

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2018

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 58 percent, 49 percent, and 80 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a blended component unit), which represent 1 percent, 0 percent, and 0 percent, respectively, of the total assets, fund balance, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds and the DMCC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of December 31, 2018, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the notes to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for the Post-Employment Benefits Other Than Pensions*, during the year ended December 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 18, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Matters (continued)

Other Information (continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019, on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Rochester, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rochester, Minnesota's internal control over financial reporting and compliance.

Smith, Schepke and Associates, Ltd.

Rochester, Minnesota
June 14, 2019

(This Page is Left Blank Intentionally)

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, 2018, with comparative data for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Rochester exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,330,806,394 (*net position*). Of this amount, \$247,504,039 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$86,024,574.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$179,455,102, an increase of \$33,042,728 in comparison with the prior year. Approximately 18 percent of this total amount, or \$33,010,373, 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 \$37,576,416 or approximately 46 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long term debt obligations by \$19,448,793 during the current fiscal year.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Additional explanation of these sections of the financial statements follows.

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

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

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

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

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

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

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

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

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

The City of Rochester maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, both of which are considered to be major funds. Data from the other seventeen 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 94-103 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 26-27) and the special revenue funds (pages 98-103) to demonstrate compliance with the budget.

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-88 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 94-108 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,330,806,394 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (77 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Rochester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rochester's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 246,802,961	\$ 214,293,006	\$ 221,345,613	\$ 229,964,740	\$ 468,148,574	\$ 444,257,746
Capital assets	769,288,717	759,055,861	663,711,711	635,719,492	1,433,000,428	1,394,775,353
Total assets	<u>1,016,091,678</u>	<u>973,348,867</u>	<u>885,057,324</u>	<u>865,684,232</u>	<u>1,901,149,002</u>	<u>1,839,033,099</u>
Deferred outflows of resources	47,571,860	65,261,318	6,792,555	10,297,983	54,364,415	75,559,301
Total assets and deferred outflows of resources	<u>1,063,663,538</u>	<u>1,038,610,185</u>	<u>891,849,879</u>	<u>875,982,215</u>	<u>1,955,513,417</u>	<u>1,914,592,400</u>
Long-term liabilities						
outstanding	151,449,097	163,857,208	284,691,858	301,334,334	436,140,955	465,191,542
Other liabilities	74,039,142	78,163,591	42,405,597	42,738,318	116,444,739	120,901,909
Total liabilities	<u>225,488,239</u>	<u>242,020,799</u>	<u>327,097,455</u>	<u>344,072,652</u>	<u>552,585,694</u>	<u>586,093,451</u>
Deferred inflows of resources	62,209,488	70,149,009	9,911,841	9,897,342	72,121,329	80,046,351
Total liabilities and deferred inflows of resources	<u>287,697,727</u>	<u>312,169,808</u>	<u>337,009,296</u>	<u>353,969,994</u>	<u>624,707,023</u>	<u>666,139,802</u>
Net position:						
Net investment in capital assets	630,541,436	612,735,024	395,350,081	373,589,926	1,025,891,517	986,324,950
Restricted	56,933,634	48,584,755	477,204	455,000	57,410,838	49,039,755
Unrestricted	<u>88,490,741</u>	<u>65,120,598</u>	<u>159,013,298</u>	<u>147,967,295</u>	<u>247,504,039</u>	<u>213,087,893</u>
Total net position	<u>\$ 775,965,811</u>	<u>\$ 726,440,377</u>	<u>\$ 554,840,583</u>	<u>\$ 522,012,221</u>	<u>\$ 1,330,806,394</u>	<u>\$ 1,248,452,598</u>

An additional portion of the City of Rochester's net position (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$247,504,039) may be used to meet the government's ongoing obligations to citizens and creditors.

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

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

Governmental activities. Governmental activities increased the City of Rochester's net position by \$53,196,212. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions, grants for the Airport Terminal expansion, transit grants, and state grants for Destination Medical Center capital projects). Additional net position growth resulted from increased operating grants and contributions, program revenues over budget, and unused contingency.

Business-type activities. Business-type activities increased the City of Rochester's net position by \$32,828,362. This increase is due to contributions of assets in the storm water, sewer, electric utilities, and water utilities as well as program revenues which exceeded expenses in all business activities.

A condensed version of the Statement of Activities follows:

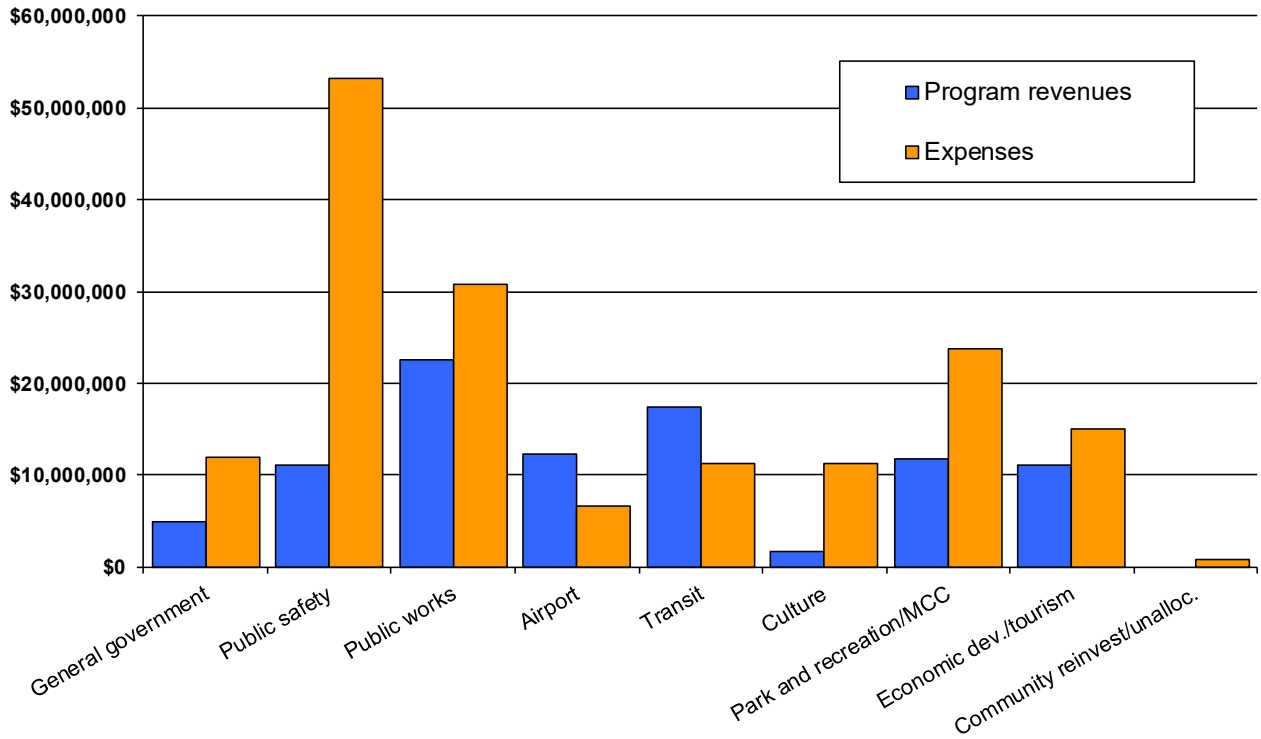
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 29,720,776	\$ 27,079,310	\$ 225,164,131	\$ 214,515,770	\$ 254,884,907	\$ 241,595,080
Operating grants and contributions	14,941,118	13,029,859			14,941,118	13,029,859
Capital grants and contributions	48,387,645	33,520,270	4,403,270	9,511,850	52,790,915	43,032,120
General revenues:						
Property taxes	68,593,874	62,455,775			68,593,874	62,455,775
Other taxes	33,502,258	31,342,630			33,502,258	31,342,630
Grants and contributions not restricted to specific programs						
Local government aid	7,497,955	7,215,571			7,497,955	7,215,571
Other	3,094,471	3,126,534	9,796	68,410	3,104,267	3,194,944
Miscellaneous	4,633,188	3,079,749	3,072,884	1,648,115	7,706,072	4,727,864
Total revenues	<u>210,371,285</u>	<u>180,849,698</u>	<u>232,650,081</u>	<u>225,744,145</u>	<u>443,021,366</u>	<u>406,593,843</u>
Expenses:						
General government	12,026,232	12,510,037			12,026,232	12,510,037
Public safety	53,173,580	56,914,220			53,173,580	56,914,220
Public works	30,766,446	26,745,592			30,766,446	26,745,592
Airport	6,688,809	5,855,354			6,688,809	5,855,354
Transit	11,340,008	10,130,590			11,340,008	10,130,590
Culture	11,241,614	11,220,102			11,241,614	11,220,102
Park and recreation/Mayo Civic Center	23,832,446	22,342,306			23,832,446	22,342,306
Economic development/tourism	15,050,315	18,622,500			15,050,315	18,622,500
Community reinvestment/unallocated	811,093	787,312			811,093	787,312
Interest on long-term debt	5,135,625	3,888,556			5,135,625	3,888,556
Parking			4,649,288	4,367,159	4,649,288	4,367,159
Electric			149,047,715	140,679,727	149,047,715	140,679,727
Water			9,997,928	9,717,620	9,997,928	9,717,620
Sewer			18,222,587	20,473,740	18,222,587	20,473,740
Storm water			5,013,106	5,169,351	5,013,106	5,169,351
Total expenses	<u>170,066,168</u>	<u>169,016,569</u>	<u>186,930,624</u>	<u>180,407,597</u>	<u>356,996,792</u>	<u>349,424,166</u>
Increase in net position before transfers	40,305,117	11,833,129	45,719,457	45,336,548	86,024,574	57,169,677
Transfers	12,891,095	(9,887,033)	(12,891,095)	9,887,033		
Increase in net position	53,196,212	1,946,096	32,828,362	55,223,581	86,024,574	57,169,677
Net position - beginning, as originally stated	726,440,377	724,494,281	522,012,221	466,788,640	1,248,452,598	1,191,282,921
Change in accounting principle	(3,670,778)				(3,670,778)	
Net position - beginning, as restated	<u>722,769,599</u>	<u>724,494,281</u>	<u>522,012,221</u>	<u>466,788,640</u>	<u>1,244,781,820</u>	<u>1,191,282,921</u>
Net position, end of year	<u>\$ 775,965,811</u>	<u>\$ 726,440,377</u>	<u>\$ 554,840,583</u>	<u>\$ 522,012,221</u>	<u>\$ 1,330,806,394</u>	<u>\$ 1,248,452,598</u>

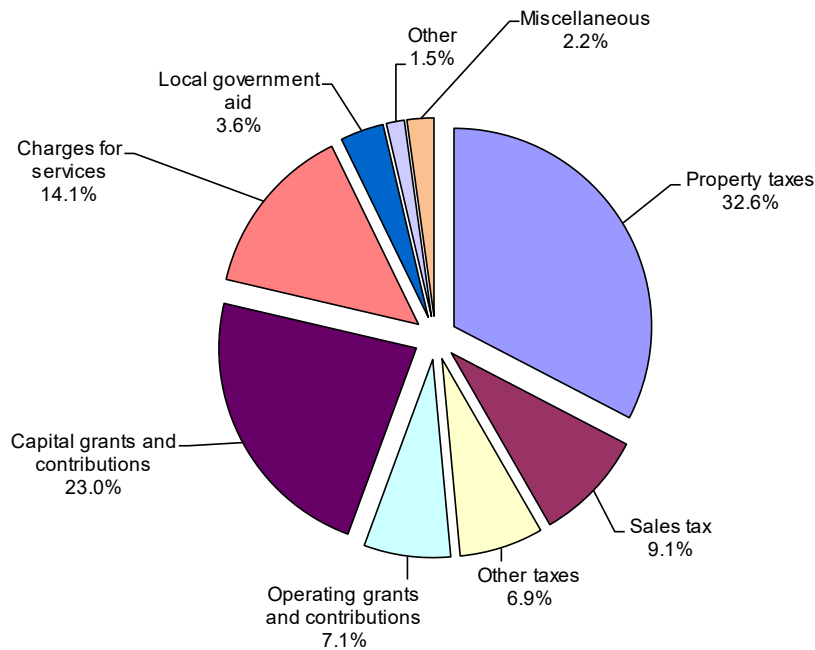
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



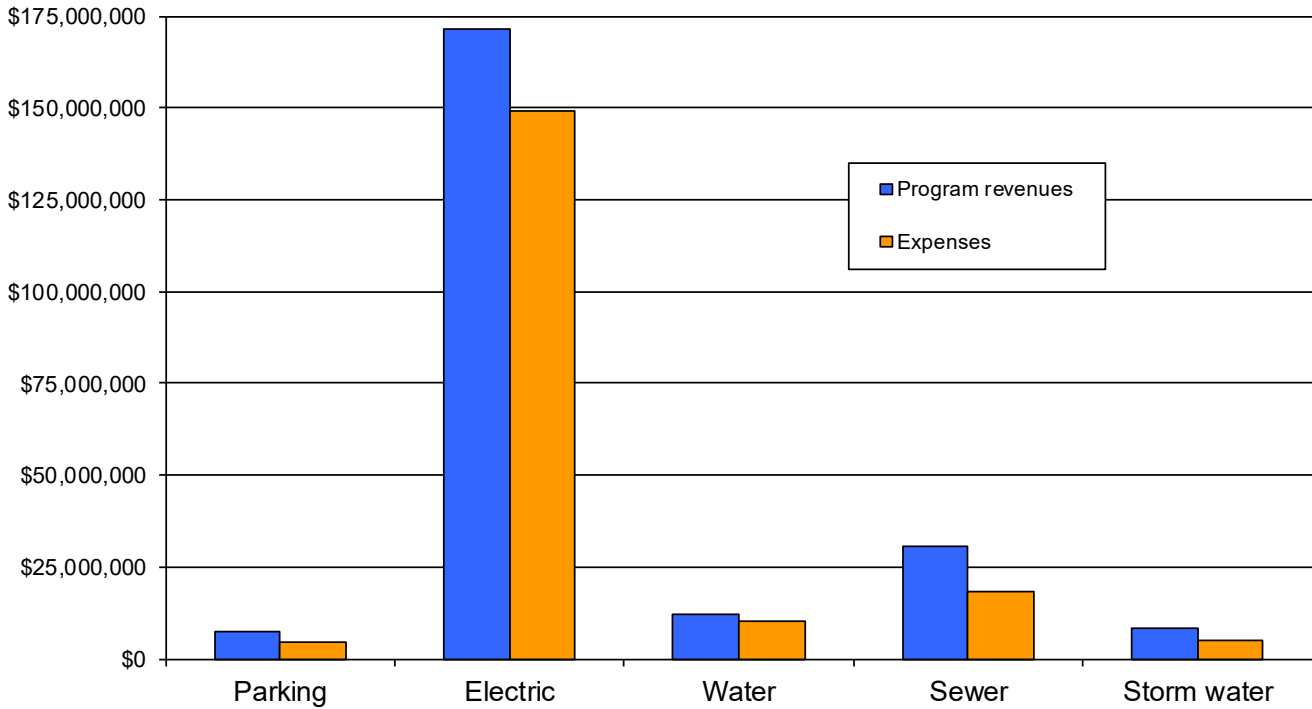
Revenues by Source - Governmental Activities



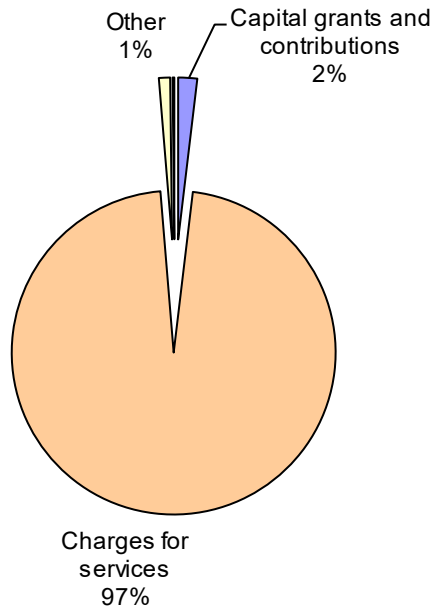
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

Fund balances are classified as follows:

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$179,455,102, an increase of \$33,042,728 from the prior year. The general fund increased fund balance by \$3.8 million due to high building permit revenue, operational savings of various departments, and remaining contingency balance. The capital improvement fund increased fund balance by \$29.1 million, largely due to sales tax collections, the Airport Terminal expansion, and state money for Destination Medical Center. Additionally, all other governmental funds reflected a net increase of \$122,611 in fund balance, largely showing up in the Airport fund.

