

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2011

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial-statements based on our audit. The prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated June 22, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2012, on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in the notes to the financial statements, the City of Rochester, Minnesota adopted the provisions of *Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 16, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 assurance.

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

Smith, Schaefer and Associates, Ltd.

Rochester, Minnesota
June 20, 2012

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, 2011, with comparative data for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$1,094,006,655 (*net assets*). Of this amount, \$208,608,389 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net assets increased by \$28,196,460.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$124,371,118, a decrease of \$4,055,517 in comparison with the prior year. Approximately 19 percent of this total amount, or \$23,127,951, 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 \$23,687,802 or approximately 41 percent of total general fund expenditures. This is slightly below the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long term debt obligations by \$9,185,735 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Additional explanation of these sections of the financial statements follows.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

The government-wide financial statements can be found on pages 17-19 of this report.

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

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

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City of Rochester maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided with the *combining statements* on pages 74-83 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 24-25) and the special revenue funds (pages 78-83) to demonstrate compliance with the budget.

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

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

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

The basic proprietary fund financial statements can be found on pages 26-33 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-70 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds, individual nonmajor fund information, and internal service funds can be found on pages 74-88 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$1,094,006,655 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (76 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Rochester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rochester's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 191,426,047	\$ 193,495,482	\$ 116,628,401	\$ 113,886,081	\$ 308,054,448	\$ 307,381,563
Capital assets	549,413,115	526,894,717	553,074,901	558,533,671	1,102,488,016	1,085,428,388
Total assets	<u>740,839,162</u>	<u>720,390,199</u>	<u>669,703,302</u>	<u>672,419,752</u>	<u>1,410,542,464</u>	<u>1,392,809,951</u>
Long-term liabilities						
outstanding	71,828,250	73,184,168	218,745,892	226,575,709	290,574,142	299,759,877
Other liabilities	11,091,404	12,237,494	14,870,263	15,002,385	25,961,667	27,239,879
Total liabilities	<u>82,919,654</u>	<u>85,421,662</u>	<u>233,616,155</u>	<u>241,578,094</u>	<u>316,535,809</u>	<u>326,999,756</u>
Net assets:						
Invested in capital assets,						
net of related debt	489,129,077	465,058,494	338,400,428	339,648,274	827,529,505	804,706,768
Restricted	54,664,399	41,894,443	3,204,362	3,232,791	57,868,761	45,127,234
Unrestricted	114,126,032	128,015,600	94,482,357	87,960,593	208,608,389	215,976,193
Total net assets	<u>\$ 657,919,508</u>	<u>\$ 634,968,537</u>	<u>\$ 436,087,147</u>	<u>\$ 430,841,658</u>	<u>\$ 1,094,006,655</u>	<u>\$ 1,065,810,195</u>

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

An additional portion of the City of Rochester's net assets (5.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$208,608,389) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental activities. Governmental activities increased the City of Rochester's net assets by \$22,950,971. Much of this increase can be attributable to the capital grants and contributions (primarily street contributions and transit capital grants). Additional net asset growth resulted from operational savings through the delayed hiring of budgeted positions and other operating expenditure restrictions to address uncertain State funding during the year.

Business-type activities. Business-type activities increased the City of Rochester's net assets by \$5,245,489. Operations in the City's electric, water, parking and storm water utilities contributed the majority of the increase which was offset somewhat by a loss after non-cash depreciation in the City's sewer utility. The City's electric utility contributed by far the largest increase in net assets at \$4.9 million resulting primarily from the decreased operating expenses and increased retail power sales.

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

A condensed version of the Statement of Activities follows:

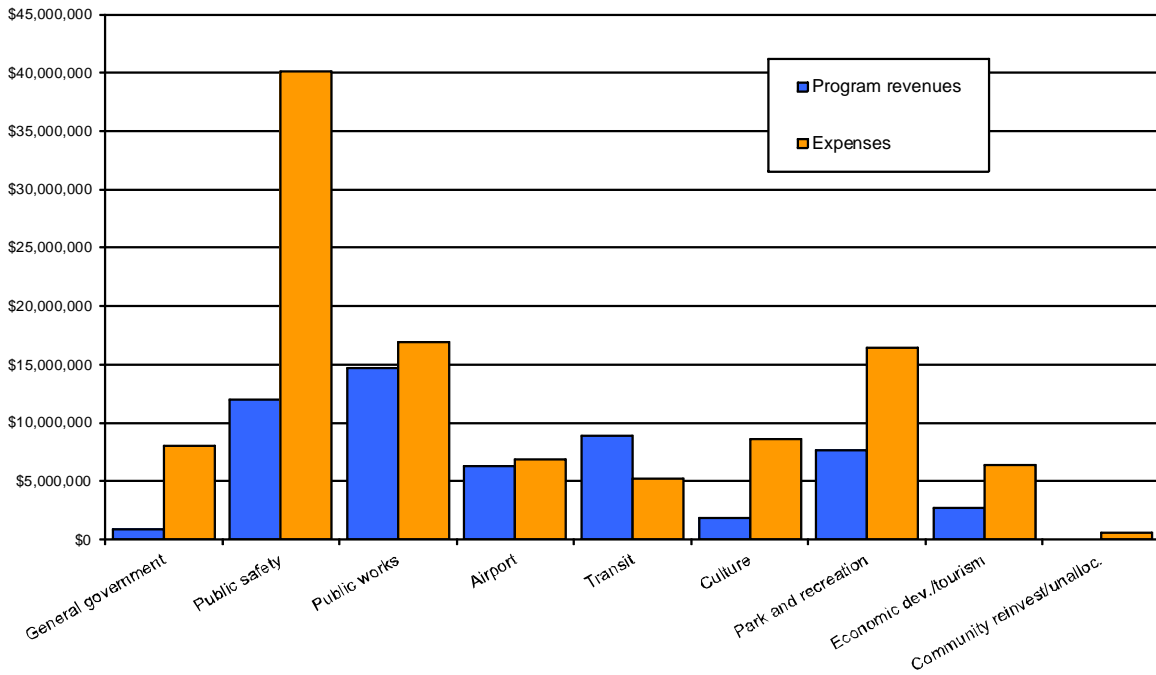
City of Rochester's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue:						
Program revenues:						
Charges for services	\$ 18,503,561	\$ 16,294,387	\$ 179,244,267	\$ 177,226,760	\$ 197,747,828	\$ 193,521,147
Operating grants and contributions	9,038,414	12,179,932			9,038,414	12,179,932
Capital grants and contributions	27,302,175	30,373,195	1,701,524	6,540,059	29,003,699	36,913,254
General revenues:						
Property taxes	43,323,671	41,711,795			43,323,671	41,711,795
Other taxes	16,715,805	16,122,797			16,715,805	16,122,797
Grants and contributions not restricted to specific programs	4,363,964	5,489,944	58,226	80,746	4,422,190	5,570,690
Other	4,955,107	3,394,585	1,115,528	1,297,117	6,070,635	4,691,702
Total revenues	<u>124,202,697</u>	<u>125,566,635</u>	<u>182,119,545</u>	<u>185,144,682</u>	<u>306,322,242</u>	<u>310,711,317</u>
Expenses:						
General government	8,007,217	7,689,602			8,007,217	7,689,602
Public safety	40,121,082	38,566,296			40,121,082	38,566,296
Public works	16,928,415	24,596,491			16,928,415	24,596,491
Airport	6,835,339	6,881,982			6,835,339	6,881,982
Transit	5,264,547	4,885,878			5,264,547	4,885,878
Culture	8,588,954	8,045,420			8,588,954	8,045,420
Park and recreation	16,444,476	15,952,230			16,444,476	15,952,230
Economic development/tourism	6,386,889	13,054,890			6,386,889	13,054,890
Community reinvestment/unallocated	558,095	599,580			558,095	599,580
Interest on long-term debt	2,653,978	1,824,346			2,653,978	1,824,346
Parking			4,058,355	4,100,101	4,058,355	4,100,101
Electric			129,122,438	131,769,006	129,122,438	131,769,006
Water			8,063,227	7,242,501	8,063,227	7,242,501
Sewer			22,097,030	21,766,488	22,097,030	21,766,488
Storm water			2,995,740	2,982,478	2,995,740	2,982,478
Total expenses	<u>111,788,992</u>	<u>122,096,715</u>	<u>166,336,790</u>	<u>167,860,574</u>	<u>278,125,782</u>	<u>289,957,289</u>
Increase in net assets before transfers	12,413,705	3,469,920	15,782,755	17,284,108	28,196,460	20,754,028
Transfers	10,537,266	3,251,868	(10,537,266)	(3,251,868)		
Increase in net assets	22,950,971	6,721,788	5,245,489	14,032,240	28,196,460	20,754,028
Net assets, beginning of year	634,968,537	628,246,749	430,841,658	416,809,418	1,065,810,195	1,045,056,167
Net assets, end of year	<u>\$ 657,919,508</u>	<u>\$ 634,968,537</u>	<u>\$ 436,087,147</u>	<u>\$ 430,841,658</u>	<u>\$ 1,094,006,655</u>	<u>\$ 1,065,810,195</u>

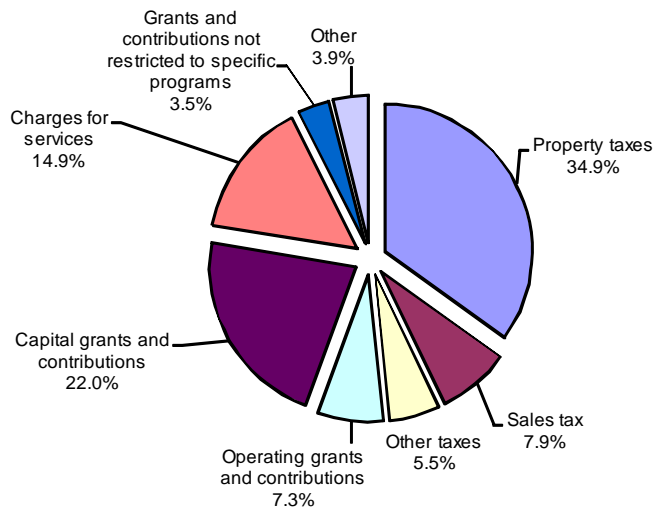
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



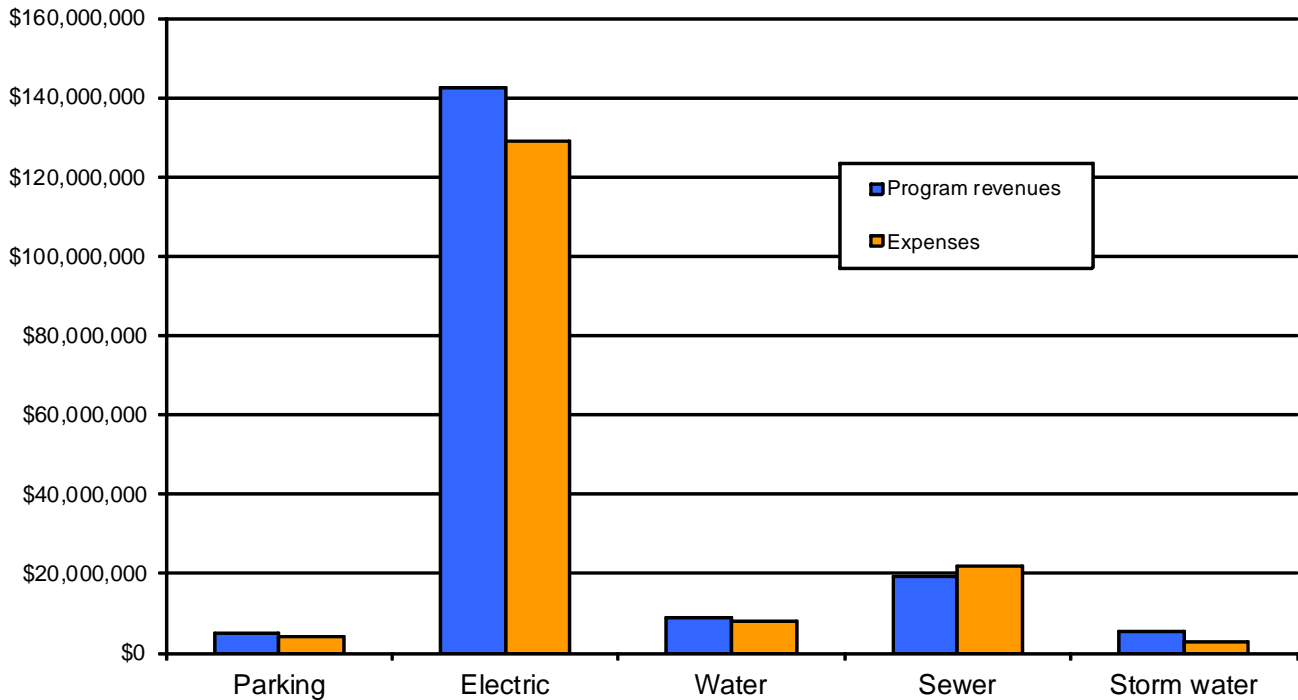
Revenues by Source - Governmental Activities



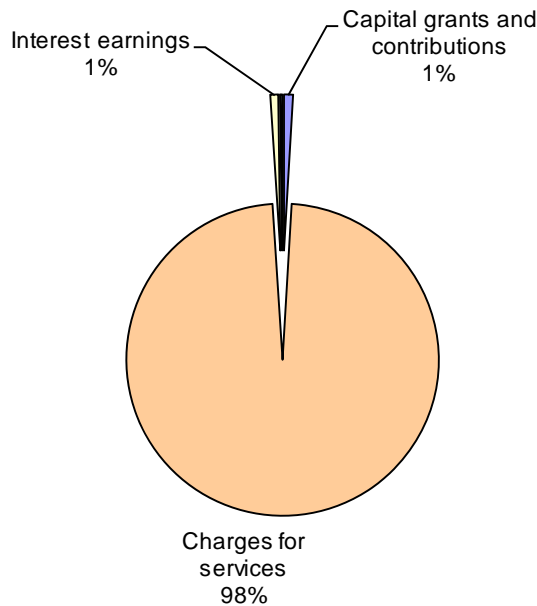
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions, implemented this year have redefined the fund balance classifications. Fund balance is now classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that 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 – reports resources that have external constraints placed upon their use.

