$	\$ 135,029	\$ 185,879
Inventory	1,265,194		40,943	1,306,137
Total Nonspendable	<u>1,316,044</u>		<u>175,972</u>	<u>1,492,016</u>
<u>Restricted for:</u>				
Civic Music Endowment	40,959			40,959
Flood Control		12,506,308		12,506,308
Economic Development Loans		259,910		259,910
Park and Recreation		111,353		111,353
Tax Increment Financing		7,028,014		7,028,014
Sales Tax Authorized Projects		36,642,253		36,642,253
Destination Medical Center		60,588,205		60,588,205
Airport Operations			10,366,538	10,366,538
Children's Playgrounds			687,810	687,810
Settlement Funds			308,919	308,919
Debt Service			3,250,329	3,250,329
Total Restricted	<u>40,959</u>	<u>117,136,043</u>	<u>14,613,596</u>	<u>131,790,598</u>
<u>Committed to:</u>				
Capital Improvement		95,859,005		95,859,005
Total Committed		<u>95,859,005</u>		<u>95,859,005</u>
<u>Assigned to:</u>				
Subsequent Years Budgets	460,276			460,276
Encumbrances	2,455,096			2,455,096
Library Operations			3,225,653	3,225,653
Parks and Recreation			2,223,794	2,223,794
Mayo Civic Center			980,500	980,500
Transit			3,341,597	3,341,597
Minnesota Bio Science Center			2,460,649	2,460,649
Total Assigned	<u>2,915,372</u>		<u>12,232,193</u>	<u>15,147,565</u>
<u>Unassigned</u>				
	<u>45,334,500</u>		<u>(1,958,138)</u>	<u>43,376,362</u>
Total Fund Balances	<u>\$ 49,606,875</u>	<u>\$ 212,995,048</u>	<u>\$ 25,063,623</u>	<u>\$ 287,665,546</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2022 for which performance is expected in the subsequent years. Such encumbrances are included in assigned fund balance of the general fund.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Position

PRIMARY GOVERNMENT

RESTRICTED -- Government - Wide Financial Statements

Governmental Activities	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 40,959	\$	\$
Capital Improvement Fund:				
Flood Control				12,506,308
Economic Development Loans	259,910			
Park and Recreation		111,353		
Tax Increment Financing				7,028,014
Sales Tax Authorized Projects				36,642,253
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	687,810			
CDBG Loans	3,897,422			
Airport Operations				10,366,538
Settlement Funds				308,919
Debt Service Funds:				
Debt Service			3,250,329	
Total Governmental Restricted Net Position	<u>4,845,142</u>	<u>152,312</u>	<u>3,250,329</u>	<u>66,852,032</u>
Business-Type Activities				
Debt Service			616,250	
Funds Held in Trust				48
Total Business-Type Restricted Net Position			<u>616,250</u>	<u>48</u>
Total Government Wide Restricted Net Position	<u>\$ 4,845,142</u>	<u>\$ 152,312</u>	<u>\$ 3,866,579</u>	<u>\$ 66,852,080</u>

L. Deficit Fund Balance

Special Revenue Fund:

 Economic Development Authority Bond \$ 1,824,175

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

M. Excess Expenditures over Appropriations

At December 31, 2022, excess of expenditures over appropriations, all the result of a planned process, were as follows:

Special Revenue Funds	Expenditures	Appropriation	Excess
Airport Operations Fund	\$ 5,245,742	\$ 5,044,116	\$ 201,626
Mayo Civic Center	337,199	209,147	128,052

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

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 group health coverage and workers' compensation. The group health program is limited to losses of \$335,000 per claim with a variable annual aggregate, and the workers' compensation is limited to \$500,000 per occurrence, both through the use of stop-loss policies. The City's general and auto liability policies retain a \$100,000 occurrence per \$350,000 annual aggregate deductible exposure with a \$1,500,000 statutory limit of coverage. The City recognizes a liability on individual claims when a claim is probable, and the amount can be reasonably estimated. In addition, the City recognizes an estimated liability on claims that have been incurred but have not been reported.

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 \$2,911,412 reported in the Fund at December 31, 2022 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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 4: Other Information (continued)

A. Risk Management (continued)

Changes in the Fund's claims liability amount during the years ended December 31, 2022 and 2021 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2022	\$ 3,380,100	\$ 22,561,782	\$ (23,030,470)	\$ 2,911,412
2021	2,481,079	23,141,162	(22,242,141)	3,380,100

B. Commitments

Resource Management Agreement

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

Service Territory Settlements

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 15.19 mills (tenths of a cent) per kWh to 27.97 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over forty years.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

B. Commitments (continued)

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 1,156,032,014 kilowatt hours totaling \$87,064,248 from SMMPA during the year ended December 31, 2022.

In October of 2021, RPU recorded as operating revenue a \$5,097,780 distribution of general operating reserves from SMMPA. A partial payment was received in February 2022. In July 2022 the SMMPA Board voted to cancel the remainder of the distribution due to multiple factors including increased energy costs. As a result, RPU recorded an entry to reduce operating revenue by \$2,548,890.

