

**CITY OF ROCHESTER, MINNESOTA**  
**FINANCIAL SECTION**  
**DECEMBER 31, 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of and for the year ended December 31, 2017, 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 2 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, 2017, 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.

## **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.

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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018, 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, Schepu and Associates, Ltd.*

Rochester, Minnesota  
June 12, 2018

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

As management of the City of Rochester, Minnesota, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended December 31, 2017, with comparative data for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$1,248,452,598 (*net position*). Of this amount, \$213,087,893 (*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 \$57,169,677.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$146,412,374, a decrease of \$552,943 in comparison with the prior year. Approximately 22 percent of this total amount, or \$32,836,463, 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 \$33,835,827 or approximately 44 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester increased total outstanding long term debt obligations by \$54,322,375 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 construction improvement capital projects 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 93-102 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 97-102) 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 36-87 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 93-107 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 exceeded liabilities by \$1,248,452,598 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (79 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 214,293,006	\$ 211,336,420	\$ 229,964,740	\$ 178,724,743	\$ 444,257,746	\$ 390,061,163
Capital assets	759,055,861	734,430,143	635,719,492	576,756,596	1,394,775,353	1,311,186,739
Total assets	973,348,867	945,766,563	865,684,232	755,481,339	1,839,033,099	1,701,247,902
Deferred outflows of resources	65,261,318	77,020,078	10,297,983	11,913,240	75,559,301	88,933,318
Total assets and deferred outflows of resources	1,038,610,185	1,022,786,641	875,982,215	767,394,579	1,914,592,400	1,790,181,220
Long-term liabilities						
outstanding	163,857,208	145,436,229	301,334,334	249,410,889	465,191,542	394,847,118
Other liabilities	78,163,591	138,565,720	42,738,318	44,257,208	120,901,909	182,822,928
Total liabilities	242,020,799	284,001,949	344,072,652	293,668,097	586,093,451	577,670,046
Deferred inflows of resources	70,149,009	14,290,411	9,897,342	6,937,842	80,046,351	21,228,253
Total liabilities and deferred inflows of resources	312,169,808	298,292,360	353,969,994	300,605,939	666,139,802	598,898,299
Net position:						
Net investment in capital assets	612,735,024	614,090,646	373,589,926	357,816,339	986,324,950	971,906,985
Restricted	48,584,755	48,171,271	455,000	327,917	49,039,755	48,499,188
Unrestricted	65,120,598	62,232,364	147,967,295	108,644,384	213,087,893	170,876,748
Total net position	\$ 726,440,377	\$ 724,494,281	\$ 522,012,221	\$ 466,788,640	\$ 1,248,452,598	\$ 1,191,282,921

An additional portion of the City of Rochester's net position (3.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$213,087,893) 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 \$1,946,096. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions, the Airport Terminal expansion, and transit grants). Additional net position growth resulted from increased program revenues over budget and unused contingency.

**Business-type activities.** Business-type activities increased the City of Rochester's net position by \$55,223,581. 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:

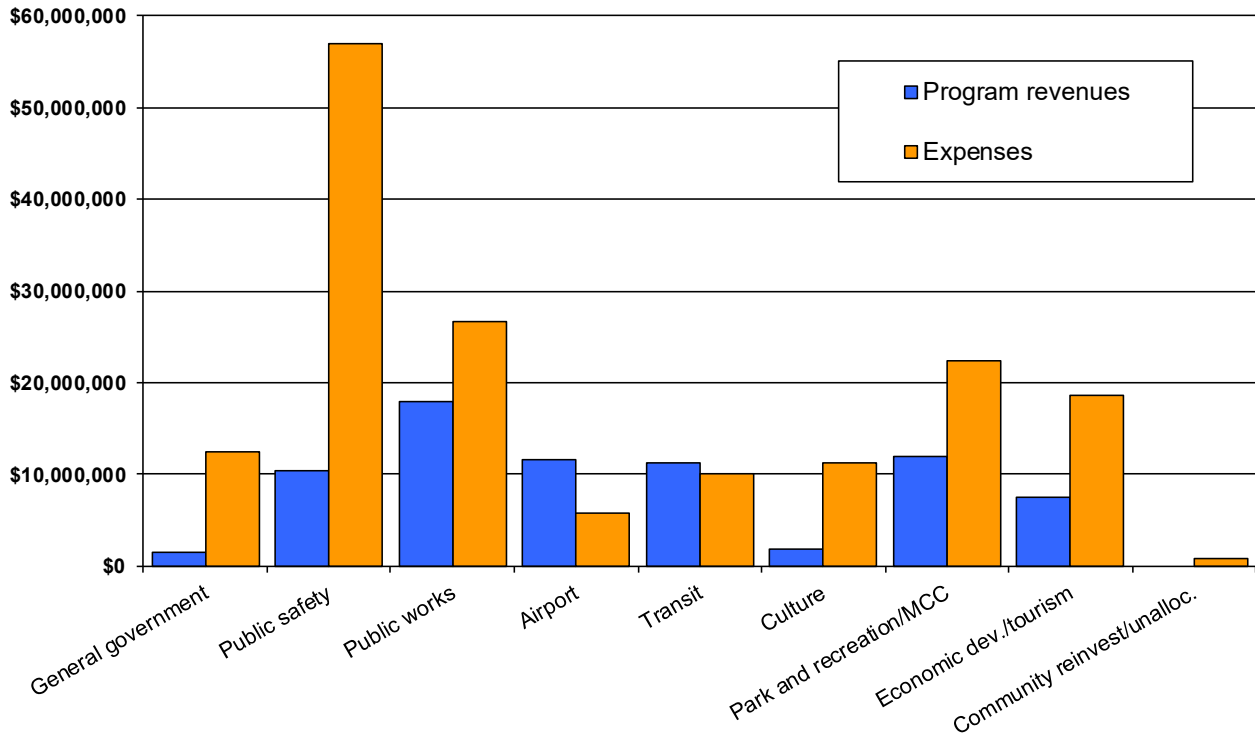
**City of Rochester's Change in Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 27,079,310	\$ 24,732,331	\$ 214,515,770	\$ 206,838,603	\$ 241,595,080	\$ 231,570,934
Operating grants and contributions	13,029,859	12,228,509			13,029,859	12,228,509
Capital grants and contributions	33,520,270	42,954,009	9,511,850	10,256,977	43,032,120	53,210,986
General revenues:						
Property taxes	62,455,775	57,241,529			62,455,775	57,241,529
Other taxes	31,342,630	29,921,694			31,342,630	29,921,694
Grants and contributions not restricted to specific programs						
Local government aid	7,215,571	7,190,925			7,215,571	7,190,925
Other	3,126,534	1,639,258	68,410	13,567	3,194,944	1,652,825
Miscellaneous	3,079,749	3,776,066	1,648,115	1,353,411	4,727,864	5,129,477
Total revenues	<u>180,849,698</u>	<u>179,684,321</u>	<u>225,744,145</u>	<u>218,462,558</u>	<u>406,593,843</u>	<u>398,146,879</u>
Expenses:						
General government	12,510,037	15,735,647			12,510,037	15,735,647
Public safety	56,914,220	59,557,300			56,914,220	59,557,300
Public works	26,745,592	31,641,886			26,745,592	31,641,886
Airport	5,855,354	5,661,137			5,855,354	5,661,137
Transit	10,130,590	8,989,779			10,130,590	8,989,779
Culture	11,220,102	11,808,852			11,220,102	11,808,852
Park and recreation/Mayo Civic Center	22,342,306	19,242,390			22,342,306	19,242,390
Economic development/tourism	18,622,500	18,342,528			18,622,500	18,342,528
Community reinvestment/unallocated	787,312	623,834			787,312	623,834
Interest on long-term debt	3,888,556	3,950,561			3,888,556	3,950,561
Parking			4,367,159	4,449,758	4,367,159	4,449,758
Electric			140,679,727	136,810,576	140,679,727	136,810,576
Water			9,717,620	9,166,574	9,717,620	9,166,574
Sewer			20,473,740	20,952,914	20,473,740	20,952,914
Storm water			5,169,351	3,996,198	5,169,351	3,996,198
Total expenses	<u>169,016,569</u>	<u>175,553,914</u>	<u>180,407,597</u>	<u>175,376,020</u>	<u>349,424,166</u>	<u>350,929,934</u>
Increase in net position before transfers	11,833,129	4,130,407	45,336,548	43,086,538	57,169,677	47,216,945
Transfers	(9,887,033)	5,831,285	9,887,033	(5,831,285)		
Increase in net position	1,946,096	9,961,692	55,223,581	37,255,253	57,169,677	47,216,945
Net position, beginning	724,494,281	714,532,589	466,788,640	429,533,387	1,191,282,921	1,144,065,976
Net position, end of year	<u>\$ 726,440,377</u>	<u>\$ 724,494,281</u>	<u>\$ 522,012,221</u>	<u>\$ 466,788,640</u>	<u>\$ 1,248,452,598</u>	<u>\$ 1,191,282,921</u>

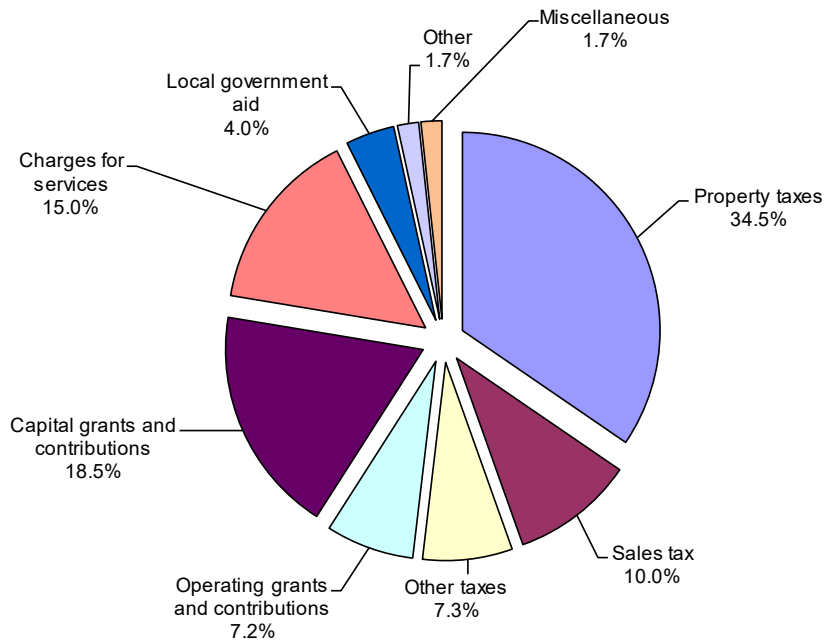
## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