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

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

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the 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 \$124,371,118, a decrease of \$4,055,517 from the prior year. The general fund increased fund balance by nearly \$1.1 million; however, this was offset by the decline in the construction improvement fund of \$5.3 million. The decrease in the construction improvement fund was the result of spend-down of bond proceeds on the Public Works and Transit Operations Building. Approximately 19 percent of the total fund balance, or \$23,127,951, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$246,841 is considered to be Nonspendable (prepaid or inventory), \$50,981,508 has been Restricted by grantors, donors, debt covenants, or regulation, \$43,894,506 has been Committed by Council action for CIP projects, and \$6,120,312 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

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

Governmental funds (continued).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$1,094,289 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$23,127,951 while total fund balance amounted to \$23,933,747. 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 40 percent of total general fund expenditures, while total fund balance represents 41.45 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 41.6 percent. This target has been difficult to maintain in the face of continued, unplanned cuts from the State.

The library fund increased its fund balance by \$204,306 for the year after transferring \$22,446 to the capital projects fund for future equipment purchases. Much of this gain was the result of contributions and fund raising. The municipal recreation fund increased its fund balance by \$54,341 as a net gain in the parks budget of \$239,000 more than offset losses in the Mayo Civic Center and golf operations. The airport fund decreased its total fund balance by \$611,915 for the year to \$3,218,374. This decline was the result of slightly lower than anticipated landing charges as well as slightly higher expenses coupled with a transfer of \$486,952 to capital projects. The transit fund saw an increase in fund balance of \$392,162 due to increased State funding and increased ridership revenue. Minnesota Bio Science Center fund increased fund balance by \$37,640 due to operations of the Bio Business Center.

Debt service fund balances increased by \$69,568 this year reflecting the use of reserves held for payments on the Energy Improvement Loan as well as reserves for payment on the new Bioscience Building bonds.

The construction improvement fund decreased fund balance by \$5,304,410 as bond proceeds and federal transit construction dollars received in 2010 were used to fund the public works and transit operations center project.

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

The unrestricted net assets in the respective proprietary funds are Parking - \$13,766,706 Electric - \$47,342,761, Water - \$5,849,272, Sewer - \$20,950,110 and Storm water - \$2,678,223. With the exception of the Sewer Utility, all proprietary funds reported increases in total net assets for the year.

The Sewer Utility reported a \$3.6 million reduction in net assets for the year as revenues improved from prior year, but still fell short of plan due to lower than expected sewer flows. The Sewer Utility's rates were increased 8.5 percent effective January of 2011 based upon an update to the 2005 rate study which was completed at the end of 2009. The city council adopted a new six-year schedule of rate adjustments through 2015. In addition, the "plant investment fee" instituted in 2005 was increased from \$2,600 in 2010 to \$2,700 in 2011 and is scheduled to increase \$100 per year to \$3,000 by 2015. The schedule of rate increases was necessary as sewer flows were below plan. Housing starts were also down and continued water usage efficiency gains reduce sewer usage beyond our earlier expectations.

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

Proprietary funds (continued).

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

The Electric Utility rates were held flat in 2011 due to cost reduction measures implemented beginning in 2009 as the Board's sentiment reflected the local economy. No rate increase is anticipated in this utility for 2012; however, as the utility looks to 2013, some increase in line with inflation is expected as we plan for the impact of our share of costs for a new transmission line.

The Parking Enterprise growth in net assets was largely due to increased parking revenues and lower operating expenses. Parking rates were increased in 2011 reflecting a seven-year rate plan adopted in 2008. The plan calls for rate increases every other year such that the second phase of increases was implemented in 2011 with metered rates increasing between 5 to 20 cents per hour depending upon duration. Lots designated for "all day" parking were increased from \$1.75 to \$2.25 per hour and the hourly metered rates increased 50 cents per hour. The 24-hour public rate in parking ramps will increase from \$12.00 to \$12.50 while the monthly contract rates went up by \$5.00 per month. In following the rate plan, no increase is anticipated for 2012.

The Storm Water Utility rates were increased by 3% in 2011 following the rate structure approved by council for years 2008 through 2011. In addition, the customer charge was increased from \$2.50/parcel/month to \$3.00. Council reviewed this utility in 2011 and voted not to increase rates for 2012, reflecting the general economy.

General Fund Budgetary Highlights

The City approved the 2011 general fund budget anticipating a "balanced budget" or slight decrease in fund balance.

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

- Decrease in property tax and offsetting increase in intergovernmental revenue once the market value credit amount was determined.
- Decrease in intergovernmental revenue back to its original amount once the legislative session concluded eliminating the City's expected market value credit payment from the State.
- Decrease in Police expenditures and Contingency amount to offset decrease in State funding.
- Increase in the City Attorney's budget to address unplanned expenditures for legal consultants.
- Reductions in unallocated contingency account to offset increases in city attorney and other smaller unplanned costs.

At the close of the year, general fund total expenditures were \$2,203,054 below final budget while actual revenues were above final budget by \$156,817. Much of the lower expenses can be traced to greater engineering design charge-backs to project accounts, savings in public safety and building safety budgets due to a delay in hiring of approved positions and remaining amounts in the contingency budget. Revenues exceeded budget expectations in the intergovernmental revenue due to additional State direct police and fire aid, charges for services in the public works area, and miscellaneous reimbursements of insurance settlements. Those areas over budget were in city hall maintenance, due to higher than expected utility expenses and the flood control budget due to needed maintenance following the 2010 storm event.

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

Capital Asset and Debt Administration

Capital assets. The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to \$1,102,488,016 (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 \$17,059,628, or 1.5 percent. This increase is due to the governmental type activities increase in capital assets of approximately \$22.5 million in 2011. On the governmental side, the Public Works Operation Center construction was nearing phase four completion while significant street network additions also occurred. Within the business-type activities the most significant increases occurred with the expansion of underground mains as well as new distribution and transmission facilities in the electric utility but was offset by current year depreciation on all business type activity assets.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$ 64,025,919	\$ 60,110,132	\$ 13,600,708	\$ 13,020,467	\$ 77,626,627	\$ 73,130,599
Buildings	103,175,663	103,059,619	263,537,240	252,709,083	366,712,903	355,768,702
Improvements other than buildings	29,640,905	30,372,518			29,640,905	30,372,518
Machinery and equipment	22,605,566	23,236,508	259,057,406	253,699,584	281,662,972	276,936,092
Infrastructure	249,485,985	249,696,349			249,485,985	249,696,349
Construction in progress	80,479,077	60,419,591	16,879,547	39,104,537	97,358,624	99,524,128
Total	\$ 549,413,115	\$ 526,894,717	\$ 553,074,901	\$ 558,533,671	\$ 1,102,488,016	\$ 1,085,428,388

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

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$270,900,158 in bonds and notes outstanding. Of this amount, \$165,063,023 comprises debt backed by the full faith and credit of the government, \$102,231,928 represents bonds and notes secured solely by specified revenue sources, \$3,592,702 represents an energy loan payable through savings in costs from energy improvements, and \$12,505 represents a lease of equipment payable from revenues derived from the operation of the Electric Utility Enterprise Fund. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds, Notes Payable and Capital Lease

	Governmental		Business-Type		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 9,586,023	\$ 9,841,721	\$	\$	\$ 9,586,023	\$ 9,841,721
General obligation revenue bonds			124,405,000	128,010,000	124,405,000	128,010,000
General obligation revenue notes	3,707,000	3,928,000			3,707,000	3,928,000
General obligation equipment certificates of indebtedness	665,000	740,000			665,000	740,000
General obligation taxable						
Build America bonds	26,700,000	26,700,000			26,700,000	26,700,000
Revenue bonds	15,810,000	16,215,000	79,770,000	81,685,000	95,580,000	97,900,000
Notes payable	141,928	189,852	6,510,000	8,415,000	6,651,928	8,604,852
Energy loan payable	3,592,702	4,027,602			3,592,702	4,027,602
MN DEED BioScience cleanup loan payable		108,439				108,439
Capital Lease			12,505	16,867	12,505	16,867
Total	\$ 60,202,653	\$ 61,750,614	\$ 210,697,505	\$ 218,126,867	\$ 270,900,158	\$ 279,877,481

The City of Rochester's total bonds and notes payable decreased by \$8,977,323 during the current fiscal year.

No additional debt was issued by the City in 2011.

In December of 2011, the sewer utility made an optional payment of \$900,000 on its variable rate sewer bond series 2007B.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 56.

The City of Rochester maintains a AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has Aa2 rating from Moody's Investors Service and an AA- rating from Fitch, reflecting the utility's strong financial performance, good liquidity, and diminishing threat of retail regulation.

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

Economic Factors and Next Year's Budgets and Rates

- Rochester's unemployment rate decreased to 5.6 percent by the end of March 2012, down from 6.1 percent one year ago. While still higher than Rochester's historical average, it remains below the state and U.S. averages of 6.5 and 8.4 percent respectively. Total employment over the last 12 months ending March of 2011 has shown a small decrease of jobs of 0.7% or 1,102 jobs. All of this was in the service sector, primarily in the retail segment as the good producing sector actually increased jobs by 404 for the year.
- Commercial and residential building permits for the first quarter of 2012 totaled \$93.3 million, up 245 percent over the same period in 2011 and 115 percent higher than in 2010. Two new projects by the Mayo foundation accounted for much of the increase. Mayo's Data Center and the Jacobson Building values were \$33.7 million and \$17.8 million respectively.
- The establishment of a University of Minnesota presence in the downtown is providing impetus for new development activity and service demands in this area.
- Mayo Foundation's capital plans including expansion of the Saint Mary's Hospital, the construction of a new \$180 million proton beam cancer treatment center in downtown Rochester, and a new data center in northwest Rochester continue to provide impetus for new jobs and expansion in the City.
- Interest rates have remained at historical lows in 2010 and 2011, making future earnings of the City's investment portfolio difficult to maintain at current levels.

All of these factors were considered in preparing the City of Rochester's budget for the 2012 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources. The City's tax levy was increased for pay 2012 in expectation that state aid will remain flat while the City continues its growth trends and resulting demands for service.

Requests for Information

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

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2011

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2011
With Comparative Totals as of December 31, 2010

	Governmental Activities	Business-Type Activities	Totals	
			2011	2010
ASSETS				
Cash and cash equivalents	\$ 16,378,681	\$ 9,855,651	\$ 26,234,332	\$ 29,761,277
Investments	144,908,487	73,683,620	218,592,107	212,029,603
Land held for resale	1,400,000		1,400,000	650,000
Receivables (net of allowance for uncollectibles)	24,092,231	8,874,626	32,966,857	30,927,872
Internal balances	(3,314,716)	3,314,716		
Due from other governmental units	7,244,359	32,228	7,276,587	8,513,658
Accrued utility revenues		4,867,158	4,867,158	3,883,101
Restricted and reserved cash and investments	34,461	7,367,562	7,402,023	11,132,624
Inventory	233,523	7,654,527	7,888,050	8,238,284
Prepaid items	13,320	80,048	93,368	97,646
Deferred charges and other assets	435,701	898,265	1,333,966	2,147,498
Capital assets:				
Nondepreciable	144,504,996	30,480,255	174,985,251	172,654,726
Depreciable, net	404,908,119	522,594,646	927,502,765	912,773,662
Total Assets	<u>740,839,162</u>	<u>669,703,302</u>	<u>1,410,542,464</u>	<u>1,392,809,951</u>
LIABILITIES				
Accounts and contracts payable	4,341,131	9,426,798	13,767,929	14,999,781
Deposits payable	1,117,199	774,748	1,891,947	2,105,673
Accrued interest payable	1,051,611	2,042,080	3,093,691	2,895,452
Accrued compensation and payroll taxes	2,343,078	826,593	3,169,671	3,252,696
Accrued claims	1,823,739	35,000	1,858,739	1,627,586
Due to other governmental units	414,646	578,958	993,604	1,005,563
Unearned revenue		1,186,086	1,186,086	1,353,128
Noncurrent liabilities:				
Due within one year	7,127,662	7,985,331	15,112,993	15,490,323
Due in more than one year	64,700,588	210,760,561	275,461,149	284,269,554
Total Liabilities	<u>82,919,654</u>	<u>233,616,155</u>	<u>316,535,809</u>	<u>326,999,756</u>
NET ASSETS				
Invested in capital assets, net of related debt	489,129,077	338,400,428	827,529,505	804,706,768
Restricted for:				
Airport	3,218,374		3,218,374	3,830,289
CDBG loans	3,682,891		3,682,891	3,462,663
Economic development loan	254,856		254,856	254,856
Civic music endowment	34,461		34,461	35,060
Park and recreation	98,656		98,656	98,086
Debt service	627,491	3,204,362	3,831,853	3,790,714
Childrens playgrounds	662,803		662,803	654,301
Flood control	22,901,086		22,901,086	23,075,717
Tax increment financing	1,680,321		1,680,321	1,035,772
Sales tax authorized projects	21,503,460		21,503,460	11,490,714
Unrestricted	114,126,032	94,482,357	208,608,389	213,375,255
Total Net Assets	<u>\$ 657,919,508</u>	<u>\$ 436,087,147</u>	<u>\$ 1,094,006,655</u>	<u>\$ 1,065,810,195</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 8,007,217	\$ 540,045	\$ 20,820	\$ 291,433
Public safety	40,121,082	4,820,088	1,861,194	5,280,370
Public works	16,928,415	276,631	287,564	14,110,543
Airport	6,835,339	2,901,820	1,168,963	2,254,074
Transit	5,264,547	672,682	3,975,681	4,251,478
Culture	8,588,954	378,587	1,455,971	
Park and recreation	16,444,476	6,855,382	253,380	510,519
Economic development/tourism	6,386,889	2,058,326	14,841	603,758
Community reinvestment/unallocated	558,095			
Interest on long-term debt	2,653,978			
Total governmental activities	<u>111,788,992</u>	<u>18,503,561</u>	<u>9,038,414</u>	<u>27,302,175</u>
Business-Type activities:				
Parking	4,058,355	5,146,359		
Electric utility	129,122,438	142,412,918		
Water utility	8,063,227	8,320,952		374,694
Sewer utility	22,097,030	18,381,793		1,045,470
Storm water utility	2,995,740	4,982,245		281,360
Total business-type activities	<u>166,336,790</u>	<u>179,244,267</u>		<u>1,701,524</u>
Total	<u>\$ 278,125,782</u>	<u>\$ 197,747,828</u>	<u>\$ 9,038,414</u>	<u>\$ 29,003,699</u>
General revenues:				
General property taxes				
Tax increments collection				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Interest earnings				
Gain on disposition of property				
Net increase (decrease) in the fair value of investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2011	2010
\$ (7,154,919)		\$ (7,154,919)	\$ (7,161,850)
(28,159,430)		(28,159,430)	(31,643,075)
(2,253,677)		(2,253,677)	(6,434,133)
(510,482)		(510,482)	546,673
3,635,294		3,635,294	6,305,859
(6,754,396)		(6,754,396)	(6,255,212)
(8,825,195)		(8,825,195)	(6,761,982)
(3,709,964)		(3,709,964)	(9,421,555)
(558,095)		(558,095)	(599,580)
(2,653,978)		(2,653,978)	(1,824,346)
<u>(56,944,842)</u>		<u>(56,944,842)</u>	<u>(63,249,201)</u>
	\$ 1,088,004	1,088,004	663,292
	13,290,480	13,290,480	10,999,450
	632,419	632,419	3,214,883
	(2,669,767)	(2,669,767)	(1,102,602)
	<u>2,267,865</u>	<u>2,267,865</u>	<u>2,131,222</u>
	14,609,001	14,609,001	15,906,245
<u>(56,944,842)</u>	<u>14,609,001</u>	<u>(42,335,841)</u>	<u>(47,342,956)</u>
43,323,671		43,323,671	41,711,795
1,952,314		1,952,314	1,943,050
9,840,169		9,840,169	9,346,574
4,923,322		4,923,322	4,833,173
4,363,964	58,226	4,422,190	5,570,690
3,978,207	1,496,480	5,474,687	5,939,369
51,813		51,813	61,681
(816,364)	(175,200)	(991,564)	(1,685,472)
1,741,451	(205,752)	1,535,699	376,124
<u>10,537,266</u>	<u>(10,537,266)</u>		
<u>79,895,813</u>	<u>(9,363,512)</u>	<u>70,532,301</u>	<u>68,096,984</u>
22,950,971	5,245,489	28,196,460	20,754,028
<u>634,968,537</u>	<u>430,841,658</u>	<u>1,065,810,195</u>	<u>1,045,056,167</u>
<u>\$ 657,919,508</u>	<u>\$ 436,087,147</u>	<u>\$ 1,094,006,655</u>	<u>\$ 1,065,810,195</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2011