Approximately 18 percent of the total fund balance, or \$33,010,373, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,213,725 is considered to be nonspendable (prepaid or inventory), \$60,110,922 has been restricted by grantors, donors, debt covenants, or regulation, \$71,419,206 has been committed by council action for CIP projects, and \$13,700,876 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 \$3,799,689 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$35,845,807 while total fund balance amounted to \$38,563,775. 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 44 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 42 percent.

The library fund increased its fund balance by \$189,959 for the year after transferring \$22,446 to the capital improvement fund for future equipment purchases. Much of this gain was the result of new gift appropriations. Additionally, operational expenditures were held \$922,123 below the approved budget. Of that amount, \$685,701 related to rollover of gift appropriations which are not reflected in the budget.

The municipal recreation fund decreased its fund balance by \$372,755 as a net gain in the National Volleyball Center was not enough to offset losses in the Park Operations, Golf, Graham Arena, and Rec Center programs. The losses can be attributed to \$509,730 being transferred out for capital improvement needs.

The Mayo Civic Center fund increased its fund balance by \$741,625, which can be attributed to revenues exceeding budget due to strong bookings in the expanded facility.

The airport fund increased its total fund balance by \$1,431,777 for the year to \$4,529,798 due to an increase in fee and rental revenues. Additionally, Council provided \$521,992 in budgeted tax levy for the airport in 2018 and capital improvement transfers were held to just \$89,394 all in an effort to restore fund balance in this area.

The transit fund saw an increase in fund balance of \$499,775 due to an increase in grant revenue, user fee revenue, and lower than expected supply costs.

Minnesota Bio Science Center fund increased fund balance by \$277,056 as the facility has maintained a consistently high occupancy level.

Debt service fund balances decreased by \$2,635,428.

The capital improvement fund increased fund balance by \$29,120,428 due in large part to the sales tax collections, the Airport Terminal expansion grant funds, and state money for Destination Medical Center projects.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The unrestricted net position in the respective proprietary funds are Parking - \$20,875,479 Electric - \$77,299,816, Water - \$6,155,222, Sewer - \$37,710,370 and Storm water - \$15,972,957. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$9.0 million increase in net position for the year as revenues improved from prior year due to scheduled rate increases. The Sewer Utility's rates were increased based upon a rate study completed during 2015, and the city council adopted a six-year schedule of rate adjustments through 2021. In addition, the "plant investment fee" was increased to \$3,300 in 2018. The schedule of rate increases was necessary as sewer flows continued to fall below plan and funding is needed for significant capital needs.

The Water Utility's net position increased \$2.3 million in 2018. This utility's rates were increased by 6.0% in January of 2018 and 6.0% in January of 2019. A water utility cost of service study was completed during 2015, with the Utility Board and City Council accepting a three year schedule of rate adjustments. The last year in the three year schedule was 2018. However, the Utility Board and City Council approved the 2019 rate increase.

The Electric Utility net position growth of \$15.1 million occurred after rates were increased 1.5% in January of 2018. They were further increased by 1.9% for 2019 based on a cost of service study accepted by the Utility Board and City Council in November of 2017.

The Parking Enterprise growth in net position of \$1.5 million was due to increased parking revenues. Parking rates were increased in 2017 based on City Council approval. During 2018, the City Council approved a rate study setting rates for 2019 through 2023. The plan calls for rate increases every other year with the goal of continual support of operations and capital needs.

The Storm Water Utility's net position increased \$5.2 million in 2018. Storm Water rates increased 10.75% in January 2018 based on a storm water rate study completed in 2015. This rate study approved by the City Council created a five-year rate adjustment plan. Prior to 2016, this utility's last increase was in 2011, an increase of 3% following the rate structure approved by Council for years 2008 through 2011.

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

The equipment revolving fund's net position increased \$422,076 in 2018 primarily due to an increase in tax levy support.

The information technology revolving fund's net position decreased \$72,656 primarily due to transfers to the capital improvement projects fund for future equipment purchases.

The self-insurance fund's net position decreased \$466,691 in 2018 primarily due to high health insurance claims and an increase in property and liability insurance claims.

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

General Fund Budgetary Highlights

The City approved the 2018 general fund budget anticipating a decrease in fund balance.

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

- Increase in the public safety expenditures due to drug enforcement administration and fire hazmat grant appropriations.
- Increase in the city attorney and planning and zoning budget to address unplanned expenditures for legal consultants and professional services.
- Reductions in unallocated contingency account to offset increases in city attorney, planning and zoning, and other smaller unplanned costs.
- Economic development budget was increased to reflect the higher than expected lodging tax.

At the close of the year, general fund total expenditures were \$4,025,579 below final budget while actual revenues were above final budget by \$2,443,909. These variances to budget can be traced to higher than expected lodging tax, police and fire state aid, permit revenues, and savings in police and fire budgets due to a delay in hiring of approved positions and lower than expected overtime usage.

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, 2018, amounts to \$1,433,000,428 (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 \$38,225,075, or 2.7 percent. This increase is a result of significant construction activities in building expansions and infrastructure including streets, underground mains, and continued improvements to the electric distribution and transmission systems.

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

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 75,482,308	\$ 74,962,362	\$ 22,161,442	\$ 22,062,917	\$ 97,643,750	\$ 97,025,279
Buildings	262,625,849	250,661,154	269,597,413	259,731,992	532,223,262	510,393,146
Improvements other than buildings	24,101,261	25,211,583			24,101,261	25,211,583
Machinery and equipment	37,494,183	31,124,467	311,792,106	258,229,471	349,286,289	289,353,938
Infrastructure	340,816,172	331,529,574			340,816,172	331,529,574
Construction in progress	28,768,944	45,566,721	60,160,750	95,695,112	88,929,694	141,261,833
Total	<u>\$ 769,288,717</u>	<u>\$ 759,055,861</u>	<u>\$ 663,711,711</u>	<u>\$ 635,719,492</u>	<u>\$ 1,433,000,428</u>	<u>\$ 1,394,775,353</u>

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

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

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$386,484,000 in bonds and notes outstanding. Of this amount, \$199,675,000 comprises debt backed by the full faith and credit of the government, and \$186,809,000 represents bonds and notes secured solely by specified revenue sources. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

City of Rochester's Outstanding Debt
General Obligation and Revenue Bonds, and Notes Payable

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 6,330,000	\$ 6,600,000	\$	\$	\$ 6,330,000	\$ 6,600,000
General obligation tax increment revenue bonds	21,265,000	21,265,000			21,265,000	21,265,000
General obligation lodging tax revenue bonds	39,345,000	40,390,000			39,345,000	40,390,000
General obligation equipment certificates of indebtedness	2,320,000	185,000			2,320,000	185,000
General obligation taxable Build America bonds	21,255,000	22,195,000			21,255,000	22,195,000
General obligation sales tax revenue bonds	35,360,000	37,780,000			35,360,000	37,780,000
General obligation revenue crossover refunding bonds			73,800,000	81,635,000	73,800,000	81,635,000
Revenue bonds	9,904,000	12,940,000	176,905,000	182,365,000	186,809,000	195,305,000
Energy loan payable		577,793				577,793
Total	\$ 135,779,000	\$ 141,932,793	\$ 250,705,000	\$ 264,000,000	\$ 386,484,000	\$ 405,932,793

The City of Rochester's total bonds and notes payable decreased by \$19,448,793 during the current fiscal year.

There was one bond issuance by the City during 2018. A General Obligation Equipment Certificate of Indebtedness Bond was issued in the amount of \$2,225,000 related to the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles for the City's Equipment Revolving Fund.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt and a partial call on the EDA Lease Revenue Bonds. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 63.

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

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

Economic Factors and Next Year's Budgets and Rates

- Rochester's unemployment rate increased by 0.2 percent to 3.6 percent by the end of March 2019. This remains below the state and U.S. averages of 4.1 percent and 3.9 percent, respectively. A gain of 4,224 jobs brought the total employment figure through March 2019 to 122,065 from the March 2018 level of 117,841.
- Building activity grew in 2018. Commercial and residential building permits issued for 2018 totaled \$587,794,238. Permit totals were up 12 percent from a year ago and up 32.7 percent over 2016. Permit values for the first quarter of 2019 totaled \$82,165,474. This represents a decrease of 27.2 percent over first quarter 2018 and an increase of 10.5 percent over the first quarter of 2017.
- The DMCC plan adopted by the City Council and the Destination Medical Center Board in 2015 is a strategic business plan to address land use, transportation, infrastructure, business development, marketing and operational strategies over the 20 year period. It outlines a \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future.

This legislation secured State, City and County funding of \$585 million to help construct the significant public infrastructure needed to support this growth. An additional 0.25% local option sales tax dedicated towards the City's share of this funding became effective January 1, 2016. Improvement design work for "Heart of the City" and "Discovery Walk" areas of the downtown are complete and moving towards bid package development. The transportation studies are complete and an important step in securing federal funding that will be needed for those significant projects envisioned in the plan. Transit hub locations have been identified and land is being secured. Electric buses and charging stations are being secured for use on the circulator routes to bring riders from the transit hubs to the downtown DMCC district and back.

- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed. Further road and transit facility projects are planned for 2019.
- Funding is being sought for important reconstruction work on the City's main runway 2/20 at the Rochester International Airport for current design with construction in 2020. This project is estimated to cost \$54 million and will require a mix of state, City, and federal funds to complete.
- The City's tax levy was increased by approximately \$6.1 million or 8.9 percent for pay 2019 to keep pace with a growing community and to fill back demand from prior years when council held down levies due to a lagging economy.
- Interest rates have remained at historical lows since 2010 but are just now beginning to increase somewhat. This continues to make earnings of the City's investment portfolio fall significantly below prior levels, impacting our reserve funds.
- Expansion and remodeling of the City's north precinct police facility is being considered for 2019/2020 at an estimated cost of just over \$23.5 million.

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

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

- Full staffing and tooling of the City's new Community Development department will be in place and operational by mid-2019 with the "one-stop-shop" for development services of planning, building safety, and engineering services all being co-located during 2020 to better serve the developers and builders serving the people of Rochester.

All of these factors were considered in preparing the City of Rochester's budget for the 2019 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

Requests for Information

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

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2018

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 11,988,875	\$ 15,765,865	\$ 27,754,740
Investments	193,989,090	147,135,151	341,124,241
Land held for resale	625,000		625,000
Receivables (net of allowance for uncollectibles)	24,957,865	15,504,549	40,462,414
Internal balances	(2,688,802)	2,688,802	
Due from other governmental units	16,678,198	10,429	16,688,627
Accrued utility revenues		6,776,921	6,776,921
Restricted cash and investments	39,010	14,244,662	14,283,672
Restricted funds held in trust		121	121
Inventory	987,451	5,608,889	6,596,340
Prepaid items	226,274		226,274
Other assets		13,610,224	13,610,224
Capital assets:			
Nondepreciable	104,251,252	82,322,192	186,573,444
Depreciable, net	665,037,465	581,389,519	1,246,426,984
Total Assets	<u>1,016,091,678</u>	<u>885,057,324</u>	<u>1,901,149,002</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from OPEB activity	408,344		408,344
Deferred outflows from pension activity	47,163,516	5,651,847	52,815,363
Unamortized deferred amount on refunding		1,140,708	1,140,708
Total Deferred Outflows of Resources	<u>47,571,860</u>	<u>6,792,555</u>	<u>54,364,415</u>
LIABILITIES			
Accounts and contracts payable	6,133,145	14,717,464	20,850,609
Deposits payable	1,781,666	1,575,890	3,357,556
Accrued interest payable	1,727,005	1,690,134	3,417,139
Accrued compensation and payroll taxes	2,223,015	678,676	2,901,691
Accrued claims	2,856,439	6,000	2,862,439
Due to other governmental units	1,395,699	40,046	1,435,745
Unearned revenue	232,499	6,435,039	6,667,538
Noncurrent liabilities:			
Due within one year	12,918,000	16,132,017	29,050,017
Due in more than one year	138,531,097	268,559,841	407,090,938
Other post-employment benefit liability	10,725,626		10,725,626
Net pension liability	46,964,048	17,262,348	64,226,396
Total Liabilities	<u>225,488,239</u>	<u>327,097,455</u>	<u>552,585,694</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pension activity	62,209,488	6,952,515	69,162,003
Unamortized deferred amount on refunding		1,839,409	1,839,409
Solar choice deferred inflows of resources		508,842	508,842
Advance payments on leases		611,075	611,075
Total Deferred Inflows of Resources	<u>62,209,488</u>	<u>9,911,841</u>	<u>72,121,329</u>
NET POSITION			
Net investment in capital assets	630,541,436	395,350,081	1,025,891,517
Restricted for:			
Airport	4,529,798		4,529,798
CDBG loans	3,804,709		3,804,709
Economic development loan	329,856		329,856
Civic music endowment	39,010		39,010
Park and recreation	108,819		108,819
Debt service	1,788,107	477,083	2,265,190
Children's playgrounds	666,517		666,517
Flood control	17,225,838		17,225,838
Tax increment financing	4,536,611		4,536,611
Sales tax authorized projects	23,904,369		23,904,369
Funds held in trust		121	121
Unrestricted	<u>88,490,741</u>	<u>159,013,298</u>	<u>247,504,039</u>
Total Net Position	<u>\$ 775,965,811</u>	<u>\$ 554,840,583</u>	<u>\$ 1,330,806,394</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

<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	\$ 12,026,232	\$ 538,828	\$ 100,939	\$ 4,344,528
Public safety	53,173,580	7,898,948	3,170,207	
Public works	30,766,446	551,026	1,559,761	20,380,936
Airport	6,688,809	4,980,582	315,187	7,069,346
Transit	11,340,008	3,048,065	7,841,955	6,616,444
Culture	11,241,614	304,986	1,449,720	
Park and recreation/Mayo Civic Center	23,832,446	8,995,314	286,440	2,422,448
Economic development/tourism	15,050,315	3,403,027	216,909	7,553,943
Community reinvestment/unallocated	811,093			
Interest on long-term debt	5,135,625			
Total governmental activities	170,066,168	29,720,776	14,941,118	48,387,645
Business-Type activities:				
Parking	4,649,288	7,377,258		
Electric utility	149,047,715	169,295,233		2,060,389
Water utility	9,997,928	10,817,298		1,172,532
Sewer utility	18,222,587	30,199,908		401,090
Storm water utility	5,013,106	7,474,434		769,259
Total business-type activities	186,930,624	225,164,131		4,403,270
Total	\$ 356,996,792	\$ 254,884,907	\$ 14,941,118	\$ 52,790,915

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

Change in net position

Net position - beginning, as originally stated
Change in accounting principle
Net Position - beginning, as restated