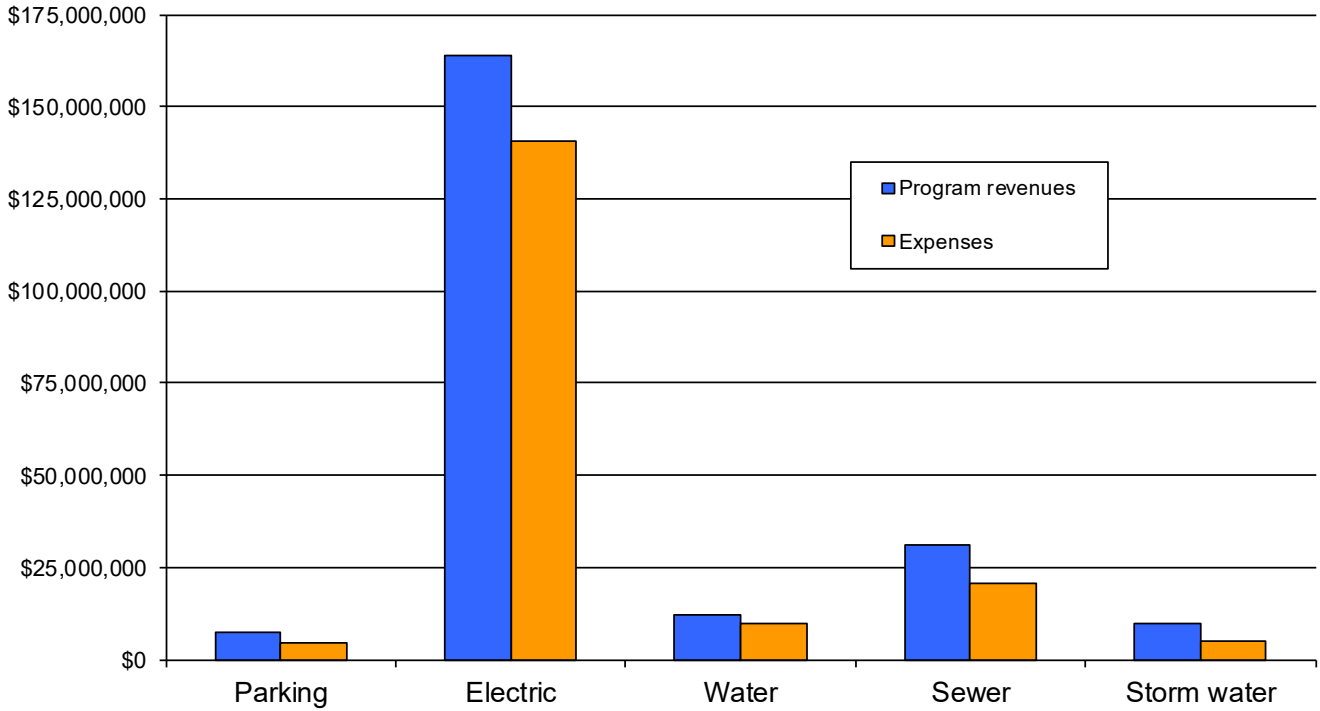
### Revenues by Source - Governmental Activities



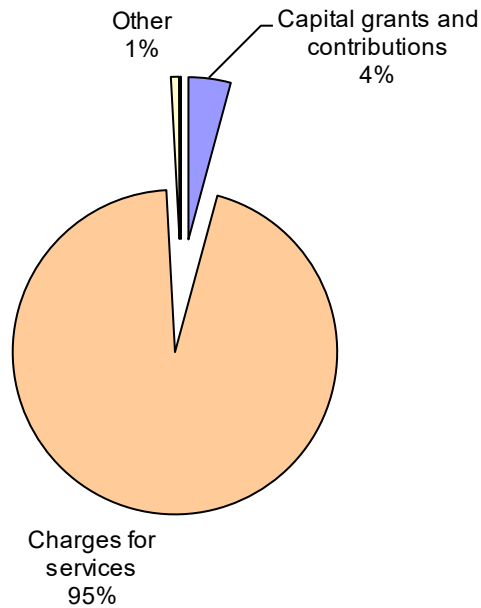
**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$146,412,374, a decrease of \$552,943 from the prior year. The general fund increased fund balance by \$1.1 million, while the construction improvement fund decreased fund balance by \$3.7 million, largely due to the Mayo Civic Center expansion and the Airport Terminal expansion. Additionally, all other governmental funds reflected a net increase of \$2.0 million in fund balance, largely showing up in the Airport fund.