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2011

With Comparative Totals as of December 31, 2010

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2011	2010
ASSETS					
Cash and cash equivalents	\$ 1,152,739	\$ 10,633,491	\$ 1,454,147	\$ 13,240,377	\$ 18,447,615
Investments	23,537,164	74,913,123	8,462,700	106,912,987	106,158,740
Land held for resale		1,400,000		1,400,000	650,000
Accrued interest receivable	289,982	266,511	30,743	587,236	939,735
Accounts receivable (net of allowance for uncollectibles)	496,800	485,595	1,345,041	2,327,436	2,641,742
Loans receivable		2,204,484	3,682,891	5,887,375	6,128,350
Taxes receivable delinquent	648,800	59,963	241,419	950,182	1,052,642
Special assessments receivable:					
Deferred		13,893,054		13,893,054	11,640,870
Delinquent	1,701	216,591	1,725	220,017	242,399
Utility connection charges receivable:					
Deferred		76,469		76,469	145,472
Due from other funds	791,324	419,027	27,225	1,237,576	1,700,529
Due from other governmental units	1,357,372	5,458,385	424,960	7,240,717	8,424,314
Advances to other funds					242,693
Prepaid items	8,617		4,702	13,319	27,251
Restricted cash and investments	34,461			34,461	35,060
Inventory	202,867		30,655	233,522	140,272
TOTAL ASSETS	\$ 28,521,827	\$ 110,026,693	\$ 15,706,208	\$ 154,254,728	\$ 158,617,684
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 727,387	\$ 2,999,251	\$ 585,750	\$ 4,312,388	\$ 5,504,589
Deposits payable	665,114	4,300	351,013	1,020,427	1,253,047
Accrued compensation and payroll taxes	1,903,311		429,995	2,333,306	2,397,988
Due to other funds	466,658	37,996	152,353	657,007	988,299
Due to other governmental units	175,109	62,028	156,575	393,712	455,029
Advances from other funds					242,693
Deferred revenue	650,501	16,590,233	3,926,036	21,166,770	19,349,404
Total Liabilities	<u>4,588,080</u>	<u>19,693,808</u>	<u>5,601,722</u>	<u>29,883,610</u>	<u>30,191,049</u>
Fund Balance:					
Nonspendable	211,484		35,357	246,841	410,216
Restricted	34,461	46,438,379	4,508,668	50,981,508	53,143,839
Committed		43,894,506		43,894,506	47,328,336
Assigned	559,851		5,560,461	6,120,312	5,516,302
Unassigned	23,127,951			23,127,951	22,027,942
Total Fund Balance	<u>23,933,747</u>	<u>90,332,885</u>	<u>10,104,486</u>	<u>124,371,118</u>	<u>128,426,635</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 28,521,827	\$ 110,026,693	\$ 15,706,208	\$ 154,254,728	\$ 158,617,684

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

December 31, 2011

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

Total governmental fund balances (page 20)		\$ 124,371,118
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 765,954,418	
Less: Accumulated depreciation	<u>(226,630,683)</u>	539,323,735
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 1,170,199	
Deferred special assessments and utility connection agreements	13,969,523	
Deferred charges	435,701	
Loans receivable	<u>6,027,047</u>	21,602,470
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		42,291,148
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (59,112,653)	
Compensated absences	(9,435,807)	
Accrued interest	(1,039,118)	
Unamortized bond premium	<u>(81,385)</u>	<u>(69,668,963)</u>
Net assets of governmental activities (page 17)		<u>\$ 657,919,508</u>

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

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2011	2010
REVENUES					
General property taxes	\$ 31,386,427	\$ 995,215	\$ 10,889,539	\$ 43,271,181	\$ 41,574,807
Tax increments collection		1,196,169	755,233	1,951,402	1,943,050
Sales tax		9,412,153	428,016	9,840,169	9,346,574
Special assessments		1,920,163		1,920,163	1,645,097
Utility connection and availability		609,934		609,934	825,430
Nonproperty taxes	4,923,322			4,923,322	4,833,173
Licenses and permits	2,420,015			2,420,015	2,379,733
Fines and forfeits	547,800			547,800	527,450
Intergovernmental revenues	5,282,063	20,076,091	6,121,871	31,480,025	37,041,345
Charges for services	2,887,660	412,718	9,285,493	12,585,871	12,530,294
Contributions in aid of construction					593,748
Interest earnings	347,527	2,632,912	227,818	3,208,257	3,173,913
Net increase (decrease) in the fair value of investments	(128,364)	(446,200)	(40,100)	(614,664)	(924,764)
Miscellaneous revenues	518,532	2,999,811	3,407,090	6,925,433	5,959,732
Total Revenues	48,184,982	39,808,966	31,074,960	119,068,908	121,449,582
EXPENDITURES					
Current:					
General government	7,189,932			7,189,932	7,049,164
Public safety	37,089,349		31,488	37,120,837	35,865,215
Public works	9,800,681			9,800,681	10,253,529
Airport operations			3,192,782	3,192,782	3,116,769
Transit			4,427,520	4,427,520	4,216,924
Culture	1,242,102		6,036,473	7,278,575	7,238,432
Park and recreation			12,495,382	12,495,382	12,341,947
Economic development/tourism	1,861,825		1,454,340	3,316,165	3,262,793
Community reinvestment and unallocated	558,095			558,095	470,731
Debt service			3,850,525	3,850,525	3,370,947
Capital outlay		45,390,342		45,390,342	55,413,183
Total Expenditures	57,741,984	45,390,342	31,488,510	134,620,836	142,599,634
Excess (deficiency) of revenues over (under) expenditures	(9,557,002)	(5,581,376)	(413,550)	(15,551,928)	(21,150,052)
OTHER FINANCING SOURCES (USES)					
Issuance of debt					26,383,439
Premium on issuance of debt					85,609
Transfers in	11,355,147	1,848,612	2,441,041	15,644,800	16,710,433
Transfers out	(703,856)	(1,571,646)	(1,872,887)	(4,148,389)	(4,385,956)
Total other financing sources (uses)	10,651,291	276,966	568,154	11,496,411	38,793,525
Net change in fund balances	1,094,289	(5,304,410)	154,604	(4,055,517)	17,643,473
Fund Balance - beginning	22,839,458	95,637,295	9,949,882	128,426,635	110,783,162
Fund Balance - ending	\$ 23,933,747	\$ 90,332,885	\$ 10,104,486	\$ 124,371,118	\$ 128,426,635

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, 2011

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

Net change in fund balances - total governmental funds (page 22)	\$ (4,055,517)
Governmental funds reported capital outlays as expenditures.	
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay-construction improvement	\$ 45,390,342
Capital outlay-other governmental funds	727,107
Depreciation expense	<u>(16,811,276)</u>
	29,306,173
Infrastructure contributed from governmental activities to business-type activities reduces governmental net assets but does not effect fund balance.	(915,330)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(5,892,625)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Deferred revenue, December 31, 2011	\$ 21,166,770
Deferred revenue, December 31, 2010	<u>(19,349,404)</u>
	1,817,366
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences, December 31, 2011	\$ (9,435,807)
Compensated absences, December 31, 2010	<u>9,692,888</u>
	257,081
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal retirement on long-term debt	\$ 1,472,961
Amortization of bond premium and issuance costs	(17,185)
Change in accrued interest	<u>(230,412)</u>
	1,225,364
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities	<u>1,208,459</u>
Change in net assets of governmental activities (pages 18 and 19)	<u>\$ 22,950,971</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, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 33,173,290	\$ 31,506,306	\$ 31,386,427	\$ (119,879)	\$ 27,510,229
Nonproperty taxes	4,795,000	4,835,435	4,923,322	87,887	4,833,173
Licenses and permits	2,443,828	2,443,828	2,420,015	(23,813)	2,379,733
Fines and forfeits	561,500	642,111	547,800	(94,311)	527,450
Intergovernmental	4,226,104	5,084,936	5,282,063	197,127	7,208,073
Charges for services	2,661,431	2,834,470	2,887,660	53,190	2,769,488
Interest earnings	493,625	493,741	347,527	(146,214)	409,556
Net increase (decrease) in the fair value of investments			(128,364)	(128,364)	(118,464)
Miscellaneous	176,226	187,338	518,532	331,194	346,074
Total Revenues	48,531,004	48,028,165	48,184,982	156,817	45,865,312
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	751,867	789,667	691,515	98,152	744,426
City Administrator	610,121	606,294	599,394	6,900	582,866
Development District Administration	157,889	156,957	151,205	5,752	149,093
City Clerk	367,387	364,460	344,212	20,248	319,086
Elections and Voter Registration	22,882	22,882	21,950	932	109,295
Finance Department	1,307,218	1,298,089	1,225,034	73,055	1,218,963
Information Systems	1,217,279	1,252,259	1,224,388	27,871	1,113,286
City Attorney	1,302,012	1,402,289	1,374,802	27,487	1,306,502
Human Resources	1,107,664	1,102,295	1,036,060	66,235	1,003,276
Planning and Zoning	15,350	15,350	12,098	3,252	18,099
City Hall Maintenance	457,015	480,143	509,274	(29,131)	484,272
Total General Government	7,316,684	7,490,685	7,189,932	300,753	7,049,164
Public Safety:					
Police Department	21,036,257	20,709,806	20,153,491	556,315	19,149,008
Fire Department	13,188,889	13,147,601	13,121,427	26,174	12,592,353
Fire Hazmat Response Team	22,500	69,830	74,004	(4,174)	102,725
Building Safety	2,858,040	2,838,560	2,624,777	213,783	2,703,165
Animal Control	323,378	322,059	318,666	3,393	291,807
Drug Enforcement Administration		157,881	61,415	96,466	34,136
Flood Control	471,422	470,714	575,550	(104,836)	489,522
Emergency Mgmt/Safety Council	262,480	199,180	160,019	39,161	285,168
Total Public Safety	38,162,966	37,915,631	37,089,349	826,282	35,647,884

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, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,532,591	\$ 2,514,935	\$ 2,011,682	\$ 503,253	\$ 1,954,311
PWTOC Building/Site Operations			39,484	(39,484)	
Traffic Engineer	1,130,487	1,132,590	1,135,579	(2,989)	1,051,380
Street and Alley	5,366,684	5,409,945	5,330,278	79,667	5,956,083
City Lighting	1,346,600	1,346,600	1,283,658	62,942	1,291,755
Total Public Works	<u>10,376,362</u>	<u>10,404,070</u>	<u>9,800,681</u>	<u>603,389</u>	<u>10,253,529</u>
Culture:					
Art Center/Theatre	293,150	293,150	293,141	9	293,143
Music Department	904,864	1,099,466	948,961	150,505	866,244
Total Culture	<u>1,198,014</u>	<u>1,392,616</u>	<u>1,242,102</u>	<u>150,514</u>	<u>1,159,387</u>
Economic Development/Tourism	<u>1,791,000</u>	<u>1,896,435</u>	<u>1,861,825</u>	<u>34,610</u>	<u>1,795,194</u>
Community Reinvestment and Unallocated	<u>1,532,166</u>	<u>845,601</u>	<u>558,095</u>	<u>287,506</u>	<u>470,731</u>
Total Expenditures	<u>60,377,192</u>	<u>59,945,038</u>	<u>57,741,984</u>	<u>2,203,054</u>	<u>56,375,889</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,846,188)</u>	<u>(11,916,873)</u>	<u>(9,557,002)</u>	<u>2,359,871</u>	<u>(10,510,577)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	11,385,105	11,384,397	11,355,147	(29,250)	11,188,291
Transfers out	(302,993)	(839,672)	(703,856)	135,816	(374,907)
Total other financing sources (uses)	<u>11,082,112</u>	<u>10,544,725</u>	<u>10,651,291</u>	<u>106,566</u>	<u>10,813,384</u>
Net change in fund balances	<u>(764,076)</u>	<u>(1,372,148)</u>	<u>1,094,289</u>	<u>2,466,437</u>	<u>302,807</u>
Fund Balance - beginning	<u>22,839,458</u>	<u>22,839,458</u>	<u>22,839,458</u>		<u>22,536,651</u>
Fund Balance - ending	<u><u>\$22,075,382</u></u>	<u><u>\$21,467,310</u></u>	<u><u>\$23,933,747</u></u>	<u><u>\$ 2,466,437</u></u>	<u><u>\$22,839,458</u></u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2011
With Comparative Totals as of December 31, 2010