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (7,041,937)	\$	\$ (7,041,937)
(42,104,425)		(42,104,425)
(8,274,723)		(8,274,723)
5,676,306		5,676,306
6,166,456		6,166,456
(9,486,908)		(9,486,908)
(12,128,244)		(12,128,244)
(3,876,436)		(3,876,436)
(811,093)		(811,093)
(5,135,625)		(5,135,625)
<u>(77,016,629)</u>		<u>(77,016,629)</u>
	2,727,970	2,727,970
	22,307,907	22,307,907
	1,991,902	1,991,902
	12,378,411	12,378,411
	3,230,587	3,230,587
	<u>42,636,777</u>	<u>42,636,777</u>
<u>(77,016,629)</u>	<u>42,636,777</u>	<u>(34,379,852)</u>
68,593,874		68,593,874
2,400,058		2,400,058
19,071,085		19,071,085
12,031,115		12,031,115
7,497,955		7,497,955
3,094,471	9,796	3,104,267
3,336,532	2,614,226	5,950,758
109,900	40,529	150,429
477,223	297,400	774,623
709,533	120,729	830,262
12,891,095	(12,891,095)	
<u>130,212,841</u>	<u>(9,808,415)</u>	<u>120,404,426</u>
<u>53,196,212</u>	<u>32,828,362</u>	<u>86,024,574</u>
726,440,377	522,012,221	1,248,452,598
(3,670,778)		(3,670,778)
<u>722,769,599</u>	<u>522,012,221</u>	<u>1,244,781,820</u>
<u>\$ 775,965,811</u>	<u>\$ 554,840,583</u>	<u>\$ 1,330,806,394</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2018

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,219,692	\$ 5,994,641	\$ 2,495,992	\$ 10,710,325
Investments	35,066,512	114,479,900	16,848,078	166,394,490
Land held for resale		625,000		625,000
Accrued interest receivable	466,513	524,032	80,860	1,071,405
Accounts receivable (net of allowance for uncollectibles)	785,590	732,130	2,412,551	3,930,271
Loans receivable		525,700	3,804,709	4,330,409
Taxes receivable delinquent	422,266	46,752	132,391	601,409
Special assessments receivable:				
Deferred		14,654,793		14,654,793
Delinquent	29,871	106,123	84,193	220,187
Due from other funds	996,783	1,083,518	168,078	2,248,379
Advances to other funds			14,527	14,527
Due from other governmental units	3,078,437	12,832,198	764,343	16,674,978
Prepaid items	31,805		194,469	226,274
Restricted cash and investments	39,010			39,010
Inventory	916,544		70,907	987,451
TOTAL ASSETS	\$ 44,053,023	\$ 151,604,787	\$ 27,071,098	\$ 222,728,908
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts and contracts payable	\$ 1,802,971	\$ 2,376,361	\$ 1,510,762	\$ 5,690,094
Deposits payable	503,374	517,743	799,359	1,820,476
Accrued compensation and payroll taxes	1,833,000		390,013	2,223,013
Due to other funds	576,024	314,827	267,690	1,158,541
Advances from other funds		8,360,325	2,779,186	11,139,511
Unearned revenue			57,637	57,637
Due to other governmental units	321,742	195,467	860,527	1,377,736
Total Liabilities	5,037,111	11,764,723	6,665,174	23,467,008
Deferred Inflows of Resources:				
Unavailable revenue				
Property taxes	422,266	46,752	132,391	601,409
Special assessments	29,871	14,760,916	84,193	14,874,980
Loans receivable		525,700	3,804,709	4,330,409
Total Deferred Inflows of Resources	452,137	15,333,368	4,021,293	19,806,798
Fund Balance:				
Nonspendable	948,349		265,376	1,213,725
Restricted	39,010	53,087,490	6,984,422	60,110,922
Committed		71,419,206		71,419,206
Assigned	1,730,609		11,970,267	13,700,876
Unassigned	35,845,807		(2,835,434)	33,010,373
Total Fund Balance	38,563,775	124,506,696	16,384,631	179,455,102
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 44,053,023	\$ 151,604,787	\$ 27,071,098	\$ 222,728,908

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2018

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

Total governmental fund balances (page 22)	\$ 179,455,102	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,104,271,452	
Less: Accumulated depreciation	<u>(351,896,016)</u>	752,375,436
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 821,596	
Deferred special assessments and utility connection agreements	14,654,793	
Loans receivable	<u>4,330,409</u>	19,806,798
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		37,091,691
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows related to pensions	\$ 47,163,516	
Deferred inflows related to pensions	<u>(62,209,488)</u>	(15,045,972)
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	\$ (133,359,000)	
Net pension liability	(46,964,048)	
Compensated absences	(11,527,845)	
Accrued interest	(1,724,099)	
Unamortized bond premium	<u>(4,142,252)</u>	(197,717,244)
Net position of governmental activities (page 19)		<u>\$ 775,965,811</u>

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

For the Year Ended December 31, 2018

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 46,272,117	\$ 6,242,298	\$ 15,827,247	\$ 68,341,662
Tax increments collection		1,767,448	632,610	2,400,058
Sales tax		19,071,085		19,071,085
Special assessments		1,911,530		1,911,530
Utility connection and availability		405,397		405,397
Nonproperty taxes	5,674,880	4,524,378	1,831,857	12,031,115
Licenses and permits	4,765,811			4,765,811
Fines and forfeits	495,352			495,352
Intergovernmental revenues	11,832,667	39,603,384	9,821,075	61,257,126
Charges for services	3,916,340	767,449	15,049,666	19,733,455
Interest earnings	370,551	2,233,577	239,039	2,843,167
Net increase in the fair value of investments	125,423	206,900	30,800	363,123
Rental revenues	63,989	818,585	4,499,656	5,382,230
Miscellaneous revenues	425,167	2,617,278	902,166	3,944,611
Total Revenues	73,942,297	80,169,309	48,834,116	202,945,722
EXPENDITURES				
Current:				
General government	10,867,824			10,867,824
Public safety	49,849,174		7,882	49,857,056
Public works	14,803,307			14,803,307
Airport operations			4,341,670	4,341,670
Transit			9,693,405	9,693,405
Culture	1,810,762		7,949,091	9,759,853
Park and recreation/Mayo Civic Center			17,114,987	17,114,987
Economic development/tourism	3,077,774		4,444,039	7,521,813
Community reinvestment and unallocated	811,093			811,093
Debt service			13,065,843	13,065,843
Capital outlay		48,347,750		48,347,750
Total Expenditures	81,219,934	48,347,750	56,616,917	186,184,601
Excess (deficiency) of revenues over (under) expenditures	(7,277,637)	31,821,559	(7,782,801)	16,761,121
OTHER FINANCING SOURCES (USES)				
Transfers in	12,779,658	6,846,392	10,392,029	30,018,079
Transfers out	(1,702,332)	(9,547,523)	(2,486,617)	(13,736,472)
Total other financing sources (uses)	11,077,326	(2,701,131)	7,905,412	16,281,607
Net change in fund balances	3,799,689	29,120,428	122,611	33,042,728
Fund Balance - beginning	34,764,086	95,386,268	16,262,020	146,412,374
Fund Balance - ending	\$ 38,563,775	\$ 124,506,696	\$ 16,384,631	\$ 179,455,102

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, 2018

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

Net change in fund balances - total governmental funds (page 24)		\$ 33,042,728
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay-capitalized	\$ 36,113,978	
Depreciation expense	<u>(25,310,997)</u>	
		10,802,981
<p>Infrastructure is contributed from governmental activities to business-type activities and from developers to governmental activities. The amounts affect governmental net position but do not affect fund balance.</p>		
		1,640,420
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
		(2,913,964)
<p>Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues increased by this amount this year.</p>		
		989,081
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences December 31, 2018	\$ (11,527,845)	
Compensated absences December 31, 2017	<u>11,259,695</u>	
		(268,150)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 8,238,793	
Change in pension activity	1,810,032	
Amortization of bond premium	245,792	
Change in accrued interest	<u>(547,425)</u>	
		9,747,192
<p>Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p>		
		<u>155,924</u>
Change in net position of governmental activities (pages 20 and 21)		<u>\$ 53,196,212</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, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 46,147,332	\$ 46,147,332	\$ 46,272,117	\$ 124,785
Nonproperty taxes	4,715,668	5,121,013	5,674,880	553,867
Licenses and permits	3,994,476	3,994,476	4,765,811	771,335
Fines and forfeits	430,600	525,793	495,352	(30,441)
Intergovernmental	10,960,563	11,365,057	11,832,667	467,610
Charges for services	3,507,498	3,725,448	3,916,340	190,892
Interest earnings	235,000	235,501	370,551	135,050
Net increase (decrease) in the fair value of investments	(50,000)	(50,000)	125,423	175,423
Rental revenues	62,486	62,486	63,989	1,503
Miscellaneous revenues	286,000	371,282	425,167	53,885
Total Revenues	<u>70,289,623</u>	<u>71,498,388</u>	<u>73,942,297</u>	<u>2,443,909</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	859,209	870,615	825,132	45,483
City Administrator	1,361,164	1,371,463	1,263,547	107,916
Development District Administration	181,791	181,791	79,001	102,790
City Clerk	552,396	601,036	629,607	(28,571)
Elections and Voter Registration	241,726	241,726	286,091	(44,365)
Finance Department	1,735,381	1,763,349	1,676,898	86,451
Information Systems	2,019,937	2,028,477	1,961,018	67,459
City Attorney	1,706,937	1,944,969	1,878,807	66,162
Human Resources	1,730,044	1,730,044	1,648,188	81,856
Planning and Zoning	44,380	259,380	50,070	209,310
City Hall Maintenance	606,820	609,130	569,465	39,665
Total General Government	<u>11,039,785</u>	<u>11,601,980</u>	<u>10,867,824</u>	<u>734,156</u>
Public Safety:				
Police Department	27,964,561	28,405,339	27,440,862	964,477
Fire Department	17,351,043	17,477,505	17,114,904	362,601
Fire Hazmat Response Team		82,219	80,774	1,445
Building Safety	3,831,379	3,831,379	3,745,277	86,102
Animal Control	437,467	444,509	413,497	31,012
Drug Enforcement Administration		430,935	97,542	333,393
Flood Control	628,622	628,622	676,469	(47,847)
Emergency Mgmt/Safety Council	304,452	304,452	279,849	24,603
Total Public Safety	<u>50,517,524</u>	<u>51,604,960</u>	<u>49,849,174</u>	<u>1,755,786</u>

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Current:				
Public Works:				
Engineering	\$ 3,352,324	\$ 3,356,624	\$ 3,174,908	\$ 181,716
PWTOC Building/Site Operations	48,315	48,710	57,504	(8,794)
Traffic Engineer	1,377,362	1,378,546	1,225,710	152,836
Infrastructure Maintenance	9,479,424	9,484,078	9,010,210	473,868
City Lighting	1,332,206	1,332,206	1,334,975	(2,769)
Total Public Works	<u>15,589,631</u>	<u>15,600,164</u>	<u>14,803,307</u>	<u>796,857</u>
Culture:				
Art Center/Theatre/Senior Center	773,700	773,700	790,016	(16,316)
Music Department	1,081,441	1,273,965	1,020,746	253,219
Total Culture	<u>1,855,141</u>	<u>2,047,665</u>	<u>1,810,762</u>	<u>236,903</u>
Economic Development/Tourism	<u>2,625,000</u>	<u>3,154,995</u>	<u>3,077,774</u>	<u>77,221</u>
Community Reinvestment and Unallocated	<u>1,809,391</u>	<u>1,235,749</u>	<u>811,093</u>	<u>424,656</u>
Total Expenditures	<u>83,436,472</u>	<u>85,245,513</u>	<u>81,219,934</u>	<u>4,025,579</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,146,849)</u>	<u>(13,747,125)</u>	<u>(7,277,637)</u>	<u>6,469,488</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,556,934	12,556,934	12,779,658	222,724
Transfers out	(167,994)	(349,140)	(1,702,332)	(1,353,192)
Total other financing sources (uses)	<u>12,388,940</u>	<u>12,207,794</u>	<u>11,077,326</u>	<u>(1,130,468)</u>
Net change in fund balances	<u>(757,909)</u>	<u>(1,539,331)</u>	<u>3,799,689</u>	<u>5,339,020</u>
Fund Balance - beginning	<u>34,764,086</u>	<u>34,764,086</u>	<u>34,764,086</u>	
Fund Balance - ending	<u>\$ 34,006,177</u>	<u>\$ 33,224,755</u>	<u>\$ 38,563,775</u>	<u>\$ 5,339,020</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2018

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 699,367	\$ 11,657,118	\$ 1,380,572
Investments	18,572,052	67,163,063	7,954,236
Accrued interest receivable	80,438		
Accounts receivable	246,707	14,147,188	643,620
Accrued utility revenues		6,593,483	183,438
Taxes receivable delinquent			
Inventory, material, supplies and fuel		5,407,106	198,788
Due from other funds			
Advances to other funds	2,779,186		
Due from other governmental units			
Restricted and reserved cash		1,174,279	
Other assets		1,041,164	71,019
Total Current Assets	<u>22,377,750</u>	<u>107,183,401</u>	<u>10,431,673</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	38,532,573	28,820,161	4,359,700
Depreciable	38,804,137	462,890,878	145,868,729
Less: Accumulated depreciation	<u>(26,310,242)</u>	<u>(219,994,405)</u>	<u>(51,385,323)</u>
Net capital assets	51,026,468	271,716,634	98,843,106
Restricted and reserved cash	114,548		
Restricted investments		12,955,835	
Restricted funds held in trust		121	
Other assets		12,487,247	
Total Noncurrent Assets	<u>51,141,016</u>	<u>297,159,837</u>	<u>98,843,106</u>
Total Assets	<u>73,518,766</u>	<u>404,343,238</u>	<u>109,274,779</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		1,140,708	
Deferred outflows from OPEB activity			
Deferred outflows from pension activity	77,246	4,213,417	495,834
Total Deferred Outflows of Resources	<u>77,246</u>	<u>5,354,125</u>	<u>495,834</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	1,268,817	12,334,311	633,680
Deposits payable	38,511	1,397,860	129,534
Accrued interest payable		697,196	
Accrued compensation and payroll taxes	6,880	480,176	60,132
Accrued compensated absences	22,023	1,696,715	286,753
Due to other funds	431	2,812,158	1,154,196
Due to other governmental units	35,660		
Unearned revenue			
Accrued claims			
Current maturities of long term debt		5,725,000	
Total Current Liabilities	<u>1,372,322</u>	<u>25,143,416</u>	<u>2,264,295</u>
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		192,075,867	
Accrued compensated absences	13,122	1,300,053	205,628
Net pension liability	215,751	12,826,293	1,494,728
Unearned revenue		6,435,039	
Accrued claims		6,000	
Post employment benefit obligation			
Total Noncurrent Liabilities	<u>228,873</u>	<u>212,643,252</u>	<u>1,700,356</u>
Total Liabilities	<u>1,601,195</u>	<u>237,786,668</u>	<u>3,964,651</u>
DEFERRED INFLOWS OF RESOURCES			
Advance payments on leases		410,435	200,640
Deferred charge on refunding			
Solar choice deferred inflows of resources		508,842	
Deferred inflows from pension activity	92,870	5,202,088	606,994
Total Deferred Inflows of Resources	<u>92,870</u>	<u>6,121,365</u>	<u>807,634</u>
NET POSITION			
Net investment in capital assets	51,026,468	88,012,310	98,843,106
Restricted			
Debt service		477,083	
Funds held in trust		121	
Unrestricted	20,875,479	77,299,816	6,155,222
Total Net Position	<u>\$ 71,901,947</u>	<u>\$ 165,789,330</u>	<u>\$ 104,998,328</u>