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

The Energy Authority

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

The Electric Utility has an agreement with The Energy Authority and National Grid for the purchase of capacity. The contract is for 5 MW per month for \$1,250 per MW for planning year 2022-2023. The total for the contract is \$75,000.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 4: Other Information (continued)

B. Commitments (continued)

Purchase Commitments/Encumbrances:

The City has active construction projects and equipment purchase commitments. As of December 31, 2022, the City's commitments with contractors and vendors were as follows:

	<u>Remaining Commitment</u>
General Fund:	
Equipment Purchase Commitments*	<u>\$ 2,455,096</u>
Capital Improvement Fund:	
Major Street Projects	7,795,540
Sidewalk Projects	1,724,996
Bridge Projects	156,099
Storm Water / Storm Sewer Projects	20,147
Flood Control	234,691
Water Reclamation Projects	3,710,450
Parking Ramp Rehabilitation	1,311,768
Airport Projects	6,636,773
Mass Transit Garage Expansion	19,320,032
DSIC and North Station	2,097,076
Golf Courses	7,050
Parks Projects - Various	2,994,653
Mayo Civic Center General Improvements	20,710
Destination Medical Center	8,805,984
Equipment Purchase Commitments	631,376
Total Capital Improvement Fund	<u>55,467,345</u>
Enterprise Funds:	
Electric Projects	9,301,586
Water Projects	1,180,663
Total Enterprise Funds	<u>10,482,249</u>
Totals	<u><u>\$ 68,404,690</u></u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

C. Contingent Liabilities

General Litigation:

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

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Neighborhood Stabilization Program, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2022, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan is available to all City employees, which 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. All amounts of compensation deferred under the plan must be held in trust for the exclusive benefit of plan participants and/or beneficiaries. Investments are managed by the plan's trustee under various investment options. The choice of investment options is made by the participant. The plan is offered through the City in connection with Mission Square Retirement, Empower Retirement, and Minnesota State Retirement System and does not meet the requirements of GASB Statement Nos. 84 and 97 for inclusion as a fiduciary activity of the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

Plan Description

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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.

1. General Employees Plan Benefits

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Plan Benefits (continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. Police and Fire Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2022, were \$4,385,681. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2022 were, \$4,507,928. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$61,831,698 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,812,748.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.7807 percent at the end of the measurement period and 0.7838 percent for the beginning of the period.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

City's proportionate share of the net pension liability	\$61,831,698
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>1,812,748</u>
Total	<u>\$63,644,446</u>

For the year ended December 31, 2022, the City recognized pension expense of \$4,160,005 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$270,866 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 516,464	\$ 662,979
Changes in actuarial assumptions	14,047,514	251,834
Net collective difference between projected and actual investment earnings	978,898	
Changes in proportion	536,811	99,288
Contributions paid to PERA subsequent to the measurement date	<u>2,270,081</u>	
Total	<u>\$ 18,349,768</u>	<u>\$ 1,014,101</u>

The \$2,270,081 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2023	\$ 5,870,567
2024	5,638,081
2025	(2,034,811)
2026	5,591,749

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$91,235,750 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 2.0966 percent at the end of the measurement period and 2.0170 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2021. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2022, the City recognized pension expense of \$1,874,825 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$773,087 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$188,692 for the year ended December 31, 2022 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs (continued)

City's proportionate share of the net pension liability	\$91,235,750
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>3,985,518</u>
Total	<u>\$95,221,268</u>

At December 31, 2022, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,514,429	\$
Changes in actuarial assumptions	52,983,848	561,583
Net collective difference between projected and actual investment earnings	2,211,078	
Changes in proportion	772,103	1,537,724
Contributions paid to PERA subsequent to the measurement date	<u>2,366,665</u>	
Total	<u>\$ 63,848,123</u>	<u>\$ 2,099,307</u>

The \$2,366,665 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2023	\$ 11,403,617
2024	11,558,158
2025	10,239,007
2026	18,487,957
2027	7,693,412

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$7,078,783.

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Methods and Assumptions (continued)

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.50% to 5.40%.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060 and June 30, 2061 respectively. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund, project benefit payments exceed the fund's projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Liability Sensitivity

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

Sensitivity Analysis						
<i>Net Pension Liability (Asset) at Different Discount Rates</i>						
	General Employees Fund			Police and Fire Fund		
1% Lower	5.50%	\$	97,666,405	4.40%	\$	138,073,606
Current Discount Rate	6.50%	\$	61,831,698	5.40%	\$	91,235,750
1% Higher	7.50%	\$	32,441,707	6.40%	\$	53,370,148

Pension Plan Fiduciary Net Position

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

NOTE 5: Accounting for the Effects of Rate Regulation

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

NOTE 6: Tax Abatement Agreements

As of December 31, 2022, the City only provides tax abatements through Pay-as-You-Go (PAYG) Tax Increment Financing (TIF) District agreements under Minnesota Statutes, Sections 469.174 through 469.179. The PAYG TIF Districts in the City pay a developer up to 95% of the previous six months tax increment collected in order to assist with funding a development project. As of December 31, 2022, the City had thirty-three said Districts in which \$6,441,438 of tax revenue was paid out to developers under these agreements.

NOTE 7: Subsequent Events

In May 2023 the City issued General Obligation Tax Abatement Bonds Series 2023A for \$12,375,000 with an interest rate ranging between 3.625% and 5.00%. The bonds were issued for the purpose of financing certain park improvements to Soldiers Field Pool, Silver Lake Park, and other park improvements.