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,017,002	\$ 6,086,428	\$ 935,603
Investments	8,931,617	36,434,249	5,600,654
Accrued interest receivable	46,397	4,305	
Accounts receivable	148,177	8,091,272	418,504
Accrued utility revenues		4,717,103	150,055
Taxes receivable delinquent			
Inventory, material, supplies and fuel		7,497,640	138,135
Due from other funds			
Due from other governmental units	28,871		
Prepaid items		80,048	
Restricted and reserved cash	3,839,983	2,504,517	
Total Current Assets	14,012,047	65,415,562	7,242,951
Noncurrent Assets:			
Capital assets:			
Nondepreciable	7,335,664	11,220,143	2,724,148
Depreciable	36,859,508	304,409,207	118,688,166
Less: Accumulated depreciation	(17,891,955)	(126,157,481)	(34,441,913)
Net capital assets	26,303,217	189,471,869	86,970,401
Deferred charges and other assets		618,916	
Total Noncurrent Assets	26,303,217	190,090,785	86,970,401
Total Assets	40,315,264	255,506,347	94,213,352
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	20,864	8,851,091	221,869
Deposits payable	32,218	517,300	6,620
Accrued interest payable		303,007	
Accrued compensation and payroll taxes	13,562	606,225	70,717
Accrued compensated absences	34,839	1,393,848	189,527
Due to other funds	271	1,975,172	484,941
Due to other governmental units	88,810	474,035	9,090
Accrued claims			
Unearned revenue			241,362
Bonds and capital lease payable		4,029,714	
Total Current Liabilities	190,564	18,150,392	1,224,126
Noncurrent Liabilities:			
Bonds payable		80,739,629	
Unamortized bond premium		2,110,093	
Bonds payable, net		82,849,722	
Obligation under capital lease		7,792	
Accrued compensated absences	54,777	1,366,147	169,553
Accrued claims		35,000	
Post employment benefit obligation			
Unearned lease revenues		665,375	
Total Noncurrent Liabilities	54,777	84,924,036	169,553
Total Liabilities	245,341	103,074,428	1,393,679
NET ASSETS			
Invested in capital assets, net of related debt	26,303,217	102,584,641	86,970,401
Restricted for debt service		2,504,517	
Unrestricted	13,766,706	47,342,761	5,849,272
Total Net Assets	\$ 40,069,923	\$ 152,431,919	\$ 92,819,673

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

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

Net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2011	2010
		2011	2010		
\$ 1,640,364	\$ 176,254	\$ 9,855,651	\$ 8,547,731	\$ 3,138,304	\$ 2,765,932
20,502,800	2,214,300	73,683,620	69,533,963	37,995,500	36,336,900
74,483	8,044	133,229	175,405	138,031	190,100
72,388	11,056	8,741,397	7,738,074	9,139	29,490
		4,867,158	3,883,101		
				3,292	3,589
18,752		7,654,527	8,098,012		
1,666,894	411,675	2,078,569	1,817,900		
3,357		32,228	86,981	3,642	2,363
		80,048	70,395		
1,023,062		7,367,562	11,097,564		
<u>25,002,100</u>	<u>2,821,329</u>	<u>114,493,989</u>	<u>111,049,126</u>	<u>41,287,908</u>	<u>39,328,374</u>
2,636,228	6,564,072	30,480,255	52,125,004	198,471	3,410
312,054,672	51,235,196	823,246,749	783,266,908	27,709,403	26,483,977
(115,323,673)	(6,837,081)	(300,652,103)	(276,858,241)	(17,818,494)	(16,419,527)
199,367,227	50,962,187	553,074,901	558,533,671	10,089,380	10,067,860
245,775	33,574	898,265	1,690,387		
199,613,002	50,995,761	553,973,166	560,224,058	10,089,380	10,067,860
224,615,102	53,817,090	668,467,155	671,273,184	51,377,288	49,396,234
284,970	48,004	9,426,798	9,423,530	28,743	71,660
218,610		774,748	739,319	96,773	113,304
1,739,073		2,042,080	2,074,255	12,490	11,148
118,296	17,793	826,593	837,090	9,772	17,619
231,031	31,372	1,880,617	1,960,357		
168,240	30,514	2,659,138	2,530,130		
6,637	386	578,958	535,063	20,933	15,472
				1,200,145	1,102,381
245,775	33,574	520,711	651,333		
2,075,000		6,104,714	6,529,362	120,000	75,000
5,087,632	161,643	24,814,357	25,280,439	1,488,856	1,406,584
122,330,000		203,069,629	209,933,150	970,000	1,090,000
3,705,462		5,815,555	6,242,104		
126,035,462		208,885,184	216,175,254	970,000	1,090,000
		7,792	12,505		
262,071	15,037	1,867,585	1,898,231	623,594	485,205
		35,000	40,000	2,108,405	1,655,058
		665,375	701,795		
126,297,533	15,037	211,460,936	218,827,785	3,701,999	3,230,263
131,385,165	176,680	236,275,293	244,108,224	5,190,855	4,636,847
71,579,982	50,962,187	338,400,428	339,648,274	8,999,380	8,902,860
699,845		3,204,362	3,232,791		
20,950,110	2,678,223	90,587,072	84,283,895	37,187,053	35,856,527
\$ 93,229,937	\$ 53,640,410	432,191,862	427,164,960	\$ 46,186,433	\$ 44,759,387
		3,895,285	3,676,698		
		\$ 436,087,147	\$ 430,841,658		

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

For the Year Ended December 31, 2011
 With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 5,146,359	\$	\$
Sales and charges for services, pledged as security for revenue bonds		135,617,689	7,580,968
Miscellaneous		6,795,229	739,984
Total Operating Revenues	<u>5,146,359</u>	<u>142,412,918</u>	<u>8,320,952</u>
Operating Expenses:			
Purchased power		87,915,718	
Maintenance and operations	2,867,817	26,856,997	5,843,103
Depreciation	1,192,939	10,657,091	2,240,008
Total Operating Expenses	<u>4,060,756</u>	<u>125,429,806</u>	<u>8,083,111</u>
Operating Income	<u>1,085,603</u>	<u>16,983,112</u>	<u>237,841</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	2,577		
Interest earnings	256,137	520,212	118,996
Net increase (decrease) in the fair value of investments	(67,100)		
Interest and fiscal charges		(3,856,620)	(19)
Gain (loss) on disposal of property			
Other income (expense)		(393,116)	(39,667)
Total Nonoperating Revenues (Expenses)	<u>191,614</u>	<u>(3,729,524)</u>	<u>79,310</u>
Income (Loss) Before Transfers and Contributions	1,277,217	13,253,588	317,151
Capital contributions			1,262,600
Transfers in			
Transfers out	(823,556)	(8,378,132)	(355,985)
Change in net assets	453,661	4,875,456	1,223,766
Net Assets - Beginning of Year	<u>39,616,262</u>	<u>147,556,463</u>	<u>91,595,907</u>
Net Assets - End of Year	<u>\$ 40,069,923</u>	<u>\$ 152,431,919</u>	<u>\$ 92,819,673</u>

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

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

Change in net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2011	2010
		2011	2010		
\$	\$ 4,903,342	\$ 10,049,701	\$ 9,308,363	\$ 16,454,590	\$ 17,444,006
18,300,858		161,499,515	160,349,715		
80,935	78,903	7,695,051	7,568,682		
<u>18,381,793</u>	<u>4,982,245</u>	<u>179,244,267</u>	<u>177,226,760</u>	<u>16,454,590</u>	<u>17,444,006</u>
		87,915,718	88,157,635		
7,861,597	1,986,197	45,415,711	48,427,142	13,671,313	13,729,718
9,115,230	1,011,124	24,216,392	22,212,864	2,230,249	2,265,631
<u>16,976,827</u>	<u>2,997,321</u>	<u>157,547,821</u>	<u>158,797,641</u>	<u>15,901,562</u>	<u>15,995,349</u>
1,404,966	1,984,924	21,696,446	18,429,119	553,028	1,448,657
				155,860	136,988
11,326	44,323	58,226	80,746	100,650	2,116
561,674	39,461	1,496,480	1,856,829	769,951	908,620
(113,200)	5,100	(175,200)	(390,708)	(201,700)	(370,000)
(5,150,917)		(9,007,556)	(9,484,576)	(30,158)	(30,272)
			(3,207)	51,813	61,681
226,844	187	(205,752)	(165,797)	100	
<u>(4,464,273)</u>	<u>89,071</u>	<u>(7,833,802)</u>	<u>(8,106,713)</u>	<u>846,516</u>	<u>709,133</u>
(3,059,307)	2,073,995	13,862,644	10,322,406	1,399,544	2,157,790
816,070	538,184	2,616,854	15,644,205	71,317	5,448
399,364	266,474	665,838	996,793	35,928	31,537
<u>(1,807,217)</u>	<u>(753,544)</u>	<u>(12,118,434)</u>	<u>(13,352,807)</u>	<u>(79,743)</u>	
(3,651,090)	2,125,109	5,026,902	13,610,597	1,427,046	2,194,775
96,881,027	51,515,301			44,759,387	42,564,612
<u>\$ 93,229,937</u>	<u>\$ 53,640,410</u>			<u>\$ 46,186,433</u>	<u>\$ 44,759,387</u>
		218,587	421,643		
		<u>\$ 5,245,489</u>	<u>\$ 14,032,240</u>		

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

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 4,956,687	\$ 136,094,562	\$ 7,852,765
Cash received from other City funds	45,639	5,317,084	192,474
Cash received from employees			
Cash paid to employees	(350,885)	(17,494,789)	(1,986,628)
Cash paid to suppliers	(2,613,550)	(96,495,700)	(3,935,302)
Other income			
Net Cash Provided By Operating Activities	<u>2,037,891</u>	<u>27,421,157</u>	<u>2,123,309</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	2,577		
Transfers in			
Transfers out	<u>(823,556)</u>	<u>(8,444,212)</u>	<u>(354,590)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(820,979)</u>	<u>(8,444,212)</u>	<u>(354,590)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Proceeds from issuance of revenue notes and bonds			
Principal payments on bonds		(3,824,362)	
Interest and fiscal charges		(3,861,536)	
Acquisition of capital assets	<u>(485,905)</u>	<u>(12,008,510)</u>	<u>(2,272,576)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(485,905)</u>	<u>(19,694,408)</u>	<u>(2,272,576)</u>
Cash Flows From Investing Activities:			
Investment income	273,140	520,212	118,977
Net (increase) decrease in investments	<u>(929,435)</u>	<u>391,773</u>	<u>356,010</u>
Net Cash Provided By (Used In) Invested Activities	<u>(656,295)</u>	<u>911,985</u>	<u>474,987</u>
Net Increase (Decrease) in Cash and Cash Equivalents	74,712	194,522	(28,870)
Cash and Cash Equivalents, Beginning of Year	<u>4,782,273</u>	<u>8,396,423</u>	<u>964,473</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,856,985</u>	<u>\$ 8,590,945</u>	<u>\$ 935,603</u>
Classified As:			
Cash and Cash Equivalents	\$ 1,017,002	\$ 6,086,428	\$ 935,603
Restricted and Reserved Cash	<u>3,839,983</u>	<u>2,504,517</u>	<u></u>
Total Cash and Cash Equivalents, End of Year	<u>\$ 4,856,985</u>	<u>\$ 8,590,945</u>	<u>\$ 935,603</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2011	2010
		2011	2010		
\$ 18,028,732	\$ 4,762,826	\$ 171,695,572	\$ 171,352,216	\$ 14,934,472	\$ 15,753,017
76,687	208,796	5,840,680	5,739,158	1,539,740	1,659,491
(2,917,224)	(420,016)	(23,169,542)	(23,618,226)	(13,045,972)	(13,475,965)
(4,817,105)	(1,561,233)	(109,422,890)	(111,987,580)		
226,844	186	227,030	340,698		
<u>10,597,934</u>	<u>2,990,559</u>	<u>45,170,850</u>	<u>41,826,266</u>	<u>3,428,240</u>	<u>3,936,543</u>
				153,383	134,571
11,326	44,323	58,226	80,746	100,650	2,116
399,364	266,474	665,838	996,793	35,928	31,537
<u>(1,807,217)</u>	<u>(753,544)</u>	<u>(12,183,119)</u>	<u>(13,331,600)</u>	<u>(79,743)</u>	
<u>(1,396,527)</u>	<u>(442,747)</u>	<u>(11,459,055)</u>	<u>(12,254,061)</u>	<u>210,218</u>	<u>168,224</u>
				54,204	85,167
(3,605,000)		(7,429,362)	(7,441,384)	(75,000)	425,000
(5,426,120)		(9,287,656)	(9,726,106)	(48,737)	(75,000)
<u>(1,121,598)</u>	<u>(1,150,855)</u>	<u>(17,039,444)</u>	<u>(19,178,908)</u>	<u>(2,158,273)</u>	<u>(35,954)</u>
<u>(10,152,718)</u>	<u>(1,150,855)</u>	<u>(33,756,462)</u>	<u>(36,346,398)</u>	<u>(2,227,806)</u>	<u>(1,675,985)</u>
592,791	33,517	1,538,637	1,906,928	822,020	931,620
<u>(1,928,900)</u>	<u>(1,805,500)</u>	<u>(3,916,052)</u>	<u>(5,014,880)</u>	<u>(1,860,300)</u>	<u>(1,510,000)</u>
<u>(1,336,109)</u>	<u>(1,771,983)</u>	<u>(2,377,415)</u>	<u>(3,107,952)</u>	<u>(1,038,280)</u>	<u>(578,380)</u>
(2,287,420)	(375,026)	(2,422,082)	(9,882,145)	372,372	2,249,615
4,950,846	551,280	19,645,295	29,527,440	2,765,932	516,317
<u>\$ 2,663,426</u>	<u>\$ 176,254</u>	<u>\$ 17,223,213</u>	<u>\$ 19,645,295</u>	<u>\$ 3,138,304</u>	<u>\$ 2,765,932</u>
\$ 1,640,364	\$ 176,254	\$ 9,855,651	\$ 8,547,731	\$ 3,138,304	\$ 2,765,932
1,023,062		7,367,562	11,097,564		
<u>\$ 2,663,426</u>	<u>\$ 176,254</u>	<u>\$ 17,223,213</u>	<u>\$ 19,645,295</u>	<u>\$ 3,138,304</u>	<u>\$ 2,765,932</u>