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

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

Net position of business-type activities

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 1,453,389	\$ 575,419	\$ 15,765,865	\$ 1,213,036
38,267,400	15,178,400	147,135,151	27,594,600
169,426	65,320	315,184	118,856
116,544	35,306	15,189,365	26,101
		6,776,921	4,434
2,995		5,608,889	
2,479,695	668,412	3,148,107	
		2,779,186	8,345,798
10,429		10,429	3,220
		1,174,279	
		1,112,183	
<u>42,499,878</u>	<u>16,522,857</u>	<u>199,015,559</u>	<u>37,306,045</u>
5,978,328	4,631,430	82,322,192	1,305,216
334,155,162	85,041,792	1,066,760,698	41,064,046
(171,721,158)	(15,960,051)	(485,371,179)	(25,455,981)
<u>168,412,332</u>	<u>73,713,171</u>	<u>663,711,711</u>	<u>16,913,281</u>
		114,548	
		12,955,835	
		121	
10,794		12,498,041	
<u>168,423,126</u>	<u>73,713,171</u>	<u>689,280,256</u>	<u>16,913,281</u>
<u>210,923,004</u>	<u>90,236,028</u>	<u>888,295,815</u>	<u>54,219,326</u>
		1,140,708	
			408,344
752,446	112,904	5,651,847	
<u>752,446</u>	<u>112,904</u>	<u>6,792,555</u>	<u>408,344</u>
325,256	155,400	14,717,464	377,537
9,985		1,575,890	4,423
992,146	792	1,690,134	2,906
116,158	15,330	678,676	
247,438	29,088	2,282,017	
208,969	62,191	4,237,945	
4,237	149	40,046	17,963
			131,631
			1,324,740
8,125,000		13,850,000	145,000
<u>10,029,189</u>	<u>262,950</u>	<u>39,072,172</u>	<u>2,004,200</u>
74,692,897		266,768,764	2,275,000
258,496	13,778	1,791,077	
2,445,652	279,924	17,262,348	
		6,435,039	
		6,000	1,531,699
			10,725,626
<u>77,397,045</u>	<u>293,702</u>	<u>292,263,228</u>	<u>14,532,325</u>
<u>87,426,234</u>	<u>556,652</u>	<u>331,335,400</u>	<u>16,536,525</u>
		611,075	
1,839,409		1,839,409	
		508,842	
944,411	106,152	6,952,515	
<u>2,783,820</u>	<u>106,152</u>	<u>9,911,841</u>	
83,755,026	73,713,171	395,350,081	15,667,252
		477,083	
		121	
37,710,370	15,972,957	158,013,844	22,423,893
<u>\$ 121,465,396</u>	<u>\$ 89,686,128</u>	<u>553,841,129</u>	<u>\$ 38,091,145</u>
		999,454	
		<u>\$ 554,840,583</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2018

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 7,377,258	\$	\$
Sales and charges for services, pledged as security for revenue bonds		156,649,641	9,600,577
Miscellaneous		12,645,592	1,216,721
Total Operating Revenues	<u>7,377,258</u>	<u>169,295,233</u>	<u>10,817,298</u>
Operating Expenses:			
Purchased power		94,983,904	
Maintenance and operations	3,585,576	34,100,278	7,270,108
Amortization of regulatory assets		430,553	
Depreciation	1,058,428	12,538,019	2,673,736
Total Operating Expenses	<u>4,644,004</u>	<u>142,052,754</u>	<u>9,943,844</u>
Operating Income (Loss)	<u>2,733,254</u>	<u>27,242,479</u>	<u>873,454</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	411,884	1,315,976	122,699
Net increase in the fair value of investments	65,400	56,300	23,000
Interest and fiscal charges		(5,851,480)	(233)
Amortization of regulatory assets		(87,243)	
Gain on disposal of property			
Other income (expense)	28,189	(864,755)	(30,977)
Total Nonoperating Revenues (Expenses)	<u>506,050</u>	<u>(5,431,202)</u>	<u>114,489</u>
Income (Loss) Before Transfers and Capital Contributions	3,239,304	21,811,277	987,943
Capital contributions		2,060,389	1,657,094
Transfers in	25,992		
Transfers out	(1,757,911)	(8,724,766)	(367,989)
Change in net position	<u>1,507,385</u>	<u>15,146,900</u>	<u>2,277,048</u>
Net Position - Beginning of Year as originally stated	70,394,562	150,642,430	102,721,280
Change in accounting principle			
Net Position - Beginning of Year as restated			
Net Position - End of Year	<u>\$ 71,901,947</u>	<u>\$ 165,789,330</u>	<u>\$ 104,998,328</u>

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

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

Change in net position of business-type activities

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$	\$ 7,013,135	\$ 14,390,393	\$ 25,055,823
30,024,898		196,275,116	
175,010	461,299	14,498,622	
<u>30,199,908</u>	<u>7,474,434</u>	<u>225,164,131</u>	<u>25,055,823</u>
		94,983,904	
9,915,342	3,389,963	58,261,267	22,788,911
		430,553	
6,365,560	1,619,467	24,255,210	3,392,862
<u>16,280,902</u>	<u>5,009,430</u>	<u>177,930,934</u>	<u>26,181,773</u>
<u>13,919,006</u>	<u>2,465,004</u>	<u>47,233,197</u>	<u>(1,125,950)</u>
			315,757
9,219		9,796	1,237
548,752	214,915	2,614,226	493,367
120,300	32,400	297,400	114,100
(1,891,807)		(7,743,520)	(7,342)
		(87,243)	
40,529		40,529	65,550
73,219	19,321	(775,003)	
<u>(1,099,788)</u>	<u>266,636</u>	<u>(5,643,815)</u>	<u>982,669</u>
12,819,218	2,731,640	41,589,382	(143,281)
1,092,029	3,010,280	7,819,792	
4,395	500,000	530,387	125,535
<u>(4,918,034)</u>	<u>(1,069,304)</u>	<u>(16,838,004)</u>	<u>(99,525)</u>
<u>8,997,608</u>	<u>5,172,616</u>	<u>33,101,557</u>	<u>(117,271)</u>
112,467,788	84,513,512		41,879,194
			(3,670,778)
			38,208,416
<u>\$ 121,465,396</u>	<u>\$ 89,686,128</u>		<u>\$ 38,091,145</u>
		<u>(273,195)</u>	
		<u>\$ 32,828,362</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 7,337,606	\$ 168,089,742	\$ 10,657,262
Cash received from other City funds	50,404	6,945,404	189,012
Cash received from employees			
Cash paid to employees	(447,611)	(16,488,768)	(1,866,687)
Cash paid to suppliers	(2,811,210)	(117,912,829)	(5,370,734)
Service territory acquisition		(344,577)	
Other income	28,189		
Net Cash Provided By Operating Activities	<u>4,157,378</u>	<u>40,288,972</u>	<u>3,608,853</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	577		
Transfers in	25,992		
Transfers out	(1,757,911)	(8,720,009)	(369,452)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(1,731,342)</u>	<u>(8,720,009)</u>	<u>(369,452)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Proceeds from the issuance of bonds			
Principal payments on bonds		(5,460,000)	
Interest and fiscal charges		(8,632,000)	
Repayment of developer agreements			
Capital contributions received		2,060,389	
Acquisition of capital assets	(18,614,416)	(22,005,888)	(1,172,842)
Net Cash Used In Capital and Related Financing Activities	<u>(18,614,416)</u>	<u>(34,037,499)</u>	<u>(1,172,842)</u>
Cash Flows From Investing Activities:			
Investment income	394,548	1,372,276	145,467
Net increase in investments	(396,500)	(18,233,414)	(1,823,008)
Net Cash Provided By (Used In) Investing Activities	<u>(1,952)</u>	<u>(16,861,138)</u>	<u>(1,677,541)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(16,190,332)	(19,329,674)	389,018
Cash and Cash Equivalents, Beginning of Year	17,004,247	32,161,071	991,554
Cash and Cash Equivalents, End of Year	<u>\$ 813,915</u>	<u>\$ 12,831,397</u>	<u>\$ 1,380,572</u>
Classified As:			
Cash and Cash Equivalents	\$ 699,367	\$ 11,657,118	\$ 1,380,572
Restricted and Reserved Cash	114,548	1,174,279	
Total Cash and Cash Equivalents, End of Year	<u>\$ 813,915</u>	<u>\$ 12,831,397</u>	<u>\$ 1,380,572</u>

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 29,864,177	\$ 7,076,650	\$ 223,025,437	\$
109,022	237,437	7,531,279	23,396,364
(4,404,725)	(555,601)	(23,763,392)	1,289,357
(5,150,905)	(2,744,684)	(133,990,362)	(22,315,511)
		(344,577)	
73,219	19,321	120,729	
<u>20,490,788</u>	<u>4,033,123</u>	<u>72,579,114</u>	<u>2,370,210</u>
			317,279
9,219		9,796	1,237
4,395	500,000	530,387	125,535
<u>(4,918,034)</u>	<u>(1,069,304)</u>	<u>(16,834,710)</u>	<u>(99,525)</u>
<u>(4,904,420)</u>	<u>(569,304)</u>	<u>(16,294,527)</u>	<u>344,526</u>
40,529		40,529	285,999
			2,225,000
(7,835,000)		(13,295,000)	(140,000)
(3,495,784)	(1,524)	(12,129,308)	(9,160)
	(103,646)	(103,646)	
		2,060,389	
<u>(2,224,354)</u>	<u>(984,325)</u>	<u>(45,001,825)</u>	<u>(4,313,539)</u>
<u>(13,514,609)</u>	<u>(1,089,495)</u>	<u>(68,428,861)</u>	<u>(1,951,700)</u>
507,827	193,804	2,613,922	473,458
<u>(2,440,500)</u>	<u>(2,460,100)</u>	<u>(25,353,522)</u>	<u>(296,854)</u>
<u>(1,932,673)</u>	<u>(2,266,296)</u>	<u>(22,739,600)</u>	<u>176,604</u>
139,086	108,028	(34,883,874)	939,640
1,314,303	467,391	51,938,566	273,396
<u>\$ 1,453,389</u>	<u>\$ 575,419</u>	<u>\$ 17,054,692</u>	<u>\$ 1,213,036</u>
\$ 1,453,389	\$ 575,419	\$ 15,765,865	\$ 1,213,036
		1,288,827	
<u>\$ 1,453,389</u>	<u>\$ 575,419</u>	<u>\$ 17,054,692</u>	<u>\$ 1,213,036</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2018

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

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 2,733,254	\$ 27,242,479	\$ 873,454
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:			
Depreciation and amortization expense	1,058,428	12,968,572	2,673,736
Other income (expense)	28,189	(864,755)	(30,977)
Service territory payments		(344,577)	
Bad debts		422,232	28,029
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	15,422	(1,415,618)	(190,450)
Inventory		(538,344)	(15,133)
Due from other funds			
Due from other governmental units			
Advances due from other funds	5,501		
Prepaid items			(8,658)
Deferred outflows from pension activity	48,697	2,485,324	289,431
Deferred outflows from OPEB activity			
Other assets		(21,731)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	410,926	(598,877)	241,766
Deposits payable	(10,247)	527,955	48,734
Accrued expenses and other liabilities	(45,259)		
Post employment benefit obligations			
Deferred inflows from pension activity	(6,247)	(144,076)	(18,704)
Net pension liability	(60,813)	(2,234,373)	(262,051)
Unearned revenues		2,332,339	(20,324)
Solar choice deferred inflow		508,842	
Deferred lease revenue		(36,420)	
Accrued claims			
Due to other funds	76		
Due to other governmental units	(20,549)		
Net Cash Provided By Operating Activities	\$ 4,157,378	\$ 40,288,972	\$ 3,608,853
Non Cash Transactions:			
Increase in fair value of investments	\$ 65,400	\$ 56,300	\$ 23,000
Allowance for funds used during construction		717,398	
Amortization of bond premiums, discounts, and refunding		(2,052,535)	
Amortization of bond issue costs		87,243	
Receipt of contributed property			1,657,094
Capital assets in accounts payable at year end			

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$ 13,919,006	\$ 2,465,004	\$ 47,233,197	\$ (1,125,950)
6,365,560	1,619,467	24,685,763	3,392,862
73,219	19,321	(775,003)	
		(344,577)	
		450,261	
(51,512)	(21,056)	(1,663,214)	11,822
(206)		(553,683)	
(166,301)	(140,044)	(306,345)	
(1,281)		(1,281)	101
		5,501	(382,025)
		(8,658)	
428,416	68,167	3,320,035	
			(408,344)
1,199		(20,532)	
143,683	10,932	208,430	300,590
5,375		571,817	(3,624)
3,812	10,456	(30,991)	
			778,172
(1,966)	(6,925)	(177,918)	
(214,872)	7,016	(2,765,093)	
		2,312,015	14,959
		508,842	
		(36,420)	
			(212,755)
(12,990)	753	(12,161)	
(354)	32	(20,871)	4,402
<u>\$ 20,490,788</u>	<u>\$ 4,033,123</u>	<u>\$ 72,579,114</u>	<u>\$ 2,370,210</u>
\$ 120,300	\$ 32,400	\$ 297,400	\$ 114,100
		717,398	
		(2,052,535)	
		87,243	
1,092,029	3,010,280	5,759,403	
			7,377

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

The City of Rochester has two component units, the Rochester Economic Development Authority (REDA) and the Destination Medical Center Corporation (DMCC). The REDA was created to account for development allowable only under specific State statutes. The board of directors of the REDA is comprised of City Council members and the REDA directly provides all of its services to the City. There were no activities in the REDA in 2018 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The REDA is reported as a blended component unit. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. The Corporation was established to benefit the City, and more broadly, Olmsted County and the State of Minnesota by researching, preparing, and implementing a master development plan, including facilitating public infrastructure projects and a variety of development and redevelopment projects, all to promote and provide for the establishment of the City, the County, and the State as a world destination medical center. The DMCC is fiscally dependent on the City as the DMCC is required to have its annual budget approved by the City Council. Also, the City has a financial benefit or burden relationship with the DMCC as it is the beneficiary and sole member of the DMCC and the recipient of all residual assets upon liquidation. The DMCC is reported as a blended component unit.

Separate audited financial statements for the year ended December 31, 2018 are available from the DMCC.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

1. Deposits and investments

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables, payables, and deferred inflows of resources

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Other assets

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

4. Inventory

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

5. Deferred outflows of resources

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

6. Capital assets

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

6. Capital assets (continued)

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

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

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

7. Utility connection charges

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

8. Compensated absences benefits

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

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

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

9. Long-term obligations

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

10. Deferred inflows of resources

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

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

11. Unearned revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2018 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2018, \$228,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2018, \$2,052,000 of the potential refund remained recorded as an unearned revenue. The amount of unearned revenue will be reduced each year through the ten year term, having either been refunded to the customer if load requirement has been met, or recorded as a contribution in aid of construction if not met. The substation went in service in May, 2017.