Approximately 22 percent of the total fund balance, or \$32,836,463, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,203,587 is considered to be nonspendable (prepaid or inventory), \$44,849,640 has been restricted by grantors, donors, debt covenants, or regulation, \$56,112,376 has been committed by council action for CIP projects, and \$11,410,308 represents assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

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

***Governmental funds (continued).***

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$1,122,193 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$33,066,288 while total fund balance amounted to \$34,764,086. 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 43 percent of total general fund expenditures, while total fund balance represents 45 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 \$180,282 for the year after transferring \$22,445 to the capital projects fund for future equipment purchases. Much of this gain was the result of new gift appropriations. Additionally, operational expenditures were held \$1,000,269 below the approved budget. The municipal recreation fund increased its fund balance by \$315,199 as a net gain in the Park Operation, Graham Arena, and Recreation Center programs more than offset losses in the Golf and National Volleyball Center programs. The Mayo Civic Center fund increased its fund balance by \$104,316. The airport fund increased its total fund balance by \$1,136,872 for the year to \$3,098,021 due to an increase in fee revenues. Additionally, Council provided \$537,932 in budgeted tax levy for the airport in 2017 and capital project transfers were held to just \$162,003 all in an effort to restore fund balance in this area. The transit fund saw an increase in fund balance of \$74,627 due to an increase in grant revenue and lower than expected supply costs. Minnesota Bio Science Center fund increased fund balance by \$110,138 as the facility has maintained a consistently high occupancy level.

Debt service fund balances increased by \$104,662.

The construction improvement fund decreased fund balance by \$3,712,255 due in large part to the Mayo Civic Center expansion and the Airport Terminal expansion projects.

***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 - \$36,409,030 Electric - \$56,872,690, Water - \$5,244,739, Sewer - \$34,992,708 and Storm water - \$13,175,479. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$7.9 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 \$3,200 in 2017. The schedule of rate increases was necessary as sewer flows continued to fall below plan.

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

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

The Water Utility's net position increased \$3.1 million in 2017. This utility's rates were increased by 6.0% in January of 2017 and 6.0% in January of 2018. 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 Electric Utility net position growth of \$15.9 million occurred after rates were increased 3.7% in January of 2017. They were further increased by 1.5% for 2018 based on a cost of service study accepted by the RPU board and city council in November of 2014.

The Parking Enterprise growth in net position of \$23.3 million was due to increased parking revenues and the transfer of tax increment funds for the construction of a new parking facility. Parking rates were increased in 2015 reflecting a seven-year rate plan adopted in 2008. The plan called for rate increases every other year such that the fourth and final phase of increases was implemented in 2015. Rate increases in 2015 were developed to rebalance based on market demand and ranged from 4% to 20%, but averaged approximately 8.8%. The city council approved another rate increase effective January 1, 2017.

The Storm Water Utility's net position increased \$5.9 million in 2017. Storm Water rates increased 10.75% in January 2017 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.

**General Fund Budgetary Highlights**

The City approved the 2017 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 Council budget to address unplanned expenditures for legal and lobbying consultants.
- Reductions in unallocated contingency account to offset increases in city attorney, and other smaller unplanned costs.
- Infrastructure maintenance budget was increased primarily to reflect roadwork completed by our own street crews.

At the close of the year, general fund total expenditures were \$3,724,456 below final budget while actual revenues were above final budget by \$1,267,347. These variances to budget can be traced to higher than expected Police and Fire State Aid, permit revenues, and savings in police and fire budgets due to a delay in hiring of approved positions.