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

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 1,085,603	\$ 16,983,112	\$ 237,841
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	1,192,939	10,657,091	2,240,008
Other income (expense)		(1,467)	
Other		(52,437)	(23,425)
(Increase) Decrease In:			
Accounts receivable	(132,782)	(1,032,460)	(156,586)
Accrued utility revenues		(861,190)	(122,867)
Inventory		449,079	(462)
Due from other funds			
Due from other governmental units	(15,781)		
Prepaid items		9,653	
Other assets		59,091	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(125,779)	(2,655,759)	(476,592)
Deposits payable	4,519	30,045	864
Accrued expenses and other liabilities	439	3,366,220	429,797
Unearned revenues		(38,856)	(14,359)
Accrued claims		35,000	
Due to other funds	11		
Due to other governmental units	28,722	474,035	9,090
Net Cash Provided By Operating Activities	\$ 2,037,891	\$ 27,421,157	\$ 2,123,309
Non Cash Transactions:			
Decrease in fair value of investments	\$ (67,100)	\$	\$
Receipt of contributed property			1,262,600
Equipment purchases in accounts payable at year end			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2011	2010
		2011	2010		
\$ 1,404,966	\$ 1,984,924	\$ 21,696,446	\$ 18,429,119	\$ 553,028	\$ 1,448,657
9,115,230	1,011,124	24,216,392	22,212,864	2,230,249	2,265,631
226,844	186	225,563	310,102		
		(75,862)	(321,486)		
(30,237)	37,766	(1,314,299)	154,589	20,351	(29,490)
		(984,057)	(308,618)		
(5,132)		443,485	3,703,739		
(222,215)	(38,453)	(260,668)	(146,956)		
69,874	660	54,753	(70,944)	(729)	(2,008)
		9,653	94,492		
102,156	11,671	172,918	104,113		
(3,971)	(8,076)	(3,270,177)	(2,602,016)	(45,242)	24,787
		35,428	60,694	(16,531)	(12,965)
32,853	1,124	3,830,433	173,173	445,500	504,260
(102,156)	(11,671)	(167,042)	(487,654)		
		35,000	40,000	236,153	(264,297)
8,360	1,075	9,446	(615)		
1,362	229	513,438	481,670	5,461	1,968
<u>\$ 10,597,934</u>	<u>\$ 2,990,559</u>	<u>\$ 45,170,850</u>	<u>\$ 41,826,266</u>	<u>\$ 3,428,240</u>	<u>\$ 3,936,543</u>
\$ (113,200)	\$ 5,100	\$ (175,200)	\$ (390,708)	\$ (201,700)	\$ (370,000)
816,070	538,184	2,616,854	15,644,205	71,317	5,448
			2,472,143		

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. As of December 31, 2011, the City had one blended component unit, the Economic Development Authority (EDA) which was created to account for development allowable only under specific State statutes. The board of directors of the EDA is comprised of City Council members and the EDA directly provides all of its services to the City. There were no activities in the EDA in 2011 other than the accumulation of resources and debt service on outstanding bonds issued by the EDA which is reported in the Economic Development Authority Bond nonmajor debt service fund in the Governmental Fund Financial Statements.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. As of December 31, 2011, there were no entities that met the requirements to be considered a discretely presented component unit of the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

1. Deposits and investments (continued)

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

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

2. Receivables and payables

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

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 revenue 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, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables and payables (continued)

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

3. Inventory

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

4. Capital assets

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

4. Capital assets (continued)

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

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

5. Market Value Credit (MVC)

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

6. Utility connection charges

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

7. 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

7. Compensated absences benefits (continued)

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.

8. Long-term obligations

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

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and amortized over the term of the related debt.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

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

9. Fund equity

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

Invested in Capital Assets, Net of Related Debt – 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 Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

In accordance with Governmental Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

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

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

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Comparative Data

The financial statements include certain prior year comparative financial information in total. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2010 from which the summarized information was derived.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information (continued)

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

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

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

NOTE 3: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Deposits

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

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

Authorized collateral includes certain state or local government obligations and legal investments described in the following paragraphs. Minnesota Statutes also require that 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, 2011 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, 2011

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.

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

- Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds
- 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 including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2011 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Commercial Paper	\$ 18,215,436	0.40 - 0.65	A-1+	P1
Guaranteed Investment Contracts	1,023,062	**	Unrated	Unrated
Short-Term Government Trust	2,504,517	0	AA+	Aaa
Municipal Bond	1,551,023	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	44,813,390	0.05 - 3.47	AA+	Aaa
Federal Home Loan Bank	64,348,170	0.19 - 4.67	AA+	Aaa
Federal Home Loan Mortgage Corporation	26,076,482	0.05 - 4.67	AA+	Aaa
Federal National Mortgage Association	57,049,335	0.02 - 4.50	AA+	Aaa
Treasury Note	<u>11,148,751</u>	0.50 - 1.25	AA+	Aaa
Sub-total Investments	226,730,166			
Cash and Deposits	<u>25,498,296</u>			
Total	<u>\$ 252,228,462</u>			

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk

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

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 44,813,390
Federal Home Loan Bank	Federal Agency Securities	64,348,170
Federal Home Loan Mortgage Corporation	Federal Agency Securities	26,076,482
Federal National Mortgage Association	Federal Agency Securities	57,049,335

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, 2011 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

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

Cash and cash equivalents	\$ 26,234,332
Investments	218,592,107
Restricted and reserved cash and investments	<u>7,402,023</u>
Total	<u><u>\$ 252,228,462</u></u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

B. Land Held for Resale

On September 1, 2009 the City acquired land from a private party for \$650,000. The City intends to resell the property in connection with the expansion of the University of Minnesota Rochester Campus. On July 29, 2011 the City acquired land from a private party for \$750,000. The City intends to resell the property for private development. Land held for resale totaling \$1,400,000, is reported in the Construction Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2011.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2011 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 14,996	\$ 536,333	\$ 707,537	\$ 98,506	\$1,357,372
Special Revenue	115,472	83,695	133,774	87,073	420,014
Capital Project	1,236,128	3,631,518	590,739		5,458,385
Debt Service			4,946		4,946
Enterprise		29,682	2,546		32,228
Internal Service	2,079		1,563		3,642
Totals	<u>\$1,368,675</u>	<u>\$4,281,228</u>	<u>\$1,441,105</u>	<u>\$ 185,579</u>	<u>\$7,276,587</u>

Amounts due to other governmental units as of December 31, 2011 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 23,116	\$ 150,859	\$ 1,134	\$ 175,109
Special Revenue	1,891	33,043	115,568	6,073	156,575
Capital Project		25,831	36,197		62,028
Enterprise		484,964	93,994		578,958
Internal Service		14,225	6,708		20,933
Totals	<u>\$ 1,891</u>	<u>\$ 581,179</u>	<u>\$ 403,326</u>	<u>\$ 7,207</u>	<u>\$ 993,603</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted and Reserved Cash

Restricted cash are deposits held for specifically required purposes. Reserved cash are deposits reserved by council action for a particular purpose. Descriptions are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:	
Rochester Area Foundation Endowment	\$ 34,461

Enterprise Funds

Electric Fund:	
Debt Service Reserve Accounts	2,504,517
Sewer Fund:	
Waste Water Construction Account	323,217
Waste Water Debt Service Account	699,845

Reserved Cash -

Enterprise Funds:

Parking Fund:	
Bioscience Building Debt Service Reserve	<u>3,839,983</u>

Total	<u>\$ 7,402,023</u>
-------	---------------------

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

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, 2011 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 60,110,132	\$ 3,915,787	\$	\$ 64,025,919
Construction in progress	60,419,591	37,514,513	17,455,027	80,479,077
Total capital assets, not being depreciated	<u>120,529,723</u>	<u>41,430,300</u>	<u>17,455,027</u>	<u>144,504,996</u>
Capital assets, being depreciated:				
Buildings	163,209,057	4,747,785	651,936	167,304,906
Improvements other than buildings	45,149,831	865,932		46,015,763
Infrastructure	359,010,607	7,505,905		366,516,512
Machinery and equipment	66,848,678	4,486,404	1,814,967	69,520,115
Total capital assets, being depreciated	<u>634,218,173</u>	<u>17,606,026</u>	<u>2,466,903</u>	<u>649,357,296</u>
Less accumulated depreciation for:				
Buildings	60,149,438	4,631,741	651,936	64,129,243
Improvements other than buildings	14,777,313	1,597,545		16,374,858
Infrastructure	109,314,258	7,716,269		117,030,527
Machinery and equipment	43,612,170	5,095,970	1,793,591	46,914,549
Total accumulated depreciation	<u>227,853,179</u>	<u>19,041,525</u>	<u>2,445,527</u>	<u>244,449,177</u>
Total capital assets, being depreciated, net	<u>406,364,994</u>	<u>(1,435,499)</u>	<u>21,376</u>	<u>404,908,119</u>
Governmental activities capital assets, net	<u>\$ 526,894,717</u>	<u>\$ 39,994,801</u>	<u>\$ 17,476,403</u>	<u>\$ 549,413,115</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2011 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	\$ 13,020,467	\$ 580,241	\$	\$ 13,600,708
Construction in progress	39,104,537	9,739,037	31,964,027	16,879,547
Total capital assets, not being depreciated	<u>52,125,004</u>	<u>10,319,278</u>	<u>31,964,027</u>	<u>30,480,255</u>
Capital assets, being depreciated:				
Buildings and improvements	380,869,685	20,312,102	40,533	401,141,254
Machinery and equipment	402,397,223	20,485,700	777,428	422,105,495
Total capital assets, being depreciated	<u>783,266,908</u>	<u>40,797,802</u>	<u>817,961</u>	<u>823,246,749</u>
Less accumulated depreciation for:				
Buildings and improvements	128,160,602	9,492,081	48,669	137,604,014
Machinery and equipment	148,697,639	14,724,311	373,861	163,048,089
Total accumulated depreciation	<u>276,858,241</u>	<u>24,216,392</u>	<u>422,530</u>	<u>300,652,103</u>
Total capital assets, being depreciated, net	<u>506,408,667</u>	<u>16,581,410</u>	<u>395,431</u>	<u>522,594,646</u>
Business-type activities capital assets, net	<u>\$ 558,533,671</u>	<u>\$ 26,900,688</u>	<u>\$ 32,359,458</u>	<u>\$ 553,074,901</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2011 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 546,935
Public safety	2,893,113
Public works	5,371,804
Airport operations	2,266,834
Transit	742,361
Culture	1,211,744
Park and recreation	3,186,063
Economic development/tourism	592,422
Subtotal	<u>16,811,276</u>
Internal Service Funds:	
Equipment revolving	2,050,656
Information technology	<u>179,593</u>
Total depreciation expense - governmental activities	<u><u>\$19,041,525</u></u>

Business-Type Activities:

Parking	\$ 1,192,939
Electric utility	10,657,091
Water utility	2,240,008
Sewer utility	9,115,230
Storm water utility	<u>1,011,124</u>
Total depreciation expense - business-type activities	<u><u>\$24,216,392</u></u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

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, 2011, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 791,324	\$ 466,658
Construction improvement	419,027	37,996
Subtotal	1,210,351	504,654
Non-Major Governmental Funds:		
Special Revenue -		
Library		7,146
Municipal recreation system	13,130	111,340
Edward Byrne Memorial JAG		8,287
Airport operations	14,095	24,589
Transit		435
Community development projects		556
Subtotal	27,225	152,353
Total Governmental Funds	1,237,576	657,007
Proprietary Funds:		
Enterprise -		
Parking		271
Electric utility		1,975,172
Water utility		484,941
Sewer utility	1,666,894	168,240
Storm water utility	411,675	30,514
Total Proprietary Funds	2,078,569	2,659,138
Total All Funds	\$ 3,316,145	\$ 3,316,145

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Transfers during the year ended December 31, 2011 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 11,355,147	\$ 703,856
Capital Project	1,848,612	1,571,646
Other Governmental Funds		
Library	181,250	22,446
Municipal Recreation System	230,474	301,977
Airport Operations	166,000	486,952
Transit	6,992	
Minnesota Bio Science Center		963,160
Community Development Projects Fund		98,352
Airport Hangar Construction Notes	47,925	
Facility Energy Improvements Loan	616,662	
Economic Development Authority Bond	1,166,294	
PWOC Bond	25,444	
Subtotal Other Governmental Funds	<u>2,441,041</u>	<u>1,872,887</u>
Subtotal Governmental Funds	15,644,800	4,148,389
Enterprise	665,838	12,118,434
Internal Service	35,928	79,743
Totals	<u>\$ 16,346,566</u>	<u>\$ 16,346,566</u>

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Other significant transfers include Sanitary Sewer Fund transfer of \$565,167, Airport Fund transfer of \$397,557 and Storm Water Fund transfer of \$337,309 to the Construction Improvement Capital Project Fund for capital construction.

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

Governmental Funds:	
Transfer in	\$ 15,644,800
Transfers out	(4,148,389)
Internal Service Funds:	
Transfer in	35,928
Transfers out	(79,743)
Capital assets transferred from Govt- Activities to Business-type activities	(915,330)
Government-wide Statement of Activities - Transfers in/out	\$ 10,537,266

G. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Expenditures under these operating leases for the year ended December 31, 2011 totaled \$293,319.