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 28, 2023, the date the financial statements were available to be issued.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

CITY OF ROCHESTER, MINNESOTA
Schedules of City Pension Contributions
December 31, 2022

PERA General Employees Retirement Fund
Last Ten Years*

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,212,117	\$ 3,212,117	\$	\$ 42,828,227	7.50%
2016	3,383,825	3,383,825		45,117,667	7.50%
2017	3,721,078	3,721,078		49,614,373	7.50%
2018	3,765,952	3,765,952		50,212,693	7.50%
2019	3,966,432	3,966,432		52,885,760	7.50%
2020	4,181,509	4,181,509		55,753,453	7.50%
2021	4,232,250	4,232,250		56,430,000	7.50%
2022	4,385,681	4,385,681		58,475,747	7.50%

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

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,140,595	\$ 3,140,595	\$	\$ 19,386,389	16.20%
2016	3,342,831	3,342,831		20,634,759	16.20%
2017	3,669,622	3,669,622		22,651,988	16.20%
2018	3,648,935	3,648,935		22,524,290	16.20%
2019	3,864,563	3,864,563		22,799,782	16.95%
2020	4,141,317	4,141,317		23,397,271	17.70%
2021	4,219,288	4,219,288		23,837,785	17.70%
2022	4,507,928	4,507,928		25,468,520	17.70%

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

CITY OF ROCHESTER, MINNESOTA
Schedules of City and Non-Employer Proportionate Share of Net Pension Liability
December 31, 2022

PERA General Employees Retirement Fund
Last Ten Years*

Fiscal Year Ended June 30	City's Proportionate (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Covered Payroll (c)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.7410%	\$ 38,402,466	\$	\$ 38,402,466	\$ 46,112,718	83.28%	78.20%
2016	0.7271%	59,036,914	771,048	59,807,962	43,972,947	136.01%	68.90%
2017	0.7701%	49,162,676	618,213	49,780,889	47,366,020	105.10%	75.90%
2018	0.7471%	41,446,045	1,359,493	42,805,538	49,913,533	85.76%	79.53%
2019	0.7473%	41,316,543	1,284,111	42,600,654	51,549,227	82.64%	80.23%
2020	0.7818%	46,872,483	1,445,366	48,317,849	54,319,607	88.95%	79.06%
2021	0.7838%	33,471,771	1,022,240	34,494,011	56,091,727	61.50%	87.00%
2022	0.7807%	61,831,698	1,812,748	63,644,446	57,452,873	110.78%	76.70%

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

Fiscal Year Ended June 30	City's Proportionate (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Covered Payroll (b)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.1770%	\$ 24,735,814	\$	\$ 24,735,814	\$ 20,924,808	118.21%	86.60%
2016	2.1420%	85,962,187		85,962,187	20,010,574	429.58%	63.90%
2017	2.2070%	29,797,126		29,797,126	21,643,373	137.67%	85.40%
2018	2.1372%	22,780,351		22,780,351	22,588,139	100.85%	88.84%
2019	2.2104%	23,531,941		23,531,941	22,662,036	103.84%	89.26%
2020	2.1182%	27,920,142	657,748	28,577,890	23,098,526	123.72%	87.19%
2021	2.0170%	15,569,102	699,917	16,269,019	11,698,636	139.07%	93.66%
2022	2.0966%	91,235,750	3,985,518	95,221,268	11,918,893	798.91%	70.50%

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

**Other Post-Employment Benefits Plan
Schedule of Changes in the District's Total OPEB
Liability and Related Ratios**

Total OPEB Liability	2022	2021	2020	2019	2018
Service cost	\$ 1,116,742	\$ 1,010,612	\$ 857,266	\$ 726,221	\$ 762,822
Interest cost	349,415	445,845	443,785	371,228	347,995
Assumption changes	503,957	1,123,571	1,572,227	(339,748)	
Differences between expected and actual experience	949,631		1,179,725		
Benefit payments	(669,796)	(508,608)	(512,148)	(408,344)	(332,645)
Net change in total OPEB liability	2,249,949	2,071,420	3,540,855	349,357	778,172
Total OPEB Liability - beginning of year	16,687,258	14,615,838	11,074,983	10,725,626	9,947,454
Total OPEB Liability - end of year	<u>\$18,937,207</u>	<u>\$16,687,258</u>	<u>\$14,615,838</u>	<u>\$11,074,983</u>	<u>\$10,725,626</u>
Covered-Employee Payroll	\$80,805,811	\$80,021,675	\$77,502,833	\$72,914,859	\$70,791,125
Total OPEB Liability as a % of payroll	23%	21%	19%	15%	15%

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

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

Note: There are no assets in a trust to pay related benefits.

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2022

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2022

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. Beginning in 2020, the City contracts with an outside entity to manage operations of the Center which is now reported in the General Fund.

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.

Settlement Fund: This fund was established using settlement funds received as part of a national settlement against the three largest opioid distributors.

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.

DMCC Fund:

This fund was established to account for activities of the Destination Medical Center Corporation (DMCC).

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2022

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.

TIF Revenue Bond 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.

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 and annual appropriation lease payments) for payment of the lease revenue bonds 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 refunded by the 2020C general obligation taxable refunding bonds.

Lodging Tax Revenue Bond Fund:

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

GO Variable Rate Sales Tax Bond Fund:

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

Lease Revenue 2020A Bond Fund:

This fund is used to account for the accumulation of resources for payment of the general obligation Series 2020A Bonds.