As described in Note 4C under Contingent Liabilities, the Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU's Annual Transmission Revenue Requirement (ATRR) from transmission customers in the Midcontinent Independent System Operator, Inc. region. The final resolution has not yet been determined however, as of December 31, 2018, RPU has received \$4,330,456 in ATRR payments. The payments are subject to refund if the ultimate outcome is that RPU is not eligible for recovery of its ATRR. Until the final resolution is determined, RPU is recording the amounts received as unearned revenue.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Fund equity

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

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

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

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

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

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

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Fund equity (continued)

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

E. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Change in accounting principle

During the year ended December 31, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This statement included major changes in how plans and employers account for OPEB benefit obligations. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. Certain amounts necessary to fully restate fiscal year 2017 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of the new GASB statement in the current year resulted in the restatement of net position as of December 31, 2017. The details of the restatement are as follows:

<u>Activities/Fund</u>	<u>Net Position December 31, 2017 as Previously Reported</u>	<u>Restatement for Change in Accounting Principle</u>	<u>Net Position December 31, 2017 as Restated</u>
Governmental Activities	\$ 726,440,377	\$ (3,670,778)	\$ 722,769,599
Proprietary Fund:			
Self Insurance Fund	\$ 18,283,112	\$ (3,670,778)	\$ 14,612,334

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

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

A. Budgetary Information (continued)

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

NOTE 3: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Deposits

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

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

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

The City's deposits in banks at December 31, 2018 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, 2018

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk

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

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

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2018, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2018 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	\$ 21,387,391	0.47	A-1	P1
Municipal Bonds	2,286,890	4.64	AAA	Aa2
US Government and Agency Securities:				
Federal Farm Credit Bank	36,662,505	3.57	AA+	Aaa
Federal Home Loan Bank	62,775,570	3.26	AA+	Aaa
Federal Home Loan Mortgage Corporation	28,951,644	3.05	AA+	Aaa
Federal National Mortgage Association	41,776,459	3.06	AA+	Aaa
Treasury Note	141,730,035	2.41	AA+	Aaa
Sub-total Investments	335,570,494			
Cash and Deposits	47,592,280			
Total	<u>\$ 383,162,774</u>			

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

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	\$ 36,662,505
Federal Home Loan Bank	Federal Agency Securities	62,775,570
Federal Home Loan Mortgage Corporation	Federal Agency Securities	28,951,644
Federal National Mortgage Association	Federal Agency Securities	41,776,459
Treasury Note	United States Treasury Securities	141,730,035

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, 2018 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

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

Cash and cash equivalents	\$ 27,754,740
Investments	341,124,241
Restricted cash and investments	14,283,672
Restricted funds held in trust	<u>121</u>
Total Cash and Investments	<u>\$ 383,162,774</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Fair Value Measurements

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Fair Value Measurements (continued)

The City's investments within the fair value hierarchy at December 31, 2018 and 2017 were as follows:

	At December 31, 2018			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Commercial Paper	\$ 21,387,391	\$	\$ 21,387,391	\$
Municipal Bonds	2,286,890		2,286,890	
US Government and Agency Securities:				
Federal Farm Credit Bank	36,662,505		36,662,505	
Federal Home Loan Bank	62,775,570		62,775,570	
Federal Home Loan Mortgage Corporation	28,951,644		28,951,644	
Federal National Mortgage Association	41,776,459		41,776,459	
Treasury Note	141,730,035		141,730,035	
Total	<u>\$ 335,570,494</u>	<u>\$</u>	<u>\$ 335,570,494</u>	<u>\$</u>
		At December 31, 2017		
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Commercial Paper	\$ 4,951,200	\$	\$ 4,951,200	\$
Municipal Bonds	4,979,120		4,979,120	
US Government and Agency Securities:				
Federal Farm Credit Bank	34,585,745		34,585,745	
Federal Home Loan Bank	60,591,540		60,591,540	
Federal Home Loan Mortgage Corporation	32,529,331		32,529,331	
Federal National Mortgage Association	28,247,132		28,247,132	
Treasury Note	117,856,705		117,856,705	
Total	<u>\$ 283,740,773</u>	<u>\$</u>	<u>\$ 283,740,773</u>	<u>\$</u>

B. Land Held for Resale

In 2009, 2011, 2012, 2014, and 2016 the City acquired parcels of land from private parties for a total purchase price of \$2,270,000. The City intends to resell these properties in connection with the expansion of the University of Minnesota Rochester Campus and for private development. In 2014 and 2017, the City sold certain parcels of land with a cost basis totaling \$895,000 and \$750,000, respectively. The remaining parcels held for resale totaling \$625,000, are reported in the Capital Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2018.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2018 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 92,320	\$ 2,133,235	\$ 812,833	\$ 40,049	\$ 3,078,437
Special Revenue	159,022	399,413	189,289	3,409	751,133
Capital Project	1,794,130	10,277,510	760,558		12,832,198
Debt Service			13,210		13,210
Enterprise		1,652	8,777		10,429
Internal Service	661		2,559		3,220
Totals	<u>\$2,046,133</u>	<u>\$ 12,811,810</u>	<u>\$ 1,787,226</u>	<u>\$ 43,458</u>	<u>\$ 16,688,627</u>

Amounts due to other governmental units as of December 31, 2018 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,700	\$ 99,555	\$ 216,639	\$ 3,848	\$ 321,742
Special Revenue	5	669,007	185,056	6,459	860,527
Capital Project		180,647	14,820		195,467
Enterprise		809	39,237		40,046
Internal Service		17,963			17,963
Totals	<u>\$ 1,705</u>	<u>\$ 967,981</u>	<u>\$ 455,752</u>	<u>\$ 10,307</u>	<u>\$ 1,435,745</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Investments

Restricted cash are deposits held for specifically required purposes. Descriptions of the items and balances as of December 31, 2018 are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment	\$ 39,010
-------------------------------------	-----------

Enterprise Funds:

Parking Fund:

Bioscience Building Debt Service	114,548
----------------------------------	---------

Electric Fund:

Debt Service Fund	1,174,279
-------------------	-----------

Restricted Investments -

Electric Fund

Debt Service Reserve Accounts	12,955,835
-------------------------------	------------

Restricted Funds Held in Trust -

Electric Fund

CapX2020 Transmission Line Project	121
------------------------------------	-----

Total	\$ 14,283,793
-------	---------------

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

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, 2018 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 74,962,362	\$ 519,946	\$	\$ 75,482,308
Construction in progress	45,566,721	36,560,220	53,357,997	28,768,944
Total capital assets, not being depreciated	<u>120,529,083</u>	<u>37,080,166</u>	<u>53,357,997</u>	<u>104,251,252</u>
Capital assets, being depreciated:				
Buildings	342,722,269	20,760,575	1,736,381	361,746,463
Improvements other than buildings	51,257,074	441,228	30,476	51,667,826
Infrastructure	505,231,782	23,606,560	3,717,687	525,120,655
Machinery and equipment	93,388,728	13,617,261	3,151,471	103,854,518
Total capital assets, being depreciated	<u>992,599,853</u>	<u>58,425,624</u>	<u>8,636,015</u>	<u>1,042,389,462</u>
Less accumulated depreciation for:				
Buildings	92,061,115	8,646,278	1,586,779	99,120,614
Improvements other than buildings	26,045,491	1,551,550	30,476	27,566,565
Infrastructure	173,702,208	11,556,284	954,009	184,304,483
Machinery and equipment	62,264,261	6,949,747	2,853,673	66,360,335
Total accumulated depreciation	<u>354,073,075</u>	<u>28,703,859</u>	<u>5,424,937</u>	<u>377,351,997</u>
Total capital assets, being depreciated, net	<u>638,526,778</u>	<u>29,721,765</u>	<u>3,211,078</u>	<u>665,037,465</u>
Governmental activities capital assets, net	<u>\$ 759,055,861</u>	<u>\$ 66,801,931</u>	<u>\$ 56,569,075</u>	<u>\$ 769,288,717</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2018 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 22,062,917	\$ 175,000	\$ 76,475	\$ 22,161,442
Construction in progress	95,695,112	37,570,543	73,104,905	60,160,750
Total capital assets, not being depreciated	<u>117,758,029</u>	<u>37,745,543</u>	<u>73,181,380</u>	<u>82,322,192</u>
Capital assets, being depreciated:				
Buildings and improvements	462,969,973	19,594,523		482,564,496
Machinery and equipment	517,073,213	68,966,250	1,843,261	584,196,202
Total capital assets, being depreciated	<u>980,043,186</u>	<u>88,560,773</u>	<u>1,843,261</u>	<u>1,066,760,698</u>
Less accumulated depreciation for:				
Buildings and improvements	203,237,981	9,729,102		212,967,083
Machinery and equipment	258,843,742	14,526,108	965,754	272,404,096
Total accumulated depreciation	<u>462,081,723</u>	<u>24,255,210</u>	<u>965,754</u>	<u>485,371,179</u>
Total capital assets, being depreciated, net	<u>517,961,463</u>	<u>64,305,563</u>	<u>877,507</u>	<u>581,389,519</u>
Business-type activities capital assets, net	<u>\$ 635,719,492</u>	<u>\$ 102,051,106</u>	<u>\$ 74,058,887</u>	<u>\$ 663,711,711</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2018 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 659,585
Public safety	2,984,096
Public works	10,631,547
Airport operations	2,076,071
Transit	1,506,133
Culture	1,186,817
Park and recreation/Mayo Civic Center	5,519,044
Economic development/tourism	747,704
Subtotal	25,310,997
Internal Service Funds:	
Equipment revolving	3,157,096
Information technology	235,766
	3,392,862
Total depreciation expense - governmental activities	\$ 28,703,859

Business-Type Activities:

Parking	\$ 1,058,428
Electric utility	12,538,019
Water utility	2,673,736
Sewer utility	6,365,560
Storm water utility	1,619,467
	24,255,210
Total depreciation expense - business type activities	\$ 24,255,210

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

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, 2018, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 996,783	\$ 576,024
Capital Improvement	1,083,518	314,827
Subtotal	2,080,301	890,851
Non-Major Governmental Funds:		
Special Revenue -		
Library		6,908
Municipal Recreation System		67,830
Mayo Civic Center	944	57,193
Edward Byrne Memorial JAG		262
Airport Operations		33,211
Transit		993
Community Development Projects		50,293
DMCC	167,134	51,000
Subtotal	168,078	267,690
Total Governmental Funds	2,248,379	1,158,541
Proprietary Funds:		
Enterprise -		
Parking		431
Electric Utility		2,812,158
Water Utility		1,154,196
Sewer Utility	2,479,695	208,969
Storm Water Utility	668,412	62,191
Total Proprietary Funds	3,148,107	4,237,945
Total All Funds	\$ 5,396,486	\$ 5,396,486

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and from other funds as of December 31, 2018, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Governmental Funds:		
Capital Improvement	\$	\$ 8,360,325
FE Williams Estate	14,527	
Economic Development Authority Bond		2,779,186
Proprietary Fund:		
Parking	2,779,186	
Internal Service Fund:		
Self-Insurance	8,345,798	
Total All Funds	<u>\$ 11,139,511</u>	<u>\$ 11,139,511</u>

Transfers during the year ended December 31, 2018 were as follows:

Funds	Transfers In	Transfers Out
General	<u>\$ 12,779,658</u>	<u>\$ 1,702,332</u>
Capital Improvement	<u>6,846,392</u>	<u>9,547,523</u>
Other Governmental Funds		
Library		22,446
Municipal Recreation System	4,250	509,730
Mayo Civic Center		122,105
Airport Operations		89,394
Minnesota Bio Science Center		929,726
Transit		793,216
F.E. Williams Estate		20,000
DMCC	2,581,655	
TIF Revenue Bond	540,678	
Facility Energy Improvements Loan	566,967	
GO Variable Rate Sales Tax Bond	3,172,952	
Lodging Tax Revenue Bond	2,595,801	
Economic Development Authority Bond	929,726	
Subtotal Other Governmental Funds	<u>10,392,029</u>	<u>2,486,617</u>
Subtotal Governmental Funds	30,018,079	13,736,472
Enterprise	530,387	16,838,004
Internal Service	125,535	99,525
Totals	<u>\$ 30,674,001</u>	<u>\$ 30,674,001</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

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

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

Governmental Funds:	
Transfer in	\$ 30,018,079
Transfers out	(13,736,472)
Internal Service Funds:	
Transfer in	125,535
Transfers out	(99,525)
Capital assets transferred from Govt- activities to Business-type activities	(3,416,522)
Government-wide Statement of Activities - Transfers in/out	\$ 12,891,095

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, 2018 totaled \$639,340.

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

Years ending December 31:	
2019	\$ 47,065
2020	48,242
2021	49,448
2022	50,684
2023	51,951

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2018, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/18
General Obligation Bonds:				
GO Taxable Tax Increment Bonds				
District 36, Series 2009A	\$ 8,035,000	4.7-6.0%	2033	\$ 6,330,000
GO Tax Increment Revenue				
Bond Series 2017A	21,265,000	2.0-5.0%	2038	21,265,000
GO Lodging Tax Revenue Bonds:				
Bonds, Series 2015A	42,795,000	2.5-5.0%	2035	39,345,000
GO Revenue Bonds:				
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	46,725,000
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2026	16,550,000
Revenue Refunding Bonds, Series 2015D	14,156,000	Variable	2026	10,525,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	2.875-5.15%	2036	21,155,000
Direct Pay, Series 2010A - Equipment	425,000	2.875-3.70%	2020	100,000
GO Variable Rate Sales Tax Revenue				
Bonds, Series 2015C	40,432,813	Variable	2025	35,360,000
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	3.5%	2019	95,000
GO Equipment Certificates				
of Indebtedness, Series 2018A	2,225,000	3.25%	2028	2,225,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	35,565,000
Bonds, Series 2015E	39,970,000	3.0-5.0%	2030	36,550,000
Bonds, Series 2017A	108,255,000	2.0-5.0%	2047	104,790,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	5,904,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	4,000,000
Compensated Absences				15,600,939
Less: Unamortized premium				34,056,016
Total Long-term Debt				<u>\$ 436,140,955</u>

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

In 2009, the City issued \$8,035,000 of Taxable General Obligation Tax Increment Revenue Bonds, Series 2009A. The proceeds of the issue are to assist in the funding of the Minnesota Bio Business Center. The debt is to be repaid using tax increments and lease payments from tenants of the Business Center.

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

General Obligation Revenue Bonds

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

Revenue Bonds – Electric Utility

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

Revenue Lease Bonds – Economic Development Authority

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

General Obligation Lodging Tax Revenue Bonds

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Sales Tax Revenue Bonds

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

General Obligation Equipment Certificates of Indebtedness

In 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. In 2018, the City issued \$2,225,000 of General Obligation Equipment Certificates of Indebtedness, Series 2018A. The proceeds of the issue were used to finance the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles for the City's Equipment Revolving Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included as part of the totals for governmental activities. The bonds are payable from the general tax levy and is backed by the full faith, credit and taxing power of the City.

General Obligation Taxable Build America Bonds

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

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% and was repaid through the savings in energy costs that the improvements produce. The loan matured on September 30, 2018.

Bond Indentures

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
GO Taxable Tax Increment Bonds					
District 36, Series 2009A	\$ 6,600,000	\$	\$ 270,000	\$ 6,330,000	\$ 285,000
GO Tax Increment Revenue Bond					
Series 2017A	21,265,000			21,265,000	550,000
GO Lodging Tax Revenue					
Bonds, Series 2015A	40,390,000		1,045,000	39,345,000	1,255,000
GO Equipment Certificates of Indebtedness,					
Series 2009B	185,000		90,000	95,000	(1) 95,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	22,045,000		890,000	21,155,000	905,000
Direct Pay, Series 2010A - Equipment	150,000		50,000	100,000	(1) 50,000
GO Variable Rate Sales Tax Revenue					
Bonds, Series 2015C	37,780,000		2,420,000	35,360,000	2,490,000
GO Equipment Certificates of Indebtedness,					
Series 2018A		2,225,000		2,225,000	(1)
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	7,715,000		1,811,000	5,904,000	280,000
REDA Lease Revenue Bonds, Series 2008	5,225,000		1,225,000	4,000,000	188,000
Municipal Loan Payable:					
Energy Loan	577,793		577,793		
Plus: Unamortized Premium on Bonds	4,388,044		245,792	4,142,252	
Other Liabilities:					
Compensated Absences	11,259,695	7,133,378	6,865,228	11,527,845	6,820,000
Governmental Activities Long-term Liabilities	<u>157,580,532</u>	<u>9,358,378</u>	<u>15,489,813</u>	<u>151,449,097</u>	<u>12,918,000</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Crossover Refunding Series 04A					
Bonds, Series 2012A	51,665,000		4,940,000	46,725,000	5,135,000
Revenue Crossover Refunding					
Bonds, Series 2015B	18,215,000		1,665,000	16,550,000	1,750,000
Revenue Refunding					
Bonds, Series 2015D	11,755,000		1,230,000	10,525,000	1,240,000
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2013B	36,300,000		735,000	35,565,000	765,000
Electric Utility Revenue Refunding Bonds-					
Series 2015E	38,810,000		2,260,000	36,550,000	2,370,000
Electric Utility Revenue Bonds-					
Series 2017A	107,255,000		2,465,000	104,790,000	2,590,000
Plus: Unamortized Premium	33,386,135	5,774	3,478,145	29,913,764	
Other Liabilities:					
Compensated Absences	3,948,199	672,534	547,639	4,073,094	2,282,017
Business-type Activities Long-term Liabilities	<u>301,334,334</u>	<u>678,308</u>	<u>17,320,784</u>	<u>284,691,858</u>	<u>16,132,017</u>
Total	<u>\$ 458,914,866</u>	<u>\$ 10,036,686</u>	<u>\$ 32,810,597</u>	<u>\$ 436,140,955</u>	<u>\$ 29,050,017</u>

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

In 2015, the Sewer Utility issued \$14.2 million in Refunding Revenue Bonds, Series 2015D, to be used for a refunding of the outstanding Series 2007B bonds. The crossover refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,878,134. This difference, reported in the financial statements as a deferred refunding balance, is being amortized and charged to operations over the bond term using the interest method. As of December 31, 2018, the balance totaled \$1,839,409.