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

Years ending December 31:	
2012	\$ 43,332
2013	44,603
2014	45,915
2015	47,268
2016	48,665

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2011, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/11
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 1,551,023
District 36, Series 2009A	8,035,000	2.6-6.0%	2033	8,035,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	78,515,000
Wastewater Treatment Plant				
Revenue Bonds, Series 2007A	30,455,000	4.0-5.0%	2026	29,090,000
Wastewater Treatment Plant				
Variable Rate Revenue Bonds, Series 2007B	19,500,000	Variable	2026	16,800,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	1.0-5.15%	2036	26,275,000
Direct Pay, Series 2010A - Equipment	425,000	0.85-3.70%	2020	425,000
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	2.5-3.5%	2019	665,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2002	11,275,000	3.0-4.5%	2017	5,400,000
Electric Utility Revenue				
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	74,370,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	9,430,000
Rochester Economic Development Authority				
Lease Bonds, Series 2008	6,700,000	4.71%	2033	6,380,000
Revenue Notes:				
Electric Utility				
Note, Series 2005	5,765,000	3.98%	2014	2,390,000
Note, Series 2009A	6,790,000	Variable	2014	4,120,000
Notes Payable:				
GO Sales Tax Revenue Note of 2001	2,500,000	2.83%	2021	1,480,000
GO Sales Tax Revenue Note of 2008	2,500,000	3.42%	2028	2,227,000
Airport Hangar - 2001	215,301	0%	2012	14,354
Airport Hangar - 2006	263,944	0%	2016	127,574
Energy Loan Payable	5,715,795	4.10%	2018	3,592,702
Capital Leases	886,219	7.769%	2014	12,505
Compensated Absences				13,184,010
Post Employment Benefit Obligation				2,108,405
Less: Unamortized premium				5,896,940
Deferred Refunding Balance				(1,515,371)
Total Long-term Debt				<u>\$ 290,574,142</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

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

General Obligation Revenue Bonds

General Obligation Revenue Bonds are recorded as liabilities in the Sewer Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Sewer Utility Enterprise Fund and are backed by the full faith, credit and taxing power of the City.

Revenue Bonds and Notes – Electric Utility

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

Revenue Lease Bonds – Economic Development Authority

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

General Obligation Sales Tax Revenue Notes

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Equipment Certificates of Indebtedness

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

General Obligation Taxable Build America Bonds

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

Notes Payable

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

Energy Loan Payable

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

Capital Leases

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

Bond Indentures

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

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, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
Taxable Tax Increment Bonds, District 7, Series 1997	\$ 1,806,721	\$	\$ 255,698	\$ 1,551,023	\$
Taxable Tax Increment Bonds, District 36, Series 2009A	8,035,000			8,035,000	220,000
GO Sales Tax Revenue Note of 2001	1,606,000		126,000	1,480,000	130,000
GO Sales Tax Revenue Note of 2008	2,322,000		95,000	2,227,000	99,000
GO Equipment Certificates of Indebtedness, Series 2009B	740,000		75,000	665,000	(1) 70,000
GO Taxable Build America Bonds Direct Pay, Series 2010A - Public Works	26,275,000			26,275,000	
GO Taxable Build America Bonds Direct Pay, Series 2010A - Equipment	425,000			425,000	(1) 50,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	9,670,000		240,000	9,430,000	255,000
REDA Lease Revenue Bonds, Series 2008	6,545,000		165,000	6,380,000	170,000
Note Payable:					
Airport Hangar 2001	35,884		21,530	14,354	14,354
Airport Hangar 2006	153,968		26,394	127,574	26,394
Municipal Loan Payable:					
Energy Loan	4,027,602		434,900	3,592,702	452,914
MN DEED BioScience Site Cleanup Loan	108,439		108,439		
Less: Unamortized Premium on Bonds	85,609		4,224	81,385	
Other Liabilities:					
Compensated Absences	9,692,888	5,750,998	6,008,079	9,435,807	5,640,000
Post-Employment Benefit Obligation	1,655,057	634,314	180,966	2,108,405	(1)
Governmental Activities Long-term Liabilities	<u>73,184,168</u>	<u>6,385,312</u>	<u>7,741,230</u>	<u>71,828,250</u>	<u>7,127,662</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant - Revenue Refunding Bonds, Series 2009C	960,000		960,000		
Revenue Bonds, Series 2004A	79,565,000		1,050,000	78,515,000	1,355,000
Revenue Bonds, Series 2007A	29,785,000		695,000	29,090,000	720,000
Variable Rate Demand Revenue Bonds, Series 2007B	17,700,000		900,000	16,800,000	
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2002	6,170,000		770,000	5,400,000	805,000
Series 2007	75,515,000		1,145,000	74,370,000	1,190,000
Revenue Note:					
Electric Utility Note of 2005	3,035,000		645,000	2,390,000	715,000
Electric Utility Note of 2009A	5,380,000		1,260,000	4,120,000	1,315,000
Less: Unamortized Premium	6,242,104		426,549	5,815,555	
Deferred Refunding Balance	(1,651,850)		(136,479)	(1,515,371)	
Other Liabilities:					
Obligation Under Capital Lease	16,867		4,362	12,505	4,715
Compensated Absences	3,858,588	1,783,063	1,893,448	3,748,203	1,880,616
Business-type Activities Long-term Liabilities	<u>226,575,709</u>	<u>1,783,063</u>	<u>9,612,880</u>	<u>218,745,892</u>	<u>7,985,331</u>
Total	<u>\$ 299,759,877</u>	<u>\$ 8,168,375</u>	<u>\$ 17,354,110</u>	<u>\$ 290,574,142</u>	<u>\$ 15,112,993</u>

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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

In 2007, the Electric Utility issued \$76.7 million in Revenue Bonds, Series 2007C, to finance the emission reduction project at Silver Lake Plant, transmission and substation work, and distribution system expansion, and to advance refund the majority of the outstanding Series 2000A bonds.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,172,659. This difference, reported in the financial statements as a reduction from revenue bonds payable, is being amortized and charged to operations over the bond term using the interest method. The City completed the advance refunding to reduce its total debt service payments over the next 23 years by \$3.1 million and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$2.0 million. In December 2011, the Series 2000A Bonds were paid in full and the escrow agent released all funds, including the \$2,471,688 debt service reserve.

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2011, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue Bonds*		Revenue Bonds and Notes		Energy Loan Payable		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2012	\$ 340,000	\$ 1,517,375	\$ 425,000	\$ 733,712	\$ 452,914	\$ 142,705	\$ 269,748	\$ 117,936
2013	1,170,000	1,504,577	445,000	713,250	471,674	123,946	262,395	110,876
2014	1,195,000	1,485,032	470,000	691,728	491,210	104,409	270,395	103,601
2015	1,220,000	1,459,690	485,000	669,266	511,556	84,063	276,395	96,075
2016	1,230,000	1,428,844	510,000	645,864	532,745	62,874	279,995	
2017-2021	6,440,000	6,512,086	2,940,000	2,836,536	1,132,604	58,635	1,418,000	359,521
2022-2026	6,985,000	5,152,084	3,695,000	2,059,546			740,000	163,387
2027-2031	8,455,000	3,315,159	4,660,000	1,080,283			332,000	33,843
2032-2036	8,365,000	1,020,183	2,180,000	103,724				
Totals	<u>\$ 35,400,000</u>	<u>\$ 23,395,030</u>	<u>\$ 15,810,000</u>	<u>\$ 9,533,909</u>	<u>\$3,592,703</u>	<u>\$ 576,632</u>	<u>\$3,848,928</u>	<u>\$ 985,239</u>
<u>Business-Type Activities</u>								
					<u>Capital Lease Obligations</u>			
					Principal	Interest		
2012	\$ 2,075,000	\$ 5,168,960	\$ 4,025,000	\$ 3,887,431	\$ 4,715	\$ 806		
2013	4,035,000	5,042,285	4,245,000	3,730,468	5,093	427		
2014	5,445,000	4,823,785	4,470,000	3,565,416	2,697	61		
2015	6,425,000	4,544,910	3,220,000	3,385,788				
2016	6,680,000	4,218,785	3,375,000	3,231,650				
2017-2021	37,720,000	15,899,738	19,430,000	13,606,626				
2022-2026	62,025,000	5,914,043	24,040,000	9,004,015				
2027-2030			23,475,000	2,961,938				
Totals	<u>\$ 124,405,000</u>	<u>\$ 45,612,506</u>	<u>\$ 86,280,000</u>	<u>\$43,373,332</u>	<u>\$ 12,505</u>	<u>\$ 1,294</u>		

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2011, the City had not utilized \$209,617,110 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$1,827,436,000 and the balance outstanding at December 31, 2011 totals \$1,816,561,308.

I. Other Post-Employment Benefits

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2011 there were approximately 57 retirees participating in the City's group health plan.

The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute. As of January 1, 2011 there were 7 disabled police and fire fighters receiving the benefit.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

The following table shows the components of the City's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 626,355
Interest on net OPEB obligations	74,478
Adjustment to ARC	<u>(66,519)</u>
Annual OPEB Cost	634,314
Contributions during the year	<u>(180,967)</u>
Increase in net OPEB obligation	453,347
Net OPEB beginning of year	<u>1,655,058</u>
Net OPEB end of year	<u><u>\$ 2,108,405</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 779,499	\$ 1,151,773	\$ 276,214	35.43%	\$ 1,655,058
December 31, 2011	634,314	1,655,058	180,967	28.53%	2,108,405

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010		\$ 7,373,661	\$ 7,373,661	0.00%	\$ 53,676,202	13.74%
1/1/2011		5,016,305	5,016,305	0.00%	56,091,631	8.94%

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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

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

In the January 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using underlying long-term inflation assumption of 3% and a 3.75% annual increase in covered payroll. The annual healthcare cost trend rate is 9.0% initially, reduced incrementally to an ultimate rate of 5% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2007.

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2011 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 8,617	\$	\$ 4,702	\$ 13,319
Inventory	202,867		30,655	233,522
Total Nonspendable	<u>211,484</u>		<u>35,357</u>	<u>246,841</u>
<u>Restricted for:</u>				
Civic music endowment	34,461			34,461
Flood control		22,901,086		22,901,086
Economic development loans		254,856		254,856
Park and recreation		98,656		98,656
Tax increment financing		1,680,321		1,680,321
Sales tax authorized projects		21,503,460		21,503,460
Airport operations			3,218,374	3,218,374
Children's playgrounds			662,803	662,803
Debt service			627,491	627,491
Total Restricted	<u>34,461</u>	<u>46,438,379</u>	<u>4,508,668</u>	<u>50,981,508</u>
<u>Committed to:</u>				
Capital improvement projects		43,894,506		43,894,506
Total Committed		<u>43,894,506</u>		<u>43,894,506</u>
<u>Assigned to:</u>				
Subsequent year budgets	178,559			178,559
Encumbrances	381,292			381,292
Library operations			1,977,534	1,977,534
Parks and recreation			2,205,955	2,205,955
Transit			784,710	784,710
Minnesota Bio Science Center			592,262	592,262
Total Assigned	<u>559,851</u>		<u>5,560,461</u>	<u>6,120,312</u>
<u>Unassigned</u>	<u>23,127,951</u>			<u>23,127,951</u>
Total Fund Balances	<u>\$ 23,933,747</u>	<u>\$ 90,332,885</u>	<u>\$ 10,104,486</u>	<u>\$ 124,371,118</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Assets

	Restricted Net Assets Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 34,461	\$	\$
Construction Improvement Fund:				
Flood Control	22,901,086			
Economic Development Loans	254,856			
Park and Recreation		98,656		
Tax Increment Financing				1,680,321
Sales Tax Authorized Projects				21,503,460
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	662,803			
CDBG Loans	3,682,891			
Airport Operations				3,218,374
Debt Service Funds:				
Debt Service			627,491	
Total Governmental Activities	<u>27,501,636</u>	<u>133,117</u>	<u>627,491</u>	<u>26,402,155</u>
<u>Business-Type Activity Funds:</u>				
Electric Utility Fund:				
Debt Reserve			2,504,517	
Sewer Utility Fund:				
Debt Reserve			699,845	
Total Business-Type Activities			<u>3,204,362</u>	
Total Restricted Net Assets	<u>\$27,501,636</u>	<u>\$ 133,117</u>	<u>\$ 3,831,853</u>	<u>\$ 26,402,155</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE 4: Other Information

A. Risk Management

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

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$275,000 per group health claim (with a variable annual aggregate) and \$900,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$1,823,739 reported in the Fund at December 31, 2011 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling claims, including specific and incremental expenses, salvage, and subrogation. The claim liability does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount during the years ended December 31, 2011 and 2010 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2011	\$ 1,587,586	\$ 10,798,056	\$ (10,561,903)	\$ 1,823,739
2010	1,851,883	12,064,273	(12,328,570)	1,587,586

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: Other Information (continued)

B. Commitments

Power Purchase Agreement:

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

Power Generation Agreement:

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

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments. As of December 31, 2011, the City's commitments with contractors and vendors were as follows:

<u>Construction Projects</u>	Remaining Commitment
Major Street Projects	\$ 2,707,601
Sewer and Water Projects	219,034
Sidewalk Projects	13,211
Traffic Projects	28,821
Bridge Projects	223,263
Storm Water / Storm Sewer Projects	368,716
Flood Control	122,489
Water Reclamation Projects	619,609
Parking Ramp Rehabilitation	313,608
Airport Projects	49,131
Civic Center Expansion & Improvements	29,413
National Volleyball Center Expansion	250,393
Parks Projects - Various	41,646
Public Works/Transit Operation Center	<u>1,663,426</u>
Total Construction Projects	<u>\$ 6,650,361</u>
<u>Equipment Purchase Commitments</u>	
Police Identity Mgmt & Video Mgmt	\$ 677,000
Police New World Software	104,732
800 MHz Trunked Radio System	10,870
Pt-of-Sale Registers/Software System	<u>78,200</u>
Total Equipment Purchase Commitments	<u>\$ 870,802</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

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, 2011, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

SMMPA Litigation:

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

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

EPA Litigation:

In November 2010, the City of Rochester/Rochester Public Utilities received a request for information from the U.S. Environmental Protection Agency (EPA) regarding the four units at the Silver Lake Power Plant. The information request was made under the provisions of Section 114 of the Clean Air Act. Over the past years in cases involving investor-owned utility power plants, the information requests have been followed by EPA allegations of Clean Air Act violations which, in turn, have resulted in litigation or settlements resolving those allegations.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: Other Information (continued)

C. Contingent Liabilities (continued)

EPA Litigation (continued):

The EPA is now reviewing municipally-owned utilities, which is why RPU received this Section 114 Request. The EPA has indicated that this request would result either in a settlement or in litigation between Rochester and the EPA. Currently, the parties continue to discuss a possible settlement of this matter however the timing and amount of potential settlement costs are unknown at this time. Management believes any potential settlement would not have a material adverse effect on the Utilities' financial statements.