2020C GO Refunding Bond Fund:

This fund is used to account for the accumulation of resources for payment of the general obligation Series 2020C Refunding Bonds.

CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2022

	Special Revenue								Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Settlement	
ASSETS									
Cash and cash equivalents	\$ 132,964	\$ 178,404	\$ 162,713	\$	\$ 362,593	\$ 23,273	\$ 33,732	\$ 10,254	\$ 99,310
Investments	3,361,200	2,208,100	760,200		9,282,200	661,400	6,631,200	297,300	2,174,000
Accrued interest receivable	15,735	13,784	5,428		43,526	3,137	31,052	1,365	10,184
Accounts receivable (net of allowance for uncollectibles)	5,400	585,187			1,219,845		420,716		177,155
Lease receivable					2,217,253				7,090,667
Loans receivable									
Taxes receivable delinquent	80,936	91,496			6,229		169		
Special assessments receivable delinquent		127,540							
Due from other funds									
Due from other governmental units	71,372	218,453	52,159		48,629		1,180,674		
Prepaid items	1,066								
Restricted cash and investments Inventory		8,408					32,535		
TOTAL ASSETS	\$ 3,668,673	\$ 3,431,372	\$ 980,500	\$	\$ 13,180,275	\$ 687,810	\$ 8,330,078	\$ 308,919	\$ 9,551,316
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE									
Liabilities:									
Accounts payable	\$ 36,994	\$ 107,111	\$	\$	\$ 226,303	\$	\$ 1,089,004	\$	\$
Accrued compensation and payroll taxes	275,299	318,461					20,961		
Due to other funds	7,160	54,762			36,890		542		
Advances from other funds									
Unearned revenue		293,874			324,000				
Due to other governmental units	41,565	205,926			3,062		3,845,270		
Total Liabilities	361,018	980,134			590,255		4,955,777		
Deferred Inflows of Resources:									
Unavailable revenue:									
Property taxes	80,936	91,496			6,229		169		
Special assessments		127,540							
Leases receivable					2,217,253				7,090,667
Loans receivable									
Total Deferred Inflows of Resources	80,936	219,036			2,223,482		169		7,090,667
Fund Balance:									
Nonspendable	1,066	8,408					32,535		
Restricted					10,366,538	687,810		308,919	
Assigned	3,225,653	2,223,794	980,500				3,341,597		2,460,649
Unassigned									
Total Fund Balance	3,226,719	2,232,202	980,500		10,366,538	687,810	3,374,132	308,919	2,460,649
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 3,668,673	\$ 3,431,372	\$ 980,500	\$	\$ 13,180,275	\$ 687,810	\$ 8,330,078	\$ 308,919	\$ 9,551,316

Community Development Projects	DMCC	Tax Increment Bonds	TIF Revenue Bond	Debt Service						Total Nonmajor Governmental Funds
				Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond	Lease Revenue 2020A Bond	2020C GO Refunding Bond	
\$	\$ 2,181	\$	\$	\$ 3,169	\$	\$	\$ 41,649	\$ 969,917	\$ 1,901,462	\$ 3,921,621
							178		14,143	25,375,600
	100,000									138,532
3,897,422										2,508,303
								38,601	7,469	9,307,920
	168,490									3,897,422
181,411	61,307			72,656						224,900
								336,763		127,540
									27,750	168,490
										1,780,448
										135,029
										336,763
										40,943
<u>\$ 4,078,833</u>	<u>\$ 331,978</u>	<u>\$</u>	<u>\$</u>	<u>\$ 75,825</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,827</u>	<u>\$ 1,345,281</u>	<u>\$ 1,950,824</u>	<u>\$ 47,963,511</u>
\$ 43,134	\$ 169,671	\$	\$	\$	\$	\$	\$ 41,533	\$	\$	\$ 1,713,750
127,120	101,000									614,721
				1,900,000						327,474
	61,307									1,900,000
11,157										679,181
<u>181,411</u>	<u>331,978</u>			<u>1,900,000</u>			<u>41,533</u>			<u>4,106,980</u>
								38,601	7,469	224,900
										127,540
										9,307,920
<u>3,897,422</u>										<u>3,897,422</u>
<u>3,897,422</u>								<u>38,601</u>	<u>7,469</u>	<u>13,557,782</u>
	61,307			72,656						175,972
							294	1,306,680	1,943,355	14,613,596
	(61,307)			(1,896,831)						12,232,193
				(1,824,175)						(1,958,138)
							294	1,306,680	1,943,355	25,063,623
<u>\$ 4,078,833</u>	<u>\$ 331,978</u>	<u>\$</u>	<u>\$</u>	<u>\$ 75,825</u>	<u>\$</u>	<u>\$</u>	<u>\$ 41,827</u>	<u>\$ 1,345,281</u>	<u>\$ 1,950,824</u>	<u>\$ 47,963,511</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2022