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2018, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue		Revenue Bonds	
	Principal	Interest *	Principal	Interest
<u>Governmental Activities</u>				
2019	\$ 5,630,000	\$ 4,443,241	\$ 468,000	\$ 454,881
2020	5,990,000	4,261,323	492,000	432,301
2021	6,440,000	4,031,642	516,000	408,593
2022	6,735,000	3,785,464	536,000	383,850
2023	7,060,000	3,524,570	564,000	357,978
2024-2028	47,375,000	12,356,220	3,248,000	1,355,892
2029-2033	29,065,000	6,367,809	4,080,000	497,123
2034-2038	17,580,000	1,116,568		
Totals	<u>\$ 125,875,000</u>	<u>\$ 39,886,837</u>	<u>\$ 9,904,000</u>	<u>\$ 3,890,618</u>
	General Obligation Revenue		Utility Revenue Bonds	
	Bonds			
	Principal	Interest *	Principal	Interest
<u>Business-Type Activities</u>				
2019	\$ 8,125,000	\$ 3,138,544	\$ 5,725,000	\$ 8,366,350
2020	8,505,000	2,757,048	6,015,000	8,080,100
2021	8,845,000	2,357,946	6,315,000	7,779,350
2022	9,195,000	1,942,236	6,625,000	7,472,050
2023	9,555,000	1,508,924	6,955,000	7,140,800
2024-2028	29,575,000	1,912,145	39,765,000	30,715,300
2029-2033			30,545,000	21,919,350
2034-2038			24,280,000	16,158,500
2039-2043			30,685,000	9,751,000
2044-2047			19,995,000	2,560,250
Totals	<u>\$ 73,800,000</u>	<u>\$ 13,616,843</u>	<u>\$ 176,905,000</u>	<u>\$ 119,943,050</u>

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2018.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

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, 2018, the City had not utilized \$207,353,050 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$2,696,763,988 and the balance outstanding at December 31, 2018 totals \$2,503,120,780.

Revenue Pledged

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

Bond Issue - Revenue Bonds	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
General Obligation Bonds:							
Wastewater Treatment Plant							
Revenue Crossover Refunding Series							
04A Bonds, Series 2012A	Refund 2004A issue	Utility Revenue	100%	2012 - 2026	\$55,501,925	\$ 7,279,150	\$ 7,279,150
Revenue Crossover Refunding Bonds, Series 2015B	Refund 2007A issue	Utility Revenue	100%	2015 - 2026	20,477,250	2,575,750	2,575,750
Revenue Refunding Bonds, Series 2015D	Refund 2007B issue	Utility Revenue	100%	2015 - 2026	11,437,668 *	1,461,550	1,461,550
Revenue Bonds:							
REDA Lease Revenue Bonds, Series 2007	Bio Science building	Lease Revenue	100%	2007 - 2033	8,221,100	689,733	689,733
REDA Lease Revenue Bonds, Series 2008	Bio Science building	Lease Revenue	100%	2008 - 2033	5,573,518	465,799	465,799
Electric Utility Revenue Bonds -							
Series 2013B	Southwest Metro to Rochester to La Crosse transmission line project	Utility Revenue	100%	2013 - 2043	61,269,400	2,448,750	2,448,750
Electric Utility Revenue Refunding Bonds-							
Series 2015E	Advance refund a portion of 2007C issue	Utility Revenue	100%	2015 - 2030	45,780,150	3,815,500	3,815,500
Electric Utility Revenue Bonds-							
Series 2017A	Finance Westside Energy Station, and Electric substation and improvements	Utility Revenue	100%	2017 - 2047	189,798,500	7,827,750	7,827,750

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2018.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits

A. Plan Description

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2018 there were 878 active participants, 259 retirees receiving benefits.

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

B. Net OPEB Liability

The City's net OPEB liability was measured as of January 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the City at year-end were as follows:

Total OPEB liability	\$ 10,725,626
Covered payroll	\$ 70,791,125
Total OPEB liability as a % of payroll	15%

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

C. Funded Status and Funding Progress

As of January 1, 2018, the most recent valuation date, the actuarial accrued liability for benefits was \$10,725,626 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$70,791,125 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Methods and Assumptions

In the January 1, 2018 actuarial valuation, the entry age level percentage of pay method was used. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

D. Methods and Assumptions (continued)

The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.30%
20-year Municipal Bond Yield	3.30%
Inflation rate	2.50%
Mortality	Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
Medical trend rate	6.50% as of January 1, 2018 grading to 5.00% over 6 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

E. Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 1/1/2018	\$ 9,947,454
Changes for the year:	
Service cost	762,822
Interest	347,995
Benefit payments	<u>(332,645)</u>
Net Changes	<u>778,172</u>
Balance End of Year 12/31/2018	<u>\$ 10,725,626</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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

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

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (2.30%)	\$ 11,527,856
Current Discount Rate (3.30%)	10,725,626
1% increase in Discount Rate (4.30%)	9,975,749

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

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 9,680,098
Current Trend Rates	10,725,626
1% increase in Trend Rates	11,941,883

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

As of the year ended December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions paid to OPEB subsequent to the measurement date	\$ <u>408,344</u>

Contributions subsequent to the measurement date of \$408,344 will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 3: Detailed Notes on All Funds (continued)

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2018 were classified as follows:

	General Fund	Capital Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid Items	\$ 31,805	\$	\$ 194,469	\$ 226,274
Inventory	916,544		70,907	987,451
Total Nonspendable	<u>948,349</u>		<u>265,376</u>	<u>1,213,725</u>
<u>Restricted for:</u>				
Civic Music Endowment	39,010			39,010
Flood Control		17,225,838		17,225,838
Economic Development Loans		329,856		329,856
Park and Recreation		108,819		108,819
Tax Increment Financing		4,536,611		4,536,611
Sales Tax Authorized Projects		23,904,369		23,904,369
Destination Medical Center		6,981,997		6,981,997
Airport Operations			4,529,798	4,529,798
Children's Playgrounds			666,517	666,517
Debt Service			1,788,107	1,788,107
Total Restricted	<u>39,010</u>	<u>53,087,490</u>	<u>6,984,422</u>	<u>60,110,922</u>
<u>Committed to:</u>				
Capital Improvement		71,419,206		71,419,206
Total Committed		<u>71,419,206</u>		<u>71,419,206</u>
<u>Assigned to:</u>				
Subsequent Years Budgets	377,806			377,806
Encumbrances	1,352,803			1,352,803
Library Operations			3,091,043	3,091,043
Parks and Recreation			3,229,589	3,229,589
Mayo Civic Center			1,511,158	1,511,158
Transit			2,842,368	2,842,368
Minnesota Bio Science Center			1,296,109	1,296,109
Total Assigned	<u>1,730,609</u>		<u>11,970,267</u>	<u>13,700,876</u>
<u>Unassigned</u>				
	<u>35,845,807</u>		<u>(2,835,434)</u>	<u>33,010,373</u>
Total Fund Balances	<u>\$ 38,563,775</u>	<u>\$ 124,506,696</u>	<u>\$ 16,384,631</u>	<u>\$ 179,455,102</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2018 for which performance is expected in the subsequent years. Such encumbrances are included in assigned fund balance of the general fund.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Position

Governmental Activities	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 39,010	\$	\$
Capital Improvement Fund:				
Flood Control				17,225,838
Economic Development Loans	329,856			
Park and Recreation		108,819		
Tax Increment Financing				4,536,611
Sales Tax Authorized Projects				23,904,369
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	666,517			
CDBG Loans	3,804,709			
Airport Operations				4,529,798
Debt Service Funds:				
Debt Service			1,788,107	
Total Governmental Restricted Net Position	4,801,082	147,829	1,788,107	50,196,616
Business-Type Activities				
Debt Service			477,083	
Funds Held in Trust			121	
Total Business-Type Restricted Net Position			477,204	
Total Government Wide Restricted Net Position	\$ 4,801,082	\$ 147,829	\$ 2,265,311	\$ 50,196,616

L. Deficit Fund Balance

Special Revenue Fund:	
Edward Byrne Memorial Justice Assistance Grant Fund	\$ 262
Community Development Projects	1,797
Tax Increment Bonds	1,250
Economic Development Authority Bond	2,640,728

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

M. Excess Expenditures over Appropriations

At December 31, 2018, excess of expenditures over appropriations, all the result of a planned process, were as follows:

Special Revenue Funds	Expenditures	Appropriation	Excess
Mayo Civic Center	\$ 6,040,816	\$ 5,644,895	\$ 395,921

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

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 \$315,000 per group health claim (with a variable annual aggregate) and \$1,000,000 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 \$2,856,439 reported in the Fund at December 31, 2018 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, 2018 and 2017 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2018	\$ 3,069,194	\$ 18,129,059	\$ (18,341,814)	\$ 2,856,439
2017	3,434,712	18,730,802	(19,096,320)	3,069,194

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

B. Commitments

Power Sales Agreement

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

Service Territory Settlements

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 14.61 mills (tenths of a cent) per kWh to 25.50 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

Southern Minnesota Municipal Power Agency

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,225,107,617 kilowatt hours totaling \$93,617,747 from SMMPA during the year ended December 31, 2018.

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

B. Commitments (continued)

Central Minnesota Municipal Power Agency

The Electric Utility has an agreement with Central Minnesota Municipal Power Agency (CMMPA) for the purchase of capacity. The remaining contract quantities and prices are as follows:

Planning Year	Megawatts (per month)	Contract Price (\$ per MW)	Purchase Price
June 1, 2018 - May 31, 2019	8	\$ 2,400	\$ 230,400
June 1, 2019 - May 31, 2020	11	\$ 2,900	\$ 382,800
June 1, 2020 - May 31, 2021	11	\$ 3,400	\$ 448,800
June 1, 2021 - May 31, 2022	11	\$ 4,000	\$ 528,000

Lake Zumbro Restoration

Lake Zumbro is a reservoir on the Zumbro River formed by the Zumbro Dam which was placed in service in 1919. RPU is the owner and operator of the Zumbro Dam & Hydroelectric Facility and owns in fee title much of the lake bed. Over the years sedimentation has filled in portions of the lake. In December, 2015, RPU along with Olmsted County, Wabasha County, and the Lake Zumbro Improvement District executed an agreement where each party committed to providing funding that in total matched \$3,500,000 originally committed by the State of Minnesota to dredge sediment from portions of the lake. RPU's committed amount is \$1,167,000. Olmsted County is acting as the project manager and fiscal agent for the parties committed in the agreement. As of December 31, 2018, RPU had provided \$399,662 in funding leaving a committed balance of \$767,338. Funding by RPU occurs only as project expenditures are incurred.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

B. Commitments (continued)

Purchase Commitments/Encumbrances:

The City has active construction projects and equipment purchase commitments. As of December 31, 2018, the City's commitments with contractors and vendors were as follows:

	Remaining Commitment
<u>Construction Projects</u>	
Major Street Projects	\$ 2,868,825
Sewer and Water Projects	1,490,282
Sidewalk Projects	395,529
Traffic Projects	300,470
Storm Water / Storm Sewer Projects	303,772
Flood Control	390,555
Water Reclamation Projects	173,482
Parking Ramp Rehabilitation	2,757,155
Airport Projects	364,820
Civic Center Improvements	552,244
Golf Projects	10,897
Recreation Center	10,350
Parks Projects - Various	192,257
Destination Medical Center	93,617
Electric Projects	8,274,466
Water Projects	263,582
Total Construction Projects	<u>\$ 18,442,303</u>
<u>Equipment Purchase Commitments</u>	
Police Precinct #2-Office Chairs	\$ 8,930
Energy Performance Improvements	42,442
City Hall Carpet Replacement	746
City Hall Security Upgrades	88,043
Dispatch Work Stations @ LEC	188,662
Public Safety Camera System	6,411
Library Information Technology/Software	48,360
LEC Electronic Citation System	96,297
Identity Mgmt & Video Mgmt	154,080
In-squad Video Recording Equipment	1,319
Replace Auto External Defib (AED)	3,000
City Wide IT Integration	273,787
City Wide Area Network	8,474
Transit Vehicle Location System	111,855
Bus Shelters	21,550
Bus Equipment-Fareboxes, Smart Hub, AVL	126,682
Total Equipment Purchase Commitments	<u>\$ 1,180,638</u>
<u>General Fund Encumbrances</u>	
*General Fund Equipment Purchase Commitments	\$ 417,836
Total General Fund Encumbrances	<u>\$ 417,836</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

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.

The Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission involving the recovery of RPU's Annual Transmission Revenue Requirement from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. During 2018 FERC issued an order affirming the Administrative Law Judge's 2017 ruling that RPU was entitled to recovery of its revenue requirement related to its investment in MISO Zone 16. However, FERC's order is subject to requests for rehearing and possible appeals to the United States Court of Appeals. This case will not be final until either the time for filing of a petition for review lapses with no such petition having been filed, or upon final order of the Court of Appeals. The related payments MISO has made and will make to RPU until the final determination is known remain subject to refund. As of December 31, 2018, RPU had \$4,330,456 recorded as an unearned revenue related to this matter. The matter does not involve a claim or assessment against RPU.

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, 2018, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

D. Deferred Compensation

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

Plan Description

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

1. General Employees Retirement Fund

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

2. Public Employees Police and Fire Fund

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

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Plan Benefits (continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$3,765,952. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$3,648,935. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$41,446,045 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,359,493. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.7471 percent which was a decrease of 0.023 percent from its proportionate share measured at June 30, 2017.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

City's proportionate share of the net pension liability	\$41,446,045
State of Minnesota's proportionate share of the net Pension liability associated with the City	<u>1,359,493</u>
Total	<u>\$42,805,538</u>

For the year ended December 31, 2018, the City recognized pension expense of \$89,336 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$317,031 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,129,267	\$ 1,176,443
Changes in actuarial assumptions	3,853,159	4,755,038
Difference between projected and actual investment earnings	5,173,879	9,720,785
Changes in proportion	1,745,686	1,281,316
Contributions paid to PERA subsequent to the measurement date	1,927,415	
Total	<u>\$ 13,829,406</u>	<u>\$ 16,933,582</u>

\$1,927,415 reported as deferred outflows of resources related to pensions is resulting from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	\$ 1,515,666
2020	(1,889,805)
2021	(3,792,399)
2022	(865,053)

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$22,780,351 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the City’s proportionate share was 2.1372 percent which was a decrease of 0.0698 percent from its proportionate share measured at June 30, 2017. The City also recognized \$192,348 for the year ended December 31, 2018, as revenue and offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the City recognized pension expense of \$1,343,673 for its proportionate share of the Police and Fire Fund’s pension expense.