D. Deferred Compensation

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

E. Employee Retirement Systems

The City participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA). PERA is the administrator of two cost-sharing multiple-employer retirement plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF).

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

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

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

A. Plan Description

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

A. Plan Description (continued)

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

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year.

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service.

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25% respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. In 2011, the City of Rochester was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$2,971,723, \$2,781,258, and \$2,674,154, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$2,653,432, \$2,431,488, and \$2,433,498, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 5: Change in Accounting Principle

GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Changes to the government fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1 and Note 3.

The implementation of GASB Statement 54 resulted in the reclassification of fund balances on the governmental fund statement to correspond with the new fund naming structure required by the statement. Governmental fund balances as of December 31, 2010 have been restated to conform with the new presentation.

NOTE 6: Subsequent Events

In preparing these financial statements the City has evaluated events and transactions for potential recognition through June 20, 2012, the date the financial statements were available to be issued.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2009	\$	\$ 6,804,261	\$ 6,804,261	0.00%	\$ 56,269,264	12.09%
1/1/2010		7,373,661	7,373,661	0.00%	53,676,202	13.74%
1/1/2011		5,016,305	5,016,305	0.00%	56,091,631	8.94%

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2011

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2011

SPECIAL REVENUE FUNDS

Library Fund:

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

Municipal Recreation System Fund:

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

Edward Byrne Memorial JAG Fund:

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

Airport Operations Fund:

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

The F.E. Williams Estate Fund:

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

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

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

Community Development Projects Fund:

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

DEBT SERVICE FUNDS

Tax Increment Bonds Fund:

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

Airport Hangar Construction Notes Fund:

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

Transportation Sales Tax Note of 2008 Fund:

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

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2011

DEBT SERVICE FUNDS (continued)

Transportation Sales Tax Note of 2001 Fund:

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

DEED Bio-Science Cleanup Loan Fund:

This fund is used to account for the accumulation of resources (drycleaner funds) for payment of the MN Department of Employment & Economic Development Loan.

Facility Energy Improvements Loan Fund:

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

Economic Development Authority Bond Fund:

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

Public Works and Transit Operation Center Bond Fund:

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

CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2011

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
ASSETS								
Cash and cash equivalents	\$ 161,683	\$ 328,621	\$	\$ 189,003	\$ 48,781	\$ 62,571	\$ 34,190	\$ 6,191
Investments	2,014,800	2,245,300		2,373,900	611,800	786,900	430,000	
Accrued interest receivable	7,319	8,157		8,624	2,222	2,859	1,562	
Accounts receivable (net of allowance for uncollectibles)	17,601	441,052		698,453		49,105	138,830	
Loans receivable								3,682,891
Taxes receivable delinquent	104,553	125,100		914		2,166		
Special assessments receivable delinquent		1,725						
Due from other funds		13,130		14,095				
Due from other governmental units	49,706	167,077	9,749	72,667		38,941		81,874
Prepaid items	4,702							
Inventory		30,655						
TOTAL ASSETS	\$ 2,360,364	\$ 3,360,817	\$ 9,749	\$ 3,357,656	\$ 662,803	\$ 942,542	\$ 604,582	\$ 3,770,956
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 75,299	\$ 172,982	\$ 1,439	\$ 112,078	\$	\$ 154,945	\$	\$ 68,445
Deposits payable	6,817	332,812					11,384	
Accrued compensation and payroll taxes	171,403	258,418				174		
Due to other funds	7,146	111,340	8,287	24,589		435		556
Due to other governmental units	12,910	121,829	23	1,701		112	936	19,064
Deferred revenue	104,553	126,826		914		2,166		3,682,891
Total Liabilities	378,128	1,124,207	9,749	139,282	662,803	157,832	12,320	3,770,956
Fund Balance:								
Nonspendable	4,702	30,655						
Restricted				3,218,374	662,803			
Assigned	1,977,534	2,205,955				784,710	592,262	
Total Fund Balance	1,982,236	2,236,610		3,218,374	662,803	784,710	592,262	
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,360,364	\$ 3,360,817	\$ 9,749	\$ 3,357,656	\$ 662,803	\$ 942,542	\$ 604,582	\$ 3,770,956

Total	Debt Service							Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Note 2001 and 2008	DEED Bio-Science Cleanup Loan	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 831,040	\$	\$	\$	\$	\$ 242,342	\$ 853	\$ 379,912	\$ 623,107	\$ 1,454,147
8,462,700									8,462,700
30,743									30,743
1,345,041									1,345,041
3,682,891									3,682,891
232,733							8,686	8,686	241,419
1,725									1,725
27,225									27,225
420,014							4,946	4,946	424,960
4,702									4,702
30,655									30,655
<u>\$ 15,069,469</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 242,342</u>	<u>\$ 853</u>	<u>\$ 393,544</u>	<u>\$ 636,739</u>	<u>\$ 15,706,208</u>
\$ 585,188	\$	\$	\$	\$	\$	\$ 562	\$	\$ 562	\$ 585,750
351,013									351,013
429,995									429,995
152,353									152,353
156,575									156,575
3,917,350							8,686	8,686	3,926,036
5,592,474						562	8,686	9,248	5,601,722
35,357									35,357
3,881,177					242,342	291	384,858	627,491	4,508,668
5,560,461									5,560,461
9,476,995					242,342	291	384,858	627,491	10,104,486
<u>\$ 15,069,469</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 242,342</u>	<u>\$ 853</u>	<u>\$ 393,544</u>	<u>\$ 636,739</u>	<u>\$ 15,706,208</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	
REVENUES								
General property taxes	\$ 4,637,931	\$ 5,539,986	\$	\$ 1,371	\$	\$ 155,652	\$	\$
Tax increments								
Sales tax								
Intergovernmental revenues	964,385	106,474	31,488	234,980		3,965,674		518,964
Charges for services	196,001	6,805,237		1,611,573		672,682		
Interest earnings	26,413	33,439		137,113	12,502	5,374	6,166	
Net increase (decrease) in the fair value of investments	(9,000)	(10,900)		(17,200)	(4,000)	3,300	(2,300)	
Miscellaneous revenues	266,245	146,990		933,982		10,008	2,000,014	22,957
Total Revenues	6,081,975	12,621,226	31,488	2,901,819	8,502	4,812,690	2,003,880	541,921
EXPENDITURES								
Culture	6,036,473							
Park and recreation		12,495,382						
Public safety			31,488					
Airport operations				3,192,782				
Transit						4,427,520		
Economic development/tourism							1,003,080	443,569
Debt service								
Total Expenditures	6,036,473	12,495,382	31,488	3,192,782		4,427,520	1,003,080	443,569
Excess (deficiency) of revenues over (under) expenditures	45,502	125,844		(290,963)	8,502	385,170	1,000,800	98,352
OTHER FINANCING SOURCES (USES)								
Transfers in	181,250	230,474		166,000		6,992		
Transfers out	(22,446)	(301,977)		(486,952)			(963,160)	(98,352)
Total Other Financing Sources (Uses)	158,804	(71,503)		(320,952)		6,992	(963,160)	(98,352)
Net change in fund balances	204,306	54,341		(611,915)	8,502	392,162	37,640	
Fund Balances - beginning	1,777,930	2,182,269		3,830,289	654,301	392,548	554,622	
Fund Balances - ending	\$ 1,982,236	\$ 2,236,610	\$	\$ 3,218,374	\$ 662,803	\$ 784,710	\$ 592,262	\$

Total	Debt Service							Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Notes 2001 and 2008	DEED Bio-Science Cleanup Loan	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 10,334,940	\$ 755,233	\$	\$	\$	\$	\$	\$ 554,599	\$ 554,599	\$ 10,889,539
			345,746	82,270				755,233	755,233
5,821,965							299,906	299,906	6,121,871
9,285,493									9,285,493
221,007	(2,088)				3,823	(78)	5,154	6,811	227,818
(40,100)									(40,100)
3,380,196				26,894				26,894	3,407,090
29,003,501	753,145		345,746	109,164	3,823	(78)	859,659	2,071,459	31,074,960
6,036,473									6,036,473
12,495,382									12,495,382
31,488									31,488
3,192,782									3,192,782
4,427,520									4,427,520
1,446,649						7,691		7,691	1,454,340
	753,223	47,925	345,746	109,164	595,619	1,158,234	840,614	3,850,525	3,850,525
27,630,294	753,223	47,925	345,746	109,164	595,619	1,165,925	840,614	3,858,216	31,488,510
1,373,207	(78)	(47,925)			(591,796)	(1,166,003)	19,045	(1,786,757)	(413,550)
584,716		47,925			616,662	1,166,294	25,444	1,856,325	2,441,041
(1,872,887)									(1,872,887)
(1,288,171)		47,925			616,662	1,166,294	25,444	1,856,325	568,154
85,036	(78)				24,866	291	44,489	69,568	154,604
9,391,959	78				217,476		340,369	557,923	9,949,882
\$ 9,476,995	\$	\$	\$	\$	\$ 242,342	\$ 291	\$ 384,858	\$ 627,491	\$ 10,104,486

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 4,893,321	\$ 4,647,235	\$ 4,637,931	\$ (9,304)	\$ 4,529,281
Intergovernmental	962,329	1,034,941	964,385	(70,556)	1,018,740
Charges for services	146,650	146,650	196,001	49,351	202,855
Interest earnings		8,202	26,413	18,211	34,090
Net increase in the fair value of investments			(9,000)	(9,000)	(24,200)
Miscellaneous					
Contributions		255,498	255,498		211,811
Other	7,700	7,700	10,747	3,047	9,973
Total Revenues	<u>6,010,000</u>	<u>6,100,226</u>	<u>6,081,975</u>	<u>(18,251)</u>	<u>5,982,550</u>
EXPENDITURES					
Public Library	5,987,554	6,011,395	5,777,338	234,057	5,912,263
Gifts appropriations		723,905	259,135	464,770	166,782
Total Expenditures	<u>5,987,554</u>	<u>6,735,300</u>	<u>6,036,473</u>	<u>698,827</u>	<u>6,079,045</u>
Excess (deficiency) of revenues over (under) expenditures	22,446	(635,074)	45,502	680,576	(96,495)
OTHER FINANCING USES					
Transfers in		181,250	181,250		91,000
Transfers out	<u>(22,446)</u>	<u>(22,446)</u>	<u>(22,446)</u>		<u>(22,445)</u>
Total Other Financing Sources (Uses)	<u>(22,446)</u>	<u>158,804</u>	<u>158,804</u>		<u>68,555</u>
Net change in fund balance		<u>(476,270)</u>	<u>204,306</u>	<u>680,576</u>	<u>(27,940)</u>
Fund Balance - beginning	<u>1,777,930</u>	<u>1,777,930</u>	<u>1,777,930</u>		<u>1,805,870</u>
Fund Balance - ending	<u>\$ 1,777,930</u>	<u>\$ 1,301,660</u>	<u>\$ 1,982,236</u>	<u>\$ 680,576</u>	<u>\$ 1,777,930</u>

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 5,845,336	\$ 5,551,469	\$ 5,539,986	\$ (11,483)	\$ 5,316,769
Intergovernmental	24,942	67,536	106,474	38,938	263,293
Charges for services	7,208,694	7,208,694	6,805,237	(403,457)	6,744,088
Interest earnings	41,050	41,050	33,439	(7,611)	48,790
Net increase in the fair value of investments			(10,900)	(10,900)	(48,800)
Miscellaneous					
Contributions	18,000	39,296	21,296	(18,000)	11,081
Other	208,938	209,338	125,694	(83,644)	127,356
Total Revenues	<u>13,346,960</u>	<u>13,117,383</u>	<u>12,621,226</u>	<u>(496,157)</u>	<u>12,462,577</u>
EXPENDITURES					
Administration	448,500	444,772	451,853	(7,081)	433,548
Recreation Department	659,037	659,019	683,997	(24,978)	634,536
Golf	1,450,732	1,476,811	1,391,205	85,606	1,429,605
Tennis Center	45,650	44,877	42,498	2,379	60,860
Volleyball Center	294,756	293,824	271,607	22,217	282,992
Swimming Pools	215,423	215,423	170,777	44,646	152,263
Graham Arenas	655,964	653,999	675,235	(21,236)	673,768
Park	4,198,888	4,179,275	3,959,928	219,347	3,805,159
Plummer House	56,495	56,495	58,128	(1,633)	47,009
Recreation Center	1,251,577	1,248,126	1,241,126	7,000	1,195,546
UCR Field House	130,000	130,000		130,000	147,013
Mayo Civic Center	3,677,746	3,708,020	3,549,028	158,992	3,479,648
Total Expenditures	<u>13,084,768</u>	<u>13,110,641</u>	<u>12,495,382</u>	<u>615,259</u>	<u>12,341,947</u>
Excess (deficiency) of revenues over (under) expenditures	<u>262,192</u>	<u>6,742</u>	<u>125,844</u>	<u>119,102</u>	<u>120,630</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	277,000	507,474	230,474	(277,000)	109,000
Transfers out	(539,192)	(539,192)	(301,977)	237,215	(292,133)
Total Other Financing Sources (Uses)	<u>(262,192)</u>	<u>(31,718)</u>	<u>(71,503)</u>	<u>(39,785)</u>	<u>(183,133)</u>
Net change in fund balance		(24,976)	54,341	79,317	(62,503)
Fund Balance - beginning	<u>2,182,269</u>	<u>2,182,269</u>	<u>2,182,269</u>		<u>2,244,772</u>
Fund Balance - ending	<u>\$ 2,182,269</u>	<u>\$ 2,157,293</u>	<u>\$ 2,236,610</u>	<u>\$ 79,317</u>	<u>\$ 2,182,269</u>