	Special Revenue								
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Settlement	Minnesota Bio Science Center
REVENUES									
General property taxes	\$ 7,460,670	\$ 9,232,496	\$	\$	\$ 586,100	\$	\$ 15	\$	\$
Tax increment collection									
Nonproperty tax			434,575						
Intergovernmental revenues	1,177,821	372,066		20,357	1,441,090		11,009,921	319,715	
Charges for services	22,309	4,305,915			2,416,027		1,740,998		
Interest earnings	30,530	15,282	14,295		118,489	8,675	93,490	1,604	25,028
Net decrease in the fair value of investments	(117,300)	(107,800)	(42,700)		(336,100)	(23,100)	(221,600)	(12,400)	(77,000)
Rental revenues		3,500			2,032,872				2,548,324
Miscellaneous revenues	260,939	264,665	56,773		7,746		83,758		
Total Revenues	8,834,969	14,086,124	462,943	20,357	6,266,224	(14,425)	12,706,582	308,919	2,496,352
EXPENDITURES									
Public safety				20,357					
Culture	8,932,696								
Park and recreation		13,489,635	337,199						
Airport operations					5,245,742				
Transit							11,775,180		
Economic development/tourism									1,592,205
Debt service									
Total Expenditures	8,932,696	13,489,635	337,199	20,357	5,245,742		11,775,180		1,592,205
Excess (deficiency) of revenues over (under) expenditures	(97,727)	596,489	125,744		1,020,482	(14,425)	931,402	308,919	904,147
OTHER FINANCING SOURCES (USES)									
Transfers in		60,994							
Transfers out	(23,000)	(211,662)	(225,428)				(444,500)		(921,172)
Total Other Financing Sources (Uses)	(23,000)	(150,668)	(225,428)				(444,500)		(921,172)
Net change in fund balances	(120,727)	445,821	(99,684)		1,020,482	(14,425)	486,902	308,919	(17,025)
Fund Balances - beginning	3,347,446	1,786,381	1,080,184		9,346,056	702,235	2,887,230		2,477,674
Fund Balances - ending	\$ 3,226,719	\$ 2,232,202	\$ 980,500	\$	\$ 10,366,538	\$ 687,810	\$ 3,374,132	\$ 308,919	\$ 2,460,649

Community Development Projects	DMCC	Debt Service							2020C GO Refunding Bond	Total Nonmajor Governmental Funds
		Tax Increment Bonds	TIF Revenue Bond	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond	Lease Revenue 2020A Bond		
\$	\$	\$ 397,750	\$	\$	\$	\$	\$	\$ 1,415,647	\$ 1,421,948	\$ 20,116,876
										397,750
										434,575
643,875										14,984,845
										8,485,249
18,804							454	2,066	22,105	350,822
										(938,000)
										4,584,696
296,642										970,523
959,321		397,750					454	1,417,713	1,444,053	49,387,336
										20,357
										8,932,696
										13,826,834
										5,245,742
										11,775,180
825,259	2,009,266			42,791						4,469,521
		397,750	1,455,282	2,246,249		2,985,538	15,154,936		1,196,781	23,436,536
825,259	2,009,266	397,750	1,455,282	2,289,040		2,985,538	15,154,936		1,196,781	67,706,866
134,062	(2,009,266)		(1,455,282)	(2,289,040)		(2,985,538)	(15,154,482)	1,417,713	247,272	(18,319,530)
	2,009,266		1,455,282	2,271,372		2,985,538	15,154,526		38,350	23,975,328
(134,062)					(38,350)			(1,350,200)		(3,348,374)
(134,062)	2,009,266		1,455,282	2,271,372	(38,350)	2,985,538	15,154,526	(1,350,200)	38,350	20,626,954
				(17,668)	(38,350)		44	67,513	285,622	2,307,424
				(1,806,507)	38,350		250	1,239,167	1,657,733	22,756,199
\$	\$	\$	\$	\$ (1,824,175)	\$	\$	\$ 294	\$ 1,306,680	\$ 1,943,355	\$ 25,063,623

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 7,390,959	\$ 7,390,959	\$ 7,460,670	\$ 69,711
Intergovernmental revenues	1,149,821	1,195,821	1,177,821	(18,000)
Charges for services	10,700	10,700	22,309	11,609
Interest earnings	11,500	26,301	30,530	4,229
Net decrease in the fair value of investments			(117,300)	(117,300)
Miscellaneous revenues:				
Contributions		193,207	193,207	
Other	2,000	68,000	67,732	(268)
Total Revenues	8,564,980	8,884,988	8,834,969	(50,019)
EXPENDITURES				
Public Library	8,614,205	8,689,598	8,563,032	126,566
Gifts appropriations		244,616	369,664	(125,048)
Total Expenditures	8,614,205	8,934,214	8,932,696	1,518
Deficiency of revenues under expenditures	(49,225)	(49,226)	(97,727)	(48,501)
OTHER FINANCING USES				
Transfers out	(23,000)	(23,000)	(23,000)	
Net change in fund balance	(72,225)	(72,226)	(120,727)	(48,501)
Fund Balance - beginning	3,347,446	3,347,446	3,347,446	
Fund Balance - ending	\$ 3,275,221	\$ 3,275,220	\$ 3,226,719	\$ (48,501)