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

**Capital Asset and Debt Administration**

**Capital assets.** The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$1,394,775,353 (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 \$83,588,614, or 6.4 percent. This increase is a result of significant construction activities in building expansions and infrastructure including streets, underground mains and continued construction of the electric transmission line.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 74,962,362	\$ 73,297,895	\$ 22,062,917	\$ 21,689,211	\$ 97,025,279	\$ 94,987,106
Buildings	250,661,154	171,890,435	259,731,992	258,048,506	510,393,146	429,938,941
Improvements other than buildings	25,211,583	25,877,785			25,211,583	25,877,785
Machinery and equipment	31,124,467	30,258,767	258,229,471	251,167,020	289,353,938	281,425,787
Infrastructure	331,529,574	331,925,873			331,529,574	331,925,873
Construction in progress	45,566,721	101,179,388	95,695,112	45,851,859	141,261,833	147,031,247
Total	<u>\$ 759,055,861</u>	<u>\$ 734,430,143</u>	<u>\$ 635,719,492</u>	<u>\$ 576,756,596</u>	<u>\$ 1,394,775,353</u>	<u>\$ 1,311,186,739</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 56-58 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 \$405,932,793 in bonds and notes outstanding. Of this amount, \$210,050,000 comprises debt backed by the full faith and credit of the government, \$195,305,000 represents bonds and notes secured solely by specified revenue sources, and \$577,793 represents an energy loan payable through savings in costs from energy improvements. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 6,600,000	\$ 6,860,000	\$	\$	\$ 6,600,000	\$ 6,860,000
General obligation revenue bonds				21,830,000		21,830,000
General obligation tax increment revenue bonds	21,265,000				21,265,000	
General obligation lodging tax revenue bonds	40,390,000	41,330,000			40,390,000	41,330,000
General obligation equipment certificates of indebtedness	185,000	275,000			185,000	275,000
General obligation taxable Build America bonds	22,195,000	23,110,000			22,195,000	23,110,000
General obligation sales tax revenue bonds	37,780,000	39,682,813			37,780,000	39,682,813
General obligation revenue crossover refunding bonds			81,635,000	89,125,000	81,635,000	89,125,000
Revenue bonds	12,940,000	13,475,000	182,365,000	114,790,000	195,305,000	128,265,000
Energy loan payable	577,793	1,132,605			577,793	1,132,605
<b>Total</b>	<b>\$ 141,932,793</b>	<b>\$ 125,865,418</b>	<b>\$ 264,000,000</b>	<b>\$ 225,745,000</b>	<b>\$ 405,932,793</b>	<b>\$ 351,610,418</b>

The City of Rochester's total bonds and notes payable increased by \$54,322,375 during the current fiscal year.

There were two bond issuances by the City during 2017. A General Obligation Tax Increment Revenue Bond was issued in the amount of \$21,265,000 related to the parking ramp project. An Electric Utility Revenue Bond was issued in the amount of \$108,225,000 related to Westside Energy Station and various other work and expansions.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 62.

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 rating from Moody's Investors Service and an AA- rating from Fitch, reflecting the utility's strong financial performance, good liquidity, and diminishing threat of retail regulation.

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

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

- Rochester's unemployment rate declined by 0.3 percent to 3.4 percent by the end of March 2018. This remains below the state and U.S. averages of 3.8 percent and 4.1 percent, respectively. Nonagricultural wage and salary employment for the Rochester MSA increased by 1.5 percent over the last year. The gain of 99 jobs brought the total employment figure to 117,841 from the March 2017 level of 117,742.
- Building activity grew in 2017. Commercial and residential building permits issued for 2017 totaled \$524,691,279. Permit totals were up 18.5 percent from a year ago and up 8.4 percent over 2015. Permit value for the first quarter of 2018 totaled \$113,204,651. This represents increases of 52.3 percent over first quarter 2017 and a decrease of 6.2 percent from 2016.
- 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 outlining the \$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 underway while the transportation studies are currently wrapping up. The transportation studies are an important step in securing federal funding that will be needed for those significant projects envisioned in the plan.

- Construction wrapped up on the Mayo Civic Center expansion project. The total \$84 million project is funded by \$35 million in State bonding monies and \$49 million in City funds raised through an additional 3% lodging tax within the City. The expansion nearly doubled the size of the facility, adding 188,000 square feet, 1,000 jobs in the near term and an estimated \$370 million to the Rochester area economy over the next 10 years. Staff held a grand opening of the expanded space in early 2017. Numerous "multi-event" days are now filling the spaces in the facility.
- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed by early 2017 including the senior center and recreation center expansion space and a number of road projects. Further road and transit facility projects are planned for 2018.
- Construction was nearing completion by May of 2018 on a near \$12 million expansion and improvement project to the Rochester International Airport (RST). The project includes centralized ticketing counters, consolidated baggage claim area and an expanded U.S. Customs area.
- The City's tax levy was increased by approximately \$6.1 million or 9.7 percent for pay 2018 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.

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

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

- Expansion and remodeling of the City's north precinct police facility is being considered for 2018 at an estimated cost of just over \$16 million.
- Expansion of the City's transit routes in 2017 and 2018 are a high priority for the city council with various funding sources including State Aid under review.

All of these factors were considered in preparing the City of Rochester's budget for the 2018 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