At December 31, 2018, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 935,528	\$ 5,626,942
Changes in actuarial assumptions	28,385,248	34,606,003
Difference between projected and actual investment earnings	6,046,474	11,011,315
Changes in proportion	1,800,245	984,161
Contributions paid to PERA subsequent to the measurement date	1,818,462	
Total	\$ 38,985,957	\$ 52,228,421

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs (continued)

\$1,818,462 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ (619,951)
2020	(1,697,400)
2021	(3,410,251)
2022	(9,101,150)
2023	(232,174)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2018 was \$1,942,388.

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund

- Mortality projection scale was changes from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.5 percent per year thereafter to 1.25 percent per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's proportionate share of the General Employees Fund net pension liability at different discount rates	\$ 67,355,129	\$ 41,446,045	\$ 20,058,836
City's proportionate share of the PEPFF net pension liability at different discount rates	48,842,500	22,780,351	1,228,035
Total Net Pension Liability	<u>\$ 116,197,629</u>	<u>\$ 64,226,396</u>	<u>\$ 21,286,871</u>

Pension Plan Fiduciary Net Position

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

NOTE 5: Accounting for the Effects of Rate Regulation

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

NOTE 6: Tax Abatement Agreements

As of December 31, 2018, the City only provides tax abatements through Pay-as-You-Go (PAYG) Tax Increment Financing (TIF) District agreements under Minnesota Statutes, Sections 469.174 through 469.179. The PAYG TIF Districts in the City pay a developer up to 95% of the previous six months tax increment collected in order to assist with funding a development project. As of December 31, 2018, the City had fifteen said Districts in which \$1,523,287 of tax revenue was paid out to developers under these agreements.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

CITY OF ROCHESTER, MINNESOTA
Schedules of City Pension Contributions
December 31, 2018

PERA General Employees Retirement Fund
Last Ten Years*

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,212,117	\$ 3,212,117	\$	\$ 42,828,227	7.5%
2016	3,383,825	3,383,825		45,117,667	7.5%
2017	3,721,078	3,721,078		49,614,373	7.5%
2018	3,765,952	3,765,952		50,212,693	7.5%

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

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,140,595	\$ 3,140,595	\$	\$ 19,386,389	16.2%
2016	3,342,831	3,342,831		20,634,759	16.2%
2017	3,669,622	3,669,622		22,651,988	16.2%
2018	3,648,935	3,648,935		22,524,290	16.2%

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

CITY OF ROCHESTER, MINNESOTA
Schedules of City and Non-Employer Proportionate Share of Net Pension Liability
December 31, 2018

PERA General Employees Retirement Fund
Last Ten Years*

Fiscal Year Ended June 30	City's Proportionate (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Covered Payroll (c)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.7410%	\$ 38,402,466	\$	\$ 38,402,466	\$ 46,112,718	83.3%	78.20%
2016	0.7271%	59,036,914	771,048	59,807,962	43,972,947	136.0%	68.90%
2017	0.7701%	49,162,676	618,213	49,780,889	47,366,020	105.1%	75.90%
2018	0.7471%	41,446,045	1,359,493	42,805,538	49,913,533	85.8%	79.53%

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

Fiscal Year Ended June 30	City's Proportionate (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Covered Payroll (b)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.1770%	\$ 24,735,814	\$ 195,930	\$ 24,931,744	\$ 20,924,808	119.1%	86.60%
2016	2.1420%	85,962,187	192,780	86,154,967	20,010,574	430.5%	63.90%
2017	2.2070%	29,797,126	198,630	29,995,756	21,643,373	138.6%	85.40%
2018	2.1372%	22,780,351	192,348	22,972,699	22,588,139	101.7%	88.84%

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

**Other Post-Employment Benefits Plan
Schedule of Changes in the District's Net OPEB
Liability and Related Ratios
December 31, 2018**

Total OPEB Liability	
Service cost	\$ 762,822
Interest cost	347,995
Benefit payments	(332,645)
Net change in total OPEB liability	778,172
Total OPEB Liability - beginning of year	9,947,454
Total OPEB Liability - end of year	\$ 10,725,626
Covered Payroll	\$ 70,791,125
Total OPEB Liability as a % of payroll	15%

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

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2018

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2018

SPECIAL REVENUE FUNDS

Library Fund:

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

Municipal Recreation System Fund:

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

Mayo Civic Center Fund:

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

Edward Byrne Memorial JAG Fund:

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

Airport Operations Fund:

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

The F.E. Williams Estate Fund:

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

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

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

Community Development Projects Fund:

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

DMCC Fund:

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

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2018

DEBT SERVICE FUNDS

Tax Increment Bonds Fund:

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

TIF Revenue Bond Fund:

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

Facility Energy Improvements Loan Fund:

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

Economic Development Authority Bond Fund:

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

Public Works and Transit Operation Center Bond Fund:

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

Lodging Tax Revenue Bond Fund:

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

GO Variable Rate Sales Tax Bond Fund:

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

**CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2018**

	Special Revenue							
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
ASSETS								
Cash and cash equivalents	\$ 126,171		\$ 273,621		\$ 121,621	\$ 23,715	\$ 137,549	\$ 43,914
Investments	3,308,400	3,220,178	1,685,500		3,212,400	625,600	3,637,100	1,158,900
Accrued interest receivable	14,259	15,462	7,299		13,795	2,675	15,708	5,000
Accounts receivable (net of allowance for uncollectibles)	7,043	513,914	183,260		1,422,422		146,808	89,104
Loans receivable								
Taxes receivable delinquent	55,564	59,105			4,035		368	
Special assessments receivable delinquent		84,193						
Due from other funds			944					
Advances to other funds						14,527		
Due from other governmental units	53,109	135,212	237,344		184,664		62,568	
Prepaid items	3,072							
Inventory		4,820	39,960				26,127	
TOTAL ASSETS	\$ 3,567,618	\$ 4,032,884	\$ 2,427,928	\$	\$ 4,958,937	\$ 666,517	\$ 4,026,228	\$ 1,296,918
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 218,100	\$ 156,798	\$ 276,034		\$ 171,888		\$ 489,652	\$
Deposits payable	6,817	171,895	400,647		220,000			
Accrued compensation and payroll taxes	158,964	164,701	60,660				5,688	
Due to other funds	6,908	67,830	57,193	262	33,211		993	
Advances from other funds								
Unearned revenue		2,408	2,290					
Due to other governmental units	27,150	91,545	79,986		5		661,032	809
Total Liabilities	417,939	655,177	876,810	262	425,104		1,157,365	809
Deferred Inflows of Resources:								
Unavailable revenue								
Property taxes	55,564	59,105			4,035		368	
Special assessments		84,193						
Loans receivable								
Total Deferred Inflows of Resources	55,564	143,298			4,035		368	
Fund Balance:								
Nonspendable	3,072	4,820	39,960				26,127	
Restricted					4,529,798	666,517		
Assigned	3,091,043	3,229,589	1,511,158				2,842,368	1,296,109
Unassigned				(262)				
Total Fund Balance	3,094,115	3,234,409	1,551,118	(262)	4,529,798	666,517	2,868,495	1,296,109
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 3,567,618	\$ 4,032,884	\$ 2,427,928	\$	\$ 4,958,937	\$ 666,517	\$ 4,026,228	\$ 1,296,918

Community Development Projects	Debt Service										Total Nonmajor Governmental Funds
	DMCC	Total	Tax Increment Bonds	TIF Revenue Bond	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond	Total	
\$	\$ 1,166	\$ 727,757	\$	\$ 2,833	\$ 49,505	\$	\$ 1,715,897	\$	\$	\$ 1,768,235	\$ 2,495,992
		16,848,078									16,848,078
		74,198		10	180		6,234		238	6,662	80,860
3,804,709	50,000	2,412,551									2,412,551
		3,804,709									3,804,709
		119,072					13,319			13,319	132,391
		84,193									84,193
	167,134	168,078									168,078
		14,527									14,527
78,236		751,133					13,210			13,210	764,343
	52,939	56,011				138,458				138,458	194,469
		70,907									70,907
\$ 3,882,945	\$ 271,239	\$ 25,131,214	\$	\$ 2,843	\$ 49,685	\$ 138,458	\$ 1,748,660	\$	\$ 238	\$ 1,939,884	\$ 27,071,098
\$ 29,740	\$ 167,300	\$ 1,509,512	\$ 1,250	\$	\$	\$	\$	\$	\$	\$ 1,250	\$ 1,510,762
		799,359									799,359
		390,013									390,013
50,293	51,000	267,690									267,690
						2,779,186				2,779,186	2,779,186
	52,939	57,637									57,637
		860,527									860,527
80,033	271,239	3,884,738	1,250			2,779,186				2,780,436	6,665,174
		119,072					13,319			13,319	132,391
		84,193									84,193
3,804,709		3,804,709									3,804,709
3,804,709		4,007,974					13,319			13,319	4,021,293
	52,939	126,918				138,458				138,458	265,376
		5,196,315		2,843	49,685		1,735,341		238	1,788,107	6,984,422
		11,970,267									11,970,267
(1,797)	(52,939)	(54,998)	(1,250)			(2,779,186)				(2,780,436)	(2,835,434)
(1,797)		17,238,502	(1,250)	2,843	49,685	(2,640,728)	1,735,341		238	(853,871)	16,384,631
\$ 3,882,945	\$ 271,239	\$ 25,131,214	\$	\$ 2,843	\$ 49,685	\$ 138,458	\$ 1,748,660	\$	\$ 238	\$ 1,939,884	\$ 27,071,098

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	Special Revenue							Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
REVENUES								
General property taxes	\$ 6,663,605	\$ 6,983,571	\$ 4,580	\$	\$ 521,992	\$	\$ 172	\$
Tax increment								
Nonproperty tax			1,831,857					
Intergovernmental revenues	1,039,474	91,415		7,673	315,187		7,841,690	
Charges for services	150,401	3,829,353	5,017,452		3,077,200		2,975,260	
Interest earnings	31,082	31,011	20,200	(31)	45,080	10,239	45,212	12,473
Net increase (decrease) in the fair value of investments	10,100	16,100	(7,100)			2,400	6,600	2,700
Rental revenues					1,903,382			2,596,274
Miscellaneous revenues	266,834	255,446	37,557				117,462	10,464
Total Revenues	8,161,496	11,206,896	6,904,546	7,642	5,862,841	12,639	10,986,396	2,621,911
EXPENDITURES								
Culture	7,949,091							
Park and recreation/Mayo Civic Center		11,074,171	6,040,816					
Public safety				7,882				
Airport operations					4,341,670			
Transit							9,693,405	
Economic development/tourism								1,415,129
Debt service								
Total Expenditures	7,949,091	11,074,171	6,040,816	7,882	4,341,670		9,693,405	1,415,129
Excess (deficiency) of revenues over (under) expenditures	212,405	132,725	863,730	(240)	1,521,171	12,639	1,292,991	1,206,782
OTHER FINANCING SOURCES (USES)								
Transfers in		4,250						
Transfers out	(22,446)	(509,730)	(122,105)		(89,394)	(20,000)	(793,216)	(929,726)
Total Other Financing Sources (Uses)	(22,446)	(505,480)	(122,105)		(89,394)	(20,000)	(793,216)	(929,726)
Net change in fund balances	189,959	(372,755)	741,625	(240)	1,431,777	(7,361)	499,775	277,056
Fund Balances - beginning	2,904,156	3,607,164	809,493	(22)	3,098,021	673,878	2,368,720	1,019,053
Fund Balances - ending	\$ 3,094,115	\$ 3,234,409	\$ 1,551,118	\$ (262)	\$ 4,529,798	\$ 666,517	\$ 2,868,495	\$ 1,296,109

Community Development Projects	DMCC	Total	Debt Service							Total	Total Nonmajor Governmental Funds	
			Tax Increment Bonds	TIF Revenue Bond	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond			
\$	\$	\$ 14,173,920	\$	\$	\$	\$	\$	\$ 1,653,327	\$	\$	\$ 1,653,327	\$ 15,827,247
		1,831,857	632,610								632,610	632,610
204,757		9,500,196						320,879			320,879	9,821,075
		15,049,666										15,049,666
11,118	14	206,398		(92)	580	20,638		13,883		(2,368)	32,641	239,039
		30,800										30,800
		4,499,656										4,499,656
214,403		902,166										902,166
430,278	14	46,194,659	632,610	(92)	580	20,638		1,988,089		(2,368)	2,639,457	48,834,116
		7,949,091										7,949,091
		17,114,987										17,114,987
		7,882										7,882
		4,341,670										4,341,670
		9,693,405										9,693,405
432,075	2,581,669	4,428,873		200		14,966					15,166	4,444,039
			633,860	540,640	595,619	3,598,055		1,871,976	2,655,163	3,170,530	13,065,843	13,065,843
432,075	2,581,669	43,535,908	633,860	540,840	595,619	3,613,021		1,871,976	2,655,163	3,170,530	13,081,009	56,616,917
(1,797)	(2,581,655)	2,658,751	(1,250)	(540,932)	(595,039)	(3,592,383)		116,113	(2,655,163)	(3,172,898)	(10,441,552)	(7,782,801)
	2,581,655	2,585,905		540,678	566,967	929,726			2,595,801	3,172,952	7,806,124	10,392,029
		(2,486,617)										(2,486,617)
	2,581,655	99,288		540,678	566,967	929,726			2,595,801	3,172,952	7,806,124	7,905,412
(1,797)		2,758,039	(1,250)	(254)	(28,072)	(2,662,657)		116,113	(59,362)	54	(2,635,428)	122,611
		14,480,463		3,097	77,757	21,929		1,619,228	59,362	184	1,781,557	16,262,020
\$ (1,797)	\$	\$ 17,238,502	\$ (1,250)	\$ 2,843	\$ 49,685	\$ (2,640,728)	\$	\$ 1,735,341	\$	\$ 238	\$ (853,871)	\$ 16,384,631