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

For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 9,152,909	\$ 9,152,909	\$ 9,232,496	\$ 79,587
Intergovernmental revenues	90,925	388,161	372,066	(16,095)
Charges for services	4,001,779	4,156,947	4,305,915	148,968
Interest earnings	21,400	21,400	15,282	(6,118)
Net decrease in the fair value of investments			(107,800)	(107,800)
Rental revenues	1,000	1,000	3,500	2,500
Miscellaneous revenues:				
Contributions	11,500	39,500	37,746	(1,754)
Other	161,103	194,880	226,919	32,039
Total Revenues	<u>13,440,616</u>	<u>13,954,797</u>	<u>14,086,124</u>	<u>131,327</u>
EXPENDITURES				
Administration	677,377	681,077	649,856	31,221
Recreation Department	741,403	753,669	713,644	40,025
Golf	1,578,038	1,620,229	1,599,927	20,302
Tennis Center	59,294	59,294	59,028	266
Volleyball Center	405,383	443,728	436,175	7,553
Swimming Pools	196,521	281,990	236,427	45,563
Graham Arenas	888,525	997,561	993,728	3,833
Park	7,219,230	7,497,029	7,205,635	291,394
Plummer House	97,648	97,648	81,541	16,107
Recreation Center	1,425,832	1,514,832	1,513,674	1,158
Total Expenditures	<u>13,289,251</u>	<u>13,947,057</u>	<u>13,489,635</u>	<u>457,422</u>
Excess of revenues over expenditures	<u>151,365</u>	<u>7,740</u>	<u>596,489</u>	<u>588,749</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		59,000	60,994	1,994
Transfers out	(211,662)	(211,662)	(211,662)	
Total Other Financing Sources (Uses)	<u>(211,662)</u>	<u>(152,662)</u>	<u>(150,668)</u>	<u>1,994</u>
Net change in fund balance	(60,297)	(144,922)	445,821	590,743
Fund Balance - beginning	<u>1,786,381</u>	<u>1,786,381</u>	<u>1,786,381</u>	
Fund Balance - ending	<u>\$ 1,726,084</u>	<u>\$ 1,641,459</u>	<u>\$ 2,232,202</u>	<u>\$ 590,743</u>

CITY OF ROCHESTER, MINNESOTA
MAYO CIVIC CENTER
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Nonproperty taxes	\$ 434,575	\$ 434,575	\$ 434,575	\$
Interest earnings			14,295	14,295
Net decrease in the fair value of investments			(42,700)	(42,700)
Miscellaneous revenues			56,773	56,773
Total Revenues	<u>434,575</u>	<u>434,575</u>	<u>462,943</u>	<u>28,368</u>
EXPENDITURES				
Mayo Civic Center	<u>209,147</u>	<u>209,147</u>	<u>337,199</u>	<u>(128,052)</u>
Excess (deficiency) of revenues over (under) expenditures	225,428	225,428	125,744	(99,684)
OTHER FINANCING USES				
Transfers out	<u>(225,428)</u>	<u>(225,428)</u>	<u>(225,428)</u>	
Net change in fund balance			(99,684)	(99,684)
Fund Balance - beginning	<u>1,080,184</u>	<u>1,080,184</u>	<u>1,080,184</u>	
Fund Balance - ending	<u>\$ 1,080,184</u>	<u>\$ 1,080,184</u>	<u>\$ 980,500</u>	<u>\$ (99,684)</u>

CITY OF ROCHESTER, MINNESOTA
AIRPORT OPERATIONS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 580,682	\$ 580,682	\$ 586,100	\$ 5,418
Intergovernmental revenues	2,291,000	2,291,000	1,441,090	(849,910)
Charges for services	2,403,684	2,403,684	2,416,027	12,343
Interest earnings	11,500	11,500	118,489	106,989
Net decrease in the fair value of investments			(336,100)	(336,100)
Rental revenues	1,991,656	1,991,656	2,032,872	41,216
Miscellaneous revenues	10,000	10,000	7,746	(2,254)
Total Revenues	<u>7,288,522</u>	<u>7,288,522</u>	<u>6,266,224</u>	<u>(1,022,298)</u>
EXPENDITURES				
Airport operations	4,882,616	4,882,616	4,990,792	(108,176)
US customs operations	161,500	161,500	254,950	(93,450)
Total Expenditures	<u>5,044,116</u>	<u>5,044,116</u>	<u>5,245,742</u>	<u>(201,626)</u>
Net change in fund balance	2,244,406	2,244,406	1,020,482	(1,223,924)
Fund Balance - beginning	<u>9,346,056</u>	<u>9,346,056</u>	<u>9,346,056</u>	
Fund Balance - ending	<u>\$ 11,590,462</u>	<u>\$ 11,590,462</u>	<u>\$ 10,366,538</u>	<u>\$ (1,223,924)</u>

CITY OF ROCHESTER, MINNESOTA
F. E. WILLIAMS ESTATE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest earnings	\$ 6,600	\$ 6,600	\$ 8,675	\$ 2,075
Net decrease in the fair value of investments			(23,100)	(23,100)
Net change in fund balance	6,600	6,600	(14,425)	(21,025)
Fund Balance - beginning	702,235	702,235	702,235	
Fund Balance - ending	<u>\$ 708,835</u>	<u>\$ 708,835</u>	<u>\$ 687,810</u>	<u>\$ (21,025)</u>