**Requests for Information**

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

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**CITY OF ROCHESTER, MINNESOTA**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF NET POSITION**  
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,786,523	\$ 11,395,248	\$ 22,181,771
Investments	167,094,642	121,563,652	288,658,294
Land held for resale	625,000		625,000
Receivables (net of allowance for uncollectibles)	23,226,992	14,585,611	37,812,603
Internal balances	(3,782,676)	3,782,676	
Due from other governmental units	12,436,224	9,148	12,445,372
Accrued utility revenues		6,403,535	6,403,535
Cash and investments with escrow agent	2,658,493		2,658,493
Restricted and reserved cash and investments	44,221	53,499,153	53,543,374
Inventory	924,588	5,055,206	5,979,794
Prepaid items	278,999		278,999
Other assets		13,670,511	13,670,511
Capital assets:			
Nondepreciable	120,529,083	117,758,029	238,287,112
Depreciable, net	638,526,778	517,961,463	1,156,488,241
Total Assets	<u>973,348,867</u>	<u>865,684,232</u>	<u>1,839,033,099</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows from pension activity	65,261,318	8,971,881	74,233,199
Unamortized deferred amount on refunding		1,326,102	1,326,102
Total Deferred Outflows of Resources	<u>65,261,318</u>	<u>10,297,983</u>	<u>75,559,301</u>
Total Assets and Deferred Outflows of Resources	<u>1,038,610,185</u>	<u>875,982,215</u>	<u>1,914,592,400</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	9,756,047	15,113,991	24,870,038
Deposits payable	1,773,978	992,521	2,766,499
Accrued interest payable	1,181,398	1,823,649	3,005,047
Accrued compensation and payroll taxes	2,509,885	611,099	3,120,984
Accrued claims	3,069,194	6,000	3,075,194
Due to primary government			
Due to other governmental units	679,338	60,917	740,255
Unearned revenue	261,390	4,102,700	4,364,090
Noncurrent liabilities:			
Due within one year	12,562,793	15,497,052	28,059,845
Due in more than one year	151,294,415	285,837,282	437,131,697
Net pension liability	58,932,361	20,027,441	78,959,802
Total Liabilities	<u>242,020,799</u>	<u>344,072,652</u>	<u>586,093,451</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows from pension activity	70,149,009	7,130,433	77,279,442
Unamortized deferred amount on refunding		2,099,090	2,099,090
Advance payments on leases		667,819	667,819
Total Deferred Inflows of Resources	<u>70,149,009</u>	<u>9,897,342</u>	<u>80,046,351</u>
Total Liabilities and Deferred Inflows of Resources	<u>312,169,808</u>	<u>353,969,994</u>	<u>666,139,802</u>
<b>NET POSITION</b>			
Net investment in capital assets	612,735,024	373,589,926	986,324,950
Restricted for:			
Airport	3,098,021		3,098,021
CDBG loans	3,735,115		3,735,115
Economic development loan	329,856		329,856
Civic music endowment	44,221		44,221
Park and recreation	112,572		112,572
Debt service	1,759,628	455,000	2,214,628
Children's playgrounds	673,878		673,878
Flood control	19,101,903		19,101,903
Tax increment financing	4,253,675		4,253,675
Sales tax authorized projects	15,475,886		15,475,886
Unrestricted	65,120,598	147,967,295	213,087,893
Total Net Position	<u>\$ 726,440,377</u>	<u>\$ 522,012,221</u>	<u>\$ 1,248,452,598</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

<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	\$ 12,510,037	\$ 560,332	\$ 87,264	\$ 778,738
Public safety	56,914,220	7,421,869	2,922,946	
Public works	26,745,592	615,995	1,251,815	16,092,493
Airport	5,855,354	4,343,526	250,644	6,933,202
Transit	10,130,590	2,754,125	6,663,888	1,858,983
Culture	11,220,102	331,937	1,441,522	
Park and recreation/Mayo Civic Center	22,342,306	7,513,143	277,804	4,091,147
Economic development/tourism	18,622,500	3,538,383	133,976	3,765,707
Community reinvestment/unallocated	787,312			
Interest on long-term debt	3,888,556			
Total governmental activities	<u>169,016,569</u>	<u>27,079,310</u>	<u>13,029,859</u>	<u>33,520,270</u>
Business-Type activities:				
Parking	4,367,159	7,545,182		5,357
Electric utility	140,679,727	160,780,098		3,066,425
Water utility	9,717,620	10,212,568		1,828,174
Sewer utility	20,473,740	29,208,895		1,701,321
Storm water utility	5,169,351	6,769,027		2,910,573
Total business-type activities	<u>180,407,597</u>	<u>214,515,770</u>		<u>9,511,850</u>
Total	<u>\$ 349,424,166</u>	<u>\$ 241,595,080</u>	<u>\$ 13,029,859</u>	<u>\$ 43,032,120</u>

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  
  Loss on disposition of property  
  Net decrease in the fair value of investments  
  Miscellaneous  
Transfers  
  Total general revenues and transfers

Change in net position  
Net position - beginning  
Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (11,083,703)	\$	\$ (11,083,703)
(46,569,405)		(46,569,405)
(8,785,289)		(8,785,289)
5,672,018		5,672,018
1,146,406		1,146,406
(9,446,643)		(9,446,643)
(10,460,212)		(10,460,212)
(11,184,434)		(11,184,434)
(787,312)		(787,312)
(3,888,556)		(3,888,556)
(95,387,130)		(95,387,130)
	3,183,380	3,183,380
	23,166,796	23,166,796
	2,323,122	2,323,122
	10,436,476	10,436,476
	4,510,249	4,510,249
	43,620,023	43,620,023
(95,387,130)	43,620,023	(51,767,107)
62,455,775		62,455,775
2,339,773		2,339,773
18,094,421		18,094,421
10,908,436		10,908,436
7,215,571		7,215,571
3,126,534	68,410	3,194,944
2,955,449	1,808,241	4,763,690
136,251		136,251
(681,715)	(291,453)	(973,168)
669,764	131,327	801,091
(9,887,033)	9,887,033	
97,333,226	11,603,558	108,936,784
1,946,096	55,223,581	57,169,677
724,494,281	466,788,640	1,191,282,921
\$ 726,440,377	\$ 522,012,221	\$ 1,248,452,598