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

For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,670,354	\$ 6,670,354	\$ 6,663,605	\$ (6,749)
Intergovernmental	989,453	1,039,474	1,039,474	
Charges for services	165,050	165,050	150,401	(14,649)
Interest earnings	11,500	21,148	31,082	9,934
Net increase (decrease) in the fair value of investments	(3,000)	(3,000)	10,100	13,100
Miscellaneous revenues				
Contributions		263,747	263,897	150
Other	1,950	1,950	2,937	987
Total Revenues	<u>7,835,307</u>	<u>8,158,723</u>	<u>8,161,496</u>	<u>2,773</u>
EXPENDITURES				
Public Library	7,882,422	7,916,722	7,680,300	236,422
Gifts appropriations		954,492	268,791	685,701
Total Expenditures	<u>7,882,422</u>	<u>8,871,214</u>	<u>7,949,091</u>	<u>922,123</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(47,115)</u>	<u>(712,491)</u>	<u>212,405</u>	<u>924,896</u>
OTHER FINANCING USES				
Transfers out	<u>(22,446)</u>	<u>(22,446)</u>	<u>(22,446)</u>	
Total Other Financing Uses	<u>(22,446)</u>	<u>(22,446)</u>	<u>(22,446)</u>	
Net change in fund balance	(69,561)	(734,937)	189,959	924,896
Fund Balance - beginning	<u>2,904,156</u>	<u>2,904,156</u>	<u>2,904,156</u>	
Fund Balance - ending	<u>\$ 2,834,595</u>	<u>\$ 2,169,219</u>	<u>\$ 3,094,115</u>	<u>\$ 924,896</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, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 6,990,099	\$ 6,990,099	\$ 6,983,571	\$ (6,528)
Intergovernmental	71,954	71,954	91,415	19,461
Charges for services	4,125,450	4,130,182	3,829,353	(300,829)
Interest earnings	21,570	21,570	31,011	9,441
Net increase (decrease) in the fair value of investments	(4,000)	(4,000)	16,100	20,100
Miscellaneous revenues				
Contributions	11,500	20,501	38,690	18,189
Other	133,900	188,640	216,756	28,116
Total Revenues	<u>11,350,473</u>	<u>11,418,946</u>	<u>11,206,896</u>	<u>(212,050)</u>
EXPENDITURES				
Administration	576,959	576,959	579,620	(2,661)
Recreation Department	648,106	670,515	704,745	(34,230)
Golf	1,619,697	1,647,522	1,591,204	56,318
Tennis Center	50,310	50,310	49,101	1,209
Volleyball Center	352,171	352,171	330,641	21,530
Swimming Pools	137,676	137,676	123,026	14,650
Graham Arenas	776,280	776,280	803,245	(26,965)
Park	5,467,077	5,539,735	5,449,093	90,642
Plummer House	80,019	80,019	101,719	(21,700)
Recreation Center	1,331,446	1,331,446	1,341,777	(10,331)
Total Expenditures	<u>11,039,741</u>	<u>11,162,633</u>	<u>11,074,171</u>	<u>88,462</u>
Excess (deficiency) of revenues over (under) expenditures	<u>310,732</u>	<u>256,313</u>	<u>132,725</u>	<u>(123,588)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			4,250	4,250
Transfers out	(310,732)	(480,719)	(509,730)	(29,011)
Total Other Financing Sources (Uses)	<u>(310,732)</u>	<u>(480,719)</u>	<u>(505,480)</u>	<u>(24,761)</u>
Net change in fund balance		(224,406)	(372,755)	(148,349)
Fund Balance - beginning	<u>3,607,164</u>	<u>3,607,164</u>	<u>3,607,164</u>	
Fund Balance - ending	<u>\$ 3,607,164</u>	<u>\$ 3,382,758</u>	<u>\$ 3,234,409</u>	<u>\$ (148,349)</u>

CITY OF ROCHESTER, MINNESOTA
MAYO CIVIC CENTER
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 4,580	\$ 4,580	\$ 4,580	\$
Nonproperty taxes	1,830,332	1,831,857	1,831,857	
Charges for services	3,802,300	3,802,300	5,017,452	1,215,152
Interest earnings	75	75	20,200	20,125
Net decrease in the fair value of investments			(7,100)	(7,100)
Other	24,250	24,250	37,557	13,307
Total Revenues	<u>5,661,537</u>	<u>5,663,062</u>	<u>6,904,546</u>	<u>1,241,484</u>
EXPENDITURES				
Mayo Civic Center	<u>5,534,967</u>	<u>5,644,895</u>	<u>6,040,816</u>	<u>(395,921)</u>
Excess of revenues over expenditures	<u>126,570</u>	<u>18,167</u>	<u>863,730</u>	<u>845,563</u>
OTHER FINANCING USES				
Transfers out	<u>(126,570)</u>	<u>(126,570)</u>	<u>(122,105)</u>	<u>4,465</u>
Total Other Financing Uses	<u>(126,570)</u>	<u>(126,570)</u>	<u>(122,105)</u>	<u>4,465</u>
Net change in fund balance		(108,403)	741,625	850,028
Fund Balance - beginning	<u>809,493</u>	<u>809,493</u>	<u>809,493</u>	
Fund Balance - ending	<u>\$ 809,493</u>	<u>\$ 701,090</u>	<u>\$ 1,551,118</u>	<u>\$ 850,028</u>

CITY OF ROCHESTER, MINNESOTA
AIRPORT OPERATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 522,500	\$ 522,500	\$ 521,992	\$ (508)
Intergovernmental	249,935	249,935	315,187	65,252
Charges for services	2,485,997	2,485,997	3,077,200	591,203
Interest earnings	10,500	10,500	45,080	34,580
Net increase (decrease) in the fair value of investments	(700)	(700)		700
Rental revenues	1,972,242	1,972,242	1,903,382	(68,860)
Total Revenues	<u>5,240,474</u>	<u>5,240,474</u>	<u>5,862,841</u>	<u>622,367</u>
EXPENDITURES				
Airport operations	4,465,619	4,465,619	4,185,134	280,485
US customs operations	217,000	217,000	156,536	60,464
Total Expenditures	<u>4,682,619</u>	<u>4,682,619</u>	<u>4,341,670</u>	<u>340,949</u>
Excess of revenues over expenditures	<u>557,855</u>	<u>557,855</u>	<u>1,521,171</u>	<u>963,316</u>
OTHER FINANCING USES				
Transfers out	(89,394)	(89,394)	(89,394)	
Net change in fund balance	468,461	468,461	1,431,777	963,316
Fund Balance - beginning	3,098,021	3,098,021	3,098,021	
Fund Balance - ending	<u>\$ 3,566,482</u>	<u>\$ 3,566,482</u>	<u>\$ 4,529,798</u>	<u>\$ 963,316</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, 2018

	<u>Budgeted Amounts</u>		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES				
Interest earnings	\$ 7,856	\$ 7,856	\$ 10,239	\$ 2,383
Net increase (decrease) in the fair value of investments	<u>(1,500)</u>	<u>(1,500)</u>	<u>2,400</u>	<u>3,900</u>
Total Revenues	<u>6,356</u>	<u>6,356</u>	<u>12,639</u>	<u>6,283</u>
OTHER FINANCING USES				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	
Net change in fund balance	(13,644)	(13,644)	(7,361)	6,283
Fund Balance - beginning	<u>673,878</u>	<u>673,878</u>	<u>673,878</u>	
Fund Balance - ending	<u>\$ 660,234</u>	<u>\$ 660,234</u>	<u>\$ 666,517</u>	<u>\$ 6,283</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, 2018

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$	\$	\$ 172	\$ 172
Intergovernmental revenues	7,998,567	7,998,567	7,841,690	(156,877)
Charges for services	3,158,628	3,158,628	2,975,260	(183,368)
Interest earnings	26,700	26,700	45,212	18,512
Net increase (decrease) in the fair value of investments	(1,000)	(1,000)	6,600	7,600
Miscellaneous revenues	100,000	139,652	117,462	(22,190)
Total Revenues	<u>11,282,895</u>	<u>11,322,547</u>	<u>10,986,396</u>	<u>(336,151)</u>
EXPENDITURES				
Fixed route	10,236,180	10,326,743	8,623,868	1,702,875
Demand response - ZIPS	1,042,012	1,042,275	1,069,537	(27,262)
Total Expenditures	<u>11,278,192</u>	<u>11,369,018</u>	<u>9,693,405</u>	<u>1,675,613</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,703</u>	<u>(46,471)</u>	<u>1,292,991</u>	<u>1,339,462</u>
OTHER FINANCING USES				
Transfers out	(782,000)	(782,000)	(793,216)	(11,216)
Total Other Financing Uses	<u>(782,000)</u>	<u>(782,000)</u>	<u>(793,216)</u>	<u>(11,216)</u>
Net change in fund balance	(777,297)	(828,471)	499,775	1,328,246
Fund Balance - beginning	<u>2,368,720</u>	<u>2,368,720</u>	<u>2,368,720</u>	
Fund Balance - ending	<u>\$ 1,591,423</u>	<u>\$ 1,540,249</u>	<u>\$ 2,868,495</u>	<u>\$ 1,328,246</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2018

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

Equipment Revolving Fund:

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

Information Technology Revolving Fund:

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

Self-Insurance Fund:

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

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
December 31, 2018

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 200,002	\$ 156,385	\$ 856,649	\$ 1,213,036
Investments	5,250,600	4,131,500	18,212,500	27,594,600
Accounts receivable	26,101			26,101
Accrued interest receivable	22,633	17,750	78,473	118,856
Taxes receivable delinquent	3,475	959		4,434
Advances to other funds			8,345,798	8,345,798
Due from other governmental units	3,002	218		3,220
Total Current Assets	<u>5,505,813</u>	<u>4,306,812</u>	<u>27,493,420</u>	<u>37,306,045</u>
Noncurrent Assets:				
Capital assets:				
Construction in process	1,305,216			1,305,216
Machinery and equipment	37,789,823	3,274,223		41,064,046
Less: Accumulated depreciation	<u>(23,173,555)</u>	<u>(2,282,426)</u>		<u>(25,455,981)</u>
Total capital assets (net of accumulated depreciation)	<u>15,921,484</u>	<u>991,797</u>		<u>16,913,281</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from OPEB activity			408,344	408,344
Total Assets and Deferred Outflows of Resources	<u>21,427,297</u>	<u>5,298,609</u>	<u>27,901,764</u>	<u>54,627,670</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	7,377	349,184	20,976	377,537
Accrued interest payable	2,906			2,906
Deposits payable			4,423	4,423
Unearned revenue			131,631	131,631
Due to other governmental units		937	17,026	17,963
Accrued claims			1,324,740	1,324,740
Bonds payable	145,000			145,000
Total Current Liabilities	<u>155,283</u>	<u>350,121</u>	<u>1,498,796</u>	<u>2,004,200</u>
Noncurrent Liabilities:				
Bonds payable	2,275,000			2,275,000
Accrued claims			1,531,699	1,531,699
Post employment benefit obligation			10,725,626	10,725,626
Total Noncurrent Liabilities	<u>2,275,000</u>		<u>12,257,325</u>	<u>14,532,325</u>
Total Liabilities	<u>2,430,283</u>	<u>350,121</u>	<u>13,756,121</u>	<u>16,536,525</u>
NET POSITION				
Net investment in capital assets	14,675,455	991,797		15,667,252
Unrestricted	4,321,559	3,956,691	14,145,643	22,423,893
Total Net Position	<u>\$ 18,997,014</u>	<u>\$ 4,948,488</u>	<u>\$ 14,145,643</u>	<u>\$ 38,091,145</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2018

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Revenues:				
Charges for Services:				
Equipment rental	\$ 3,152,769	\$ 1,380,170	\$	\$ 4,532,939
Copy center charges	26,457			26,457
Departmental workers' compensation charges			713,475	713,475
Departmental insurance charges	37,308		18,455,916	18,493,224
Departmental flex charges			12,193	12,193
Employee insurance charges			748,212	748,212
Employee flex benefit contributions			529,323	529,323
Total Operating Revenues	<u>3,216,534</u>	<u>1,380,170</u>	<u>20,459,119</u>	<u>25,055,823</u>
Operating Expenses:				
Copy center	17,601			17,601
Minor equipment		500,548		500,548
Workers' compensation benefits			295,095	295,095
Workers' compensation insurance premiums			84,771	84,771
Health insurance claims			19,821,525	19,821,525
Flex benefits			541,821	541,821
Property and liability insurance			684,125	684,125
Property and liability claims			96,120	96,120
Other	34,763	712,542		747,305
Depreciation	3,157,096	235,766		3,392,862
Total Operating Expenses	<u>3,209,460</u>	<u>1,448,856</u>	<u>21,523,457</u>	<u>26,181,773</u>
Operating Income (Loss)	<u>7,074</u>	<u>(68,686)</u>	<u>(1,064,338)</u>	<u>(1,125,950)</u>
Nonoperating Revenues (Expenses):				
General property taxes	298,113	17,644		315,757
Interest earnings	60,244	59,711	373,412	493,367
Net increase (decrease) in the fair value of investments	(2,800)	18,200	98,700	114,100
Interest and fiscal charges	(7,342)			(7,342)
Gain on disposal of property	65,550			65,550
Intergovernmental revenues	1,237			1,237
Total Nonoperating Revenues	<u>415,002</u>	<u>95,555</u>	<u>472,112</u>	<u>982,669</u>
Income (Loss) Before Transfers	422,076	26,869	(592,226)	(143,281)
Transfers in			125,535	125,535
Transfers out		(99,525)		(99,525)
Change in Net Position	<u>422,076</u>	<u>(72,656)</u>	<u>(466,691)</u>	<u>(117,271)</u>
Total Net Position - beginning of year as originally stated	18,574,938	5,021,144	18,283,112	41,879,194
Change in accounting principle			(3,670,778)	(3,670,778)
Total Net Position - beginning of year as restated	<u>18,574,938</u>	<u>5,021,144</u>	<u>14,612,334</u>	<u>38,208,416</u>
Total Net Position - ending	<u>\$ 18,997,014</u>	<u>\$ 4,948,488</u>	<u>\$ 14,145,643</u>	<u>\$ 38,091,145</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Cash Flows From Operating Activities:				
Cash received from other departments	\$ 3,215,146	\$ 1,381,659	\$ 18,799,559	\$ 23,396,364
Cash received from employees			1,289,357	1,289,357
Cash paid to suppliers	<u>(52,364)</u>	<u>(868,335)</u>	<u>(21,394,812)</u>	<u>(22,315,511)</u>
Net Cash Provided by (Used in) Operating Activities	<u>3,162,782</u>	<u>513,324</u>	<u>(1,305,896)</u>	<u>2,370,210</u>
Cash Flows From Noncapital Financing Activities:				
General property taxes	297,645	19,634		317,279
Intergovernmental revenues	1,237			1,237
Transfers in			125,535	125,535
Transfers out		<u>(99,525)</u>		<u>(99,525)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>298,882</u>	<u>(79,891)</u>	<u>125,535</u>	<u>344,526</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from issuance of bonds	2,225,000			2,225,000
Principal and interest payments on bonds	(149,160)			(149,160)
Proceeds from sale of property	285,999			285,999
Acquisition of capital assets	<u>(3,581,822)</u>	<u>(731,717)</u>		<u>(4,313,539)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,219,983)</u>	<u>(731,717)</u>		<u>(1,951,700)</u>
Cash Flows From Investing Activities:				
Investment income	48,301	57,093	368,064	473,458
Net (increase) decrease in investments	<u>(2,202,700)</u>	<u>236,900</u>	<u>1,668,946</u>	<u>(296,854)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(2,154,399)</u>	<u>293,993</u>	<u>2,037,010</u>	<u>176,604</u>
Net Increase (Decrease) in Cash and Cash Equivalents	87,282	(4,291)	856,649	939,640
Cash and Cash Equivalents, Beginning of Year	<u>112,720</u>	<u>160,676</u>		<u>273,396</u>
Cash and Cash Equivalents, End of Year	<u>\$ 200,002</u>	<u>\$ 156,385</u>	<u>\$ 856,649</u>	<u>\$ 1,213,036</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2018

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating Income (Loss)	\$ 7,074	\$ (68,686)	\$ (1,064,338)	\$ (1,125,950)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:				
Depreciation	3,157,096	235,766		3,392,862
(Increase) Decrease In:				
Accounts receivable			11,822	11,822
Due from other governmental units	(1,388)	1,489		101
Advances due from other funds			(382,025)	(382,025)
Deferred outflows from OPEB activity			(408,344)	(408,344)
Increase (Decrease) In:				
Accounts payable		345,612	(45,022)	300,590
Deposits payable			(3,624)	(3,624)
Unearned revenue			14,959	14,959
Due to other governmental units		(857)	5,259	4,402
Post employment benefit obligation			778,172	778,172
Accrued claims			(212,755)	(212,755)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 3,162,782</u>	<u>\$ 513,324</u>	<u>\$ (1,305,896)</u>	<u>\$ 2,370,210</u>
Non Cash Transactions:				
Increase (decrease) in fair value of investments	\$ (2,800)	\$ 18,200	\$ 98,700	\$ 114,100
Equipment purchases in accounts payable at year end	7,377			7,377

(This Page is Left Blank Intentionally)