CITY OF ROCHESTER, MINNESOTA
TRANSIT FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$	\$	\$ 15	\$ 15
Intergovernmental revenues	9,255,292	9,255,292	11,009,921	1,754,629
Charges for services	2,508,097	2,508,097	1,740,998	(767,099)
Interest earnings	26,700	26,700	93,490	66,790
Net decrease in the fair value of investments			(221,600)	(221,600)
Miscellaneous revenues	67,200	69,157	83,758	14,601
Total Revenues	<u>11,857,289</u>	<u>11,859,246</u>	<u>12,706,582</u>	<u>847,336</u>
EXPENDITURES				
Fixed route	10,866,480	10,914,742	10,790,723	124,019
Demand response - ZIPS	1,117,731	1,117,731	984,457	133,274
Total Expenditures	<u>11,984,211</u>	<u>12,032,473</u>	<u>11,775,180</u>	<u>257,293</u>
Excess (deficiency) of revenues over (under) expenditures	(126,922)	(173,227)	931,402	1,104,629
OTHER FINANCING USES				
Transfers out			(444,500)	(444,500)
Net change in fund balance	(126,922)	(173,227)	486,902	660,129
Fund Balance - beginning	2,887,230	2,887,230	2,887,230	
Fund Balance - ending	<u>\$ 2,760,308</u>	<u>\$ 2,714,003</u>	<u>\$ 3,374,132</u>	<u>\$ 660,129</u>

CITY OF ROCHESTER, MINNESOTA
DMCC FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2022

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES				
Economic development/tourism	\$ 2,436,317	\$ 2,436,317	\$ 2,009,266	\$ 427,051
Excess (deficiency) of revenues over (under) expenditures	(2,436,317)	(2,436,317)	(2,009,266)	427,051
OTHER FINANCING SOURCES				
Transfers in	2,436,317	2,436,317	2,009,266	(427,051)
Net change in fund balance				
Fund Balance - beginning				
Fund Balance - ending	\$	\$	\$	\$

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2022

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.

Employee Benefits Fund:

This fund was established to account for the payout of vacation and sick accruals for employee retirements.

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
December 31, 2022

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Employee Benefits Fund	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 342,434	\$ 237,381	\$ 2,313,904	\$ 184,570	\$ 3,078,289
Investments	9,381,500	6,082,100	25,172,300	2,726,400	43,362,300
Accrued interest receivable	43,982	28,530	118,097	14,198	204,807
Accounts receivable			323,367		323,367
Taxes receivable delinquent	6,257	741			6,998
Advances to other funds			4,346,396		4,346,396
Due from other governmental units	3,215	5			3,220
Total Current Assets	<u>9,777,388</u>	<u>6,348,757</u>	<u>32,274,064</u>	<u>2,925,168</u>	<u>51,325,377</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	868,189				868,189
Machinery and equipment	44,893,643	3,494,522			48,388,165
Less: Accumulated depreciation	(31,384,701)	(3,184,719)			(34,569,420)
Total capital assets (net of accumulated depreciation)	<u>14,377,131</u>	<u>309,803</u>			<u>14,686,934</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows from OPEB activity			4,531,902		4,531,902
Total Assets and Deferred Outflows of Resources	<u>24,154,519</u>	<u>6,658,560</u>	<u>36,805,966</u>	<u>2,925,168</u>	<u>70,544,213</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	224,302	125,310	339,198		688,810
Accrued interest payable	22,974				22,974
Deposits payable			2,069		2,069
Unearned revenue			148,937		148,937
Due to other governmental units		2,862	24,872		27,734
Accrued claims			1,791,311		1,791,311
Bonds payable	260,000				260,000
Total Current Liabilities	<u>507,276</u>	<u>128,172</u>	<u>2,306,387</u>		<u>2,941,835</u>
Noncurrent Liabilities:					
Bonds payable	1,435,000				1,435,000
Accrued claims			1,120,101		1,120,101
Post employment benefit obligation			18,937,207		18,937,207
Total Noncurrent Liabilities	<u>1,435,000</u>		<u>20,057,308</u>		<u>21,492,308</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows from OPEB activity			169,872		169,872
Total Liabilities and Deferred Inflows of Resources	<u>1,942,276</u>	<u>128,172</u>	<u>22,533,567</u>		<u>24,604,015</u>
NET POSITION					
Net investment in capital assets	12,682,131	309,803			12,991,934
Unrestricted	9,530,112	6,220,585	14,272,399	2,925,168	32,948,264
Total Net Position	<u>\$ 22,212,243</u>	<u>\$ 6,530,388</u>	<u>\$ 14,272,399</u>	<u>\$ 2,925,168</u>	<u>\$ 45,940,198</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, 2022