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**CITY OF ROCHESTER, MINNESOTA**  
**FUND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**CITY OF ROCHESTER, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2017

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 579,020	\$ 7,150,912	\$ 2,667,549	\$ 10,397,481
Investments	34,231,106	92,135,000	13,544,890	139,910,996
Land held for resale		625,000		625,000
Accrued interest receivable	302,977	345,478	53,859	702,314
Accounts receivable (net of allowance for uncollectibles)	736,722	608,483	2,222,737	3,567,942
Loans receivable		570,908	3,735,115	4,306,023
Taxes receivable delinquent	448,055	47,997	164,322	660,374
Special assessments receivable:				
Deferred		13,516,087		13,516,087
Delinquent	33,821	209,356	92,056	335,233
Due from other funds	950,929	51,000	331,673	1,333,602
Advances to other funds			28,440	28,440
Due from other governmental units	1,582,143	10,028,983	821,777	12,432,903
Prepaid items	25,156		253,843	278,999
Restricted cash and investments	44,221		2,714,016	2,758,237
Inventory	858,882		65,706	924,588
<b>TOTAL ASSETS</b>	<b>\$ 39,793,032</b>	<b>\$ 125,289,204</b>	<b>\$ 26,695,983</b>	<b>\$ 191,778,219</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
Liabilities:				
Accounts and contracts payable	\$ 1,365,702	\$ 6,464,144	\$ 1,796,128	\$ 9,625,974
Deposits payable	382,318	615,946	804,011	1,802,275
Accrued compensation and payroll taxes	2,031,549		478,336	2,509,885
Due to other funds	425,677	337,945	295,320	1,058,942
Advances from other funds		7,992,213	2,784,687	10,776,900
Unearned revenue			108,375	108,375
Due to other governmental units	341,824	148,340	175,613	665,777
<b>Total Liabilities</b>	<b>4,547,070</b>	<b>15,558,588</b>	<b>6,442,470</b>	<b>26,548,128</b>
Deferred Inflows of Resources:				
Unavailable revenue				
Property taxes	448,055	47,997	164,322	660,374
Special assessments	33,821	13,725,443	92,056	13,851,320
Loans receivable		570,908	3,735,115	4,306,023
<b>Total Deferred Inflows of Resources</b>	<b>481,876</b>	<b>14,344,348</b>	<b>3,991,493</b>	<b>18,817,717</b>
Fund Balance:				
Nonspendable	884,038		319,549	1,203,587
Restricted	44,221	39,273,892	5,531,527	44,849,640
Committed		56,112,376		56,112,376
Assigned	769,539		10,640,769	11,410,308
Unassigned	33,066,288		(229,825)	32,836,463
<b>Total Fund Balance</b>	<b>34,764,086</b>	<b>95,386,268</b>	<b>16,262,020</b>	<b>146,412,374</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 39,793,032</b>	<b>\$ 125,289,204</b>	<b>\$ 26,695,983</b>	<b>\$ 191,778,219</b>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF NET POSITION IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**  
December 31, 2017

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

Total governmental fund balances (page 22)		\$ 146,412,374
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,073,357,379	
Less: Accumulated depreciation	(330,511,380)	742,845,999
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 995,607	
Deferred special assessments and utility connection agreements	13,516,087	
Loans receivable	4,306,023	18,817,717
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.		
		40,606,545
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	\$ 65,261,318	
Deferred inflows related to pensions	(70,149,009)	(4,887,691)
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	\$ (141,597,793)	
Net pension liability	(58,932,361)	
Compensated absences	(11,259,695)	
Accrued interest	(1,176,674)	
Unamortized bond premium	(4,388,044)	(217,354,567)
Net position of governmental activities (page 19)		\$ 726,440,377