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

For the Year Ended December 31, 2011
 With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$	\$	\$ 31,488	\$ 31,488	\$ 217,331
Total Revenues			31,488	31,488	217,331
EXPENDITURES					
Law enforcement block grant			31,488	(31,488)	217,331
Total Expenditures			31,488	(31,488)	217,331
Excess (deficiency) of revenues over (under) expenditures					
Fund Balance - beginning					
Fund Balance - ending	\$	\$	\$	\$	\$

CITY OF ROCHESTER, MINNESOTA
AIRPORT OPERATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$	\$	\$ 1,371	\$ 1,371	\$ 1,419
Intergovernmental	198,752	198,752	234,980	36,228	224,684
Charges for services	1,738,548	1,738,548	1,611,573	(126,975)	1,683,290
Interest earnings	116,000	100,000	137,113	37,113	199,416
Net increase (decrease) in the fair value of investments			(17,200)	(17,200)	(55,800)
Miscellaneous	918,000	918,000	933,982	15,982	929,605
Total Revenues	<u>2,971,300</u>	<u>2,955,300</u>	<u>2,901,819</u>	<u>(53,481)</u>	<u>2,982,614</u>
EXPENDITURES					
Airport operations	2,786,292	2,786,292	3,040,025	(253,733)	2,962,956
US customs operations	162,000	162,000	152,757	9,243	153,813
Total Expenditures	<u>2,948,292</u>	<u>2,948,292</u>	<u>3,192,782</u>	<u>(244,490)</u>	<u>3,116,769</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,008</u>	<u>7,008</u>	<u>(290,963)</u>	<u>(297,971)</u>	<u>(134,155)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			166,000	166,000	
Transfers out	(486,952)	(486,952)	(486,952)		(1,077,928)
Total Other Financing Sources (Uses)	<u>(486,952)</u>	<u>(486,952)</u>	<u>(320,952)</u>	<u>166,000</u>	<u>(1,077,928)</u>
Net change in fund balance	(463,944)	(479,944)	(611,915)	(131,971)	(1,212,083)
Fund Balance - beginning	<u>3,830,289</u>	<u>3,830,289</u>	<u>3,830,289</u>		<u>5,042,372</u>
Fund Balance - ending	<u>\$3,366,345</u>	<u>\$3,350,345</u>	<u>\$3,218,374</u>	<u>\$ (131,971)</u>	<u>\$3,830,289</u>

CITY OF ROCHESTER, MINNESOTA
F. E. WILLIAMS ESTATE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 10,000	\$ 10,000	\$ 12,502	\$ 2,502	\$ 15,937
Net increase in the fair value of investments			(4,000)	(4,000)	(6,600)
Total Revenues	<u>10,000</u>	<u>10,000</u>	<u>8,502</u>	<u>(1,498)</u>	<u>9,337</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	(15,000)	(15,000)		15,000	(5,217)
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(15,000)</u>		<u>15,000</u>	<u>(5,217)</u>
Net change in fund balance	(5,000)	(5,000)	8,502	13,502	4,120
Fund Balance - beginning	<u>654,301</u>	<u>654,301</u>	<u>654,301</u>		<u>650,181</u>
Fund Balance - ending	<u>\$ 649,301</u>	<u>\$ 649,301</u>	<u>\$ 662,803</u>	<u>\$ 13,502</u>	<u>\$ 654,301</u>

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget - Positive (Negative)	2010 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 166,015	\$ 157,777	\$ 155,652	\$ (2,125)	\$ 11,805
Intergovernmental revenues	3,818,775	3,820,021	3,965,674	145,653	3,618,226
Charges for services	776,300	776,300	672,682	(103,618)	664,888
Interest earnings			5,374	5,374	(1,839)
Net increase (decrease) in the fair value of investments			3,300	3,300	(6,200)
Miscellaneous		9,561	10,008	447	10,700
Total Revenues	<u>4,761,090</u>	<u>4,763,659</u>	<u>4,812,690</u>	<u>49,031</u>	<u>4,297,580</u>
EXPENDITURES					
Employee services	17,143	17,143	11,343	5,800	11,923
Contractual services	4,650,445	4,666,368	4,300,294	366,074	4,082,008
Materials and supplies	80,496	80,496	103,401	(22,905)	96,792
Other charges	13,006	13,006	12,482	524	26,201
Total Expenditures	<u>4,761,090</u>	<u>4,777,013</u>	<u>4,427,520</u>	<u>349,493</u>	<u>4,216,924</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(13,354)</u>	<u>385,170</u>	<u>398,524</u>	<u>80,656</u>
OTHER FINANCING USES					
Transfers in		6,992	6,992		
Total Other Financing Sources (Uses)		<u>6,992</u>	<u>6,992</u>		
Net change in fund balance		(6,362)	392,162	398,524	80,656
Fund Balance - beginning	<u>392,548</u>	<u>392,548</u>	<u>392,548</u>		<u>311,892</u>
Fund Balance - ending	<u>\$ 392,548</u>	<u>\$ 386,186</u>	<u>\$ 784,710</u>	<u>\$ 398,524</u>	<u>\$ 392,548</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2011

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

Equipment Revolving Fund:

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

Information Technology Revolving Fund:

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

Self-Insurance Fund:

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

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
December 31, 2011
With Comparative Totals as of December 31, 2010

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2011	2010
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 577,775	\$ 251,438	\$ 2,309,091	\$ 3,138,304	\$ 2,765,932
Investments	7,132,700	3,156,300	27,706,500	37,995,500	36,336,900
Accrued interest receivable	25,912	11,466	100,653	138,031	190,100
Accounts receivable		9,139		9,139	29,490
Taxes receivable delinquent	2,998	294		3,292	3,589
Due from other governmental units	3,548	94		3,642	2,363
Total Current Assets	<u>7,742,933</u>	<u>3,428,731</u>	<u>30,116,244</u>	<u>41,287,908</u>	<u>39,328,374</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	198,471			198,471	3,410
Machinery and equipment	26,469,174	1,240,229		27,709,403	26,483,977
Less: Accumulated depreciation	(16,905,889)	(912,605)		(17,818,494)	(16,419,527)
Total capital assets (net of accumulated depreciation)	<u>9,761,756</u>	<u>327,624</u>		<u>10,089,380</u>	<u>10,067,860</u>
Total Assets	<u>17,504,689</u>	<u>3,756,355</u>	<u>30,116,244</u>	<u>51,377,288</u>	<u>49,396,234</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	24,698	195	3,850	28,743	71,660
Accrued interest payable	12,490			12,490	11,148
Deposits payable			96,773	96,773	113,304
Accrued compensation and payroll taxes			9,772	9,772	17,619
Due to other governmental units			20,933	20,933	15,472
Accrued claims			1,200,145	1,200,145	1,102,381
Bonds payable	120,000			120,000	75,000
Total Current Liabilities	<u>157,188</u>	<u>195</u>	<u>1,331,473</u>	<u>1,488,856</u>	<u>1,406,584</u>
Noncurrent Liabilities:					
Bonds payable	970,000			970,000	1,090,000
Accrued claims			623,594	623,594	485,205
Post employment benefit obligation			2,108,405	2,108,405	1,655,058
Total Noncurrent Liabilities	<u>970,000</u>		<u>2,731,999</u>	<u>3,701,999</u>	<u>3,230,263</u>
Total Liabilities	<u>1,127,188</u>	<u>195</u>	<u>4,063,472</u>	<u>5,190,855</u>	<u>4,636,847</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,671,756	327,624		8,999,380	8,902,860
Unrestricted	7,705,745	3,428,536	26,052,772	37,187,053	35,856,527
Total Net Assets	<u>\$ 16,377,501</u>	<u>\$ 3,756,160</u>	<u>\$ 26,052,772</u>	<u>\$ 46,186,433</u>	<u>\$ 44,759,387</u>

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

For the Year Ended December 31, 2011
 With Comparative Totals for the Year Ended December 31, 2010

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2011	2010
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 2,046,671	\$ 498,462	\$	\$ 2,545,133	\$ 2,532,513
Copy center charges	24,109			24,109	28,622
Departmental workers' compensation charges			198,799	198,799	177,040
Departmental insurance charges			12,128,140	12,128,140	13,026,431
Departmental flex charges			18,669	18,669	19,909
Employee insurance charges			862,840	862,840	970,216
Employee flex benefit contributions			676,900	676,900	689,275
Total Operating Revenues	<u>2,070,780</u>	<u>498,462</u>	<u>13,885,348</u>	<u>16,454,590</u>	<u>17,444,006</u>
Operating Expenses:					
Copy center	20,211			20,211	17,340
Minor equipment		343,481		343,481	143,763
Workers' compensation benefits			567,735	567,735	379,821
Workers' compensation insurance premiums			74,831	74,831	211,688
Health insurance claims			11,105,641	11,105,641	11,388,082
Flex benefits			718,041	718,041	684,641
Property and liability insurance			517,457	517,457	551,403
Property and liability claims			115,500	115,500	197,791
Other	277	208,139		208,416	155,189
Depreciation	2,050,656	179,593		2,230,249	2,265,631
Total Operating Expenses	<u>2,071,144</u>	<u>731,213</u>	<u>13,099,205</u>	<u>15,901,562</u>	<u>15,995,349</u>
Operating Income (Loss)	<u>(364)</u>	<u>(232,751)</u>	<u>786,143</u>	<u>553,028</u>	<u>1,448,657</u>
Nonoperating Revenues (Expenses):					
General property taxes	155,844	16		155,860	136,988
Interest earnings	147,146	64,194	558,611	769,951	908,620
Net increase (decrease) in the fair value of investments	(40,000)	(17,400)	(144,300)	(201,700)	(370,000)
Interest and fiscal charges	(30,158)			(30,158)	(30,272)
Gain on disposal of property	51,813			51,813	61,681
Intergovernmental revenues	100,650			100,650	2,116
Other income (expense)		100		100	
Total Nonoperating Revenues	<u>385,295</u>	<u>46,910</u>	<u>414,311</u>	<u>846,516</u>	<u>709,133</u>
Income Before Transfers and Contributions	384,931	(185,841)	1,200,454	1,399,544	2,157,790
Capital contributions		71,317		71,317	5,448
Transfers in	23,255	12,673		35,928	31,537
Transfers out	(9,373)	(70,370)		(79,743)	
Change in Net Assets	398,813	(172,221)	1,200,454	1,427,046	2,194,775
Total Net Assets - beginning	<u>15,978,688</u>	<u>3,928,381</u>	<u>24,852,318</u>	<u>44,759,387</u>	<u>42,564,612</u>
Total Net Assets - ending	<u>\$ 16,377,501</u>	<u>\$ 3,756,160</u>	<u>\$ 26,052,772</u>	<u>\$ 46,186,433</u>	<u>\$ 44,759,387</u>

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

For the Year Ended December 31, 2011

With Comparative Totals for the Year Ended December 31, 2010

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2011	2010
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 2,070,097	\$ 518,767	\$ 12,345,608	\$ 14,934,472	\$ 15,753,017
Cash received from employees			1,539,740	1,539,740	1,659,491
Cash paid to suppliers	(20,488)	(568,324)	(12,457,160)	(13,045,972)	(13,475,965)
Net Cash Provided by Operating Activities	2,049,609	(49,557)	1,428,188	3,428,240	3,936,543
Cash Flows From Noncapital Financing Activities:					
General property taxes	152,846	537		153,383	134,571
Intergovernmental revenues	100,650			100,650	2,116
Transfers in	23,255	12,673		35,928	31,537
Transfers out	(9,373)	(70,370)		(79,743)	
Net Cash Provided by (Used in) Noncapital Financing Activities	267,378	(57,160)		210,218	168,224
Cash Flows From Capital and Related Financing Activities:					
Proceeds from issuance of bonds					425,000
Principal and interest payments on bonds	(123,737)			(123,737)	(110,954)
Proceeds from sale of property	54,204			54,204	85,167
Acquisition of capital assets	(2,087,871)	(70,402)		(2,158,273)	(1,675,985)
Net Cash Used in Capital and Related Financing Activities	(2,157,404)	(70,402)		(2,227,806)	(1,276,772)
Cash Flows From Investing Activities:					
Investment income	158,234	68,528	595,258	822,020	931,620
Net (increase) decrease in investments	(107,100)	(145,700)	(1,607,500)	(1,860,300)	(1,510,000)
Net Cash Provided by (Used in) Investing Activities	51,134	(77,172)	(1,012,242)	(1,038,280)	(578,380)
Net Increase (Decrease) in Cash and Cash Equivalents	210,717	(254,291)	415,946	372,372	2,249,615
Cash and Cash Equivalents, Beginning of Year	367,058	505,729	1,893,145	2,765,932	516,317
Cash and Cash Equivalents, End of Year	\$ 577,775	\$ 251,438	\$ 2,309,091	\$ 3,138,304	\$ 2,765,932

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2011
With Comparative Totals for the Year Ended December 31, 2010

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2011	2010
Operating Income (Loss)	\$ (364)	\$ (232,751)	\$ 786,143	\$ 553,028	\$ 1,448,657
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	2,050,656	179,593		2,230,249	2,265,631
(Increase) Decrease In:					
Accounts receivable		20,351		20,351	(29,490)
Due from other governmental units	(683)	(46)		(729)	(2,008)
Increase (Decrease) In:					
Accounts payable		(16,693)	(28,549)	(45,242)	24,787
Deposits payable			(16,531)	(16,531)	(12,965)
Accrued compensation and payroll taxes			(7,847)	(7,847)	975
Due to other governmental units		(11)	5,472	5,461	1,968
Post employment benefit obligation			453,347	453,347	503,285
Accrued claims			236,153	236,153	(264,297)
Net Cash Provided by Operating Activities	<u>\$2,049,609</u>	<u>\$ (49,557)</u>	<u>\$ 1,428,188</u>	<u>\$ 3,428,240</u>	<u>\$ 3,936,543</u>
Non Cash Transactions:					
Receipt of contributed property	\$	\$ 71,317	\$	\$ 71,317	\$ 5,448
Increase (Decrease) in fair value of investments	(40,000)	(17,400)	(144,300)	(201,700)	(370,000)
Equipment purchases in accounts payable at year end	24,698			24,698	

(This Page is Left Blank Intentionally)