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Employee Benefits Fund	Total
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 3,098,900	\$ 2,817,162	\$	\$	\$ 5,916,062
Copy center charges	26,474				26,474
Reinsurance stop loss payments			597,430		597,430
Departmental workers' compensation charges			856,751		856,751
Departmental insurance charges			22,934,420		22,934,420
Departmental flex charges			13,511		13,511
Employee insurance charges			2,328,883		2,328,883
Employee flex benefit contributions			598,226		598,226
Total Operating Revenues	<u>3,125,374</u>	<u>2,817,162</u>	<u>27,329,221</u>		<u>33,271,757</u>
Operating Expenses:					
Copy center	13,716				13,716
Minor equipment		284,731			284,731
Workers' compensation benefits			1,286,686		1,286,686
Workers' compensation insurance premiums			130,312		130,312
Health insurance claims			23,797,263		23,797,263
Flex benefits			641,360		641,360
Property and liability insurance			910,664		910,664
Property and liability claims			135,100		135,100
Computer software and maintenance		1,027,480			1,027,480
Other	10,683	473,002			483,685
Depreciation	2,944,905	221,385			3,166,290
Total Operating Expenses	<u>2,969,304</u>	<u>2,006,598</u>	<u>26,901,385</u>		<u>31,877,287</u>
Operating Income	<u>156,070</u>	<u>810,564</u>	<u>427,836</u>		<u>1,394,470</u>
Nonoperating Revenues (Expenses):					
General property taxes	332,756				332,756
Interest earnings	121,671	79,480	360,288	43,351	604,790
Net decrease in the fair value of investments	(336,200)	(216,900)	(881,900)	(112,600)	(1,547,600)
Interest and fiscal charges	(55,816)				(55,816)
Gain on disposal of property	180,404				180,404
Other income	22,631				22,631
Total Nonoperating Revenues (Expenses)	<u>265,446</u>	<u>(137,420)</u>	<u>(521,612)</u>	<u>(69,249)</u>	<u>(462,835)</u>
Income (Loss) Before Transfers and Capital Contributions	421,516	673,144	(93,776)	(69,249)	931,635
Capital contributions	105,038				105,038
Transfers in			96,289	1,100,000	1,196,289
Transfers out		(278,105)		(222,000)	(500,105)
Change in Net Position	526,554	395,039	2,513	808,751	1,732,857
Total Net Position - beginning	<u>21,685,689</u>	<u>6,135,349</u>	<u>14,269,886</u>	<u>2,116,417</u>	<u>44,207,341</u>
Total Net Position - ending	<u>\$ 22,212,243</u>	<u>\$ 6,530,388</u>	<u>\$ 14,272,399</u>	<u>\$ 2,925,168</u>	<u>\$ 45,940,198</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Employee Benefits Fund	Total
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 3,124,886	\$ 2,836,157	\$ 24,472,584	\$	\$ 30,433,627
Cash received from employees			2,927,109		2,927,109
Cash received from others			277,277		277,277
Cash paid to suppliers	(24,399)	(1,768,841)	(25,952,970)		(27,746,210)
Other income	22,631				22,631
Net Cash Provided By Operating Activities	<u>3,123,118</u>	<u>1,067,316</u>	<u>1,724,000</u>		<u>5,914,434</u>
Cash Flows From Noncapital Financing Activities:					
General property taxes	334,133	24			334,157
Transfers in			96,289	1,100,000	1,196,289
Transfers out		(278,105)		(222,000)	(500,105)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>334,133</u>	<u>(278,081)</u>	<u>96,289</u>	<u>878,000</u>	<u>1,030,341</u>
Cash Flows From Capital and Related Financing Activities:					
Principal payments on bonds	(250,000)				(250,000)
Interest payments on bonds	(59,205)				(59,205)
Proceeds from sale of property	180,404				180,404
Acquisition of capital assets	(2,014,844)	(77,150)			(2,091,994)
Net Cash Used In Capital and Related Financing Activities	<u>(2,143,645)</u>	<u>(77,150)</u>			<u>(2,220,795)</u>
Cash Flows From Investing Activities:					
Investment income	107,491	70,814	332,935	36,537	547,777
Net (increase) decrease in investments	(1,291,600)	(673,000)	(420,300)	(744,400)	(3,129,300)
Net Cash Used In Investing Activities	<u>(1,184,109)</u>	<u>(602,186)</u>	<u>(87,365)</u>	<u>(707,863)</u>	<u>(2,581,523)</u>
Net Increase in Cash and Cash Equivalents	129,497	109,899	1,732,924	170,137	2,142,457
Cash and Cash Equivalents, Beginning of Year	<u>212,937</u>	<u>127,482</u>	<u>580,980</u>	<u>14,433</u>	<u>935,832</u>
Cash and Cash Equivalents, End of Year	<u>\$ 342,434</u>	<u>\$ 237,381</u>	<u>\$ 2,313,904</u>	<u>\$ 184,570</u>	<u>\$ 3,078,289</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2022

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Employee Benefits Fund	Total
Operating Income	\$ 156,070	\$ 810,564	\$ 427,836	\$	\$ 1,394,470
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:					
Depreciation	2,944,905	221,385			3,166,290
Other income	22,631				22,631
(Increase) Decrease In:					
Accounts receivable			(320,153)		(320,153)
Due from other governmental units	(488)	245			(243)
Advances due from other funds			667,902		667,902
Due from other funds		18,750			18,750
Deferred outflows from OPEB activity			(815,020)		(815,020)
Increase (Decrease) In:					
Accounts payable		13,510	48,881		62,391
Deposits payable			876		876
Unearned revenue			(34,760)		(34,760)
Due to other governmental units		2,862	9,646		12,508
Post employment benefit obligation			2,249,949		2,249,949
Deferred inflows from OPEB activity			(42,469)		(42,469)
Accrued claims			(468,688)		(468,688)
 Net Cash Provided by Operating Activities	 \$ 3,123,118	 \$ 1,067,316	 \$ 1,724,000	 \$	 \$ 5,914,434
 Non Cash Transactions:					
Decrease in fair value of investments	\$ (336,200)	\$ (216,900)	\$ (881,900)	\$(112,600)	\$ (1,547,600)
Receipt of contributed property	105,038				105,038
Equipment purchases in accounts payable at year end	224,302	59,299			283,601

(This Page is Left Blank Intentionally)