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

For the Year Ended December 31, 2017

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 42,088,183	\$ 4,544,228	\$ 15,208,737	\$ 61,841,148
Tax increments collection		1,705,964	633,810	2,339,774
Sales tax		18,094,421		18,094,421
Special assessments		1,558,422		1,558,422
Utility connection and availability		730,860		730,860
Nonproperty taxes	5,093,982	4,046,582	1,767,872	10,908,436
Licenses and permits	4,442,343			4,442,343
Fines and forfeits	528,677			528,677
Intergovernmental revenues	10,982,751	23,801,343	8,846,515	43,630,609
Charges for services	3,868,449	615,490	12,869,841	17,353,780
Interest earnings	269,733	1,998,959	164,961	2,433,653
Net decrease in the fair value of investments	(125,415)	(419,300)	(73,800)	(618,515)
Rental revenues	61,698	795,732	4,423,485	5,280,915
Miscellaneous revenues	331,049	4,039,865	771,399	5,142,313
<b>Total Revenues</b>	<b>67,541,450</b>	<b>61,512,566</b>	<b>44,612,820</b>	<b>173,666,836</b>
<b>EXPENDITURES</b>				
Current:				
General government	10,258,473			10,258,473
Public safety	47,193,701		30,954	47,224,655
Public works	13,586,312			13,586,312
Airport operations			3,838,328	3,838,328
Transit			8,603,957	8,603,957
Culture	1,800,274		7,410,731	9,211,005
Park and recreation/Mayo Civic Center			15,667,056	15,667,056
Economic development/tourism	2,785,183		4,577,900	7,363,083
Community reinvestment and unallocated	787,312			787,312
Debt service			9,844,313	9,844,313
Capital outlay		63,026,292		63,026,292
<b>Total Expenditures</b>	<b>76,411,255</b>	<b>63,026,292</b>	<b>49,973,239</b>	<b>189,410,786</b>
Deficiency of revenues under expenditures	(8,869,805)	(1,513,726)	(5,360,419)	(15,743,950)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt		22,882,084	154,985	23,037,069
Transfers in	12,303,390	6,579,005	9,777,850	28,660,245
Transfers out	(2,311,392)	(31,659,618)	(2,535,297)	(36,506,307)
<b>Total other financing sources (uses)</b>	<b>9,991,998</b>	<b>(2,198,529)</b>	<b>7,397,538</b>	<b>15,191,007</b>
<b>Net change in fund balances</b>	<b>1,122,193</b>	<b>(3,712,255)</b>	<b>2,037,119</b>	<b>(552,943)</b>
Fund Balance - beginning	33,641,893	99,098,523	14,224,901	146,965,317
<b>Fund Balance - ending</b>	<b>\$ 34,764,086</b>	<b>\$ 95,386,268</b>	<b>\$ 16,262,020</b>	<b>\$ 146,412,374</b>

**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, 2017

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

Net change in fund balances - total governmental funds (page 24)		\$ (552,943)
<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	\$ 47,168,715	
Depreciation expense	<u>(23,080,247)</u>	24,088,468
<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>		
		466,235
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
		(1,148,774)
<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>		
		3,178,652
<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, 2017	\$ (11,259,695)	
Compensated absences December 31, 2016	<u>11,063,474</u>	(196,221)
<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	\$ 5,509,812	
Issuance of bond	(21,712,187)	
Change in pension activity	(5,565,907)	
Amortization of bond premium	(1,249,992)	
Change in accrued interest	<u>382,487</u>	(22,635,787)
<p>Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p>		
		<u>(1,253,534)</u>
Change in net position of governmental activities (pages 20 and 21)		<u>\$ 1,946,096</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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 42,123,863	\$ 42,133,349	\$ 42,088,183	\$ (45,166)
Nonproperty taxes	4,637,828	4,793,017	5,093,982	300,965
Licenses and permits	4,063,535	3,838,535	4,442,343	603,808
Fines and forfeits	394,356	517,072	528,677	11,605
Intergovernmental	10,371,564	10,817,148	10,982,751	165,603
Charges for services	3,417,873	3,740,218	3,868,449	128,231
Interest earnings	165,000	165,489	269,733	104,244
Net decrease in the fair value of investments	(50,000)	(50,000)	(125,415)	(75,415)
Rental revenues	60,555	60,555	61,698	1,143
Miscellaneous revenues	230,887	258,720	331,049	72,329
Total Revenues	65,415,461	66,274,103	67,541,450	1,267,347
<b>EXPENDITURES</b>				
Current:				
General Government:				
Mayor and Council	848,385	977,923	877,787	100,136
City Administrator	1,039,778	1,102,364	1,096,252	6,112
Development District Administration	171,167	171,167	215,221	(44,054)
City Clerk	501,098	501,098	471,800	29,298
Elections and Voter Registration	15,841	15,841	18,522	(2,681)
Finance Department	1,646,604	1,659,880	1,557,338	102,542
Information Systems	1,832,899	1,839,354	1,793,323	46,031
City Attorney	1,547,564	2,088,828	1,980,789	108,039
Human Resources	1,646,461	1,646,461	1,587,156	59,305
Planning and Zoning	46,878	131,761	83,095	48,666
City Hall Maintenance	561,308	574,379	577,190	(2,811)
Total General Government	9,857,983	10,709,056	10,258,473	450,583
Public Safety:				
Police Department	26,597,818	26,975,961	26,405,415	570,546
Fire Department	16,614,286	16,835,403	16,002,659	832,744
Fire Hazmat Response Team		62,682	69,463	(6,781)
Building Safety	3,605,491	3,605,491	3,468,478	137,013
Animal Control	341,867	349,675	372,722	(23,047)
Drug Enforcement Administration		388,668	53,591	335,077
Flood Control	582,756	606,911	527,786	79,125
Emergency Mgmt/Safety Council	284,431	298,181	293,587	4,594
Total Public Safety	48,026,649	49,122,972	47,193,701	1,929,271

**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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>EXPENDITURES (continued)</b>				
Current:				
Public Works:				
Engineering	\$ 3,011,226	\$ 3,020,277	\$ 2,714,051	\$ 306,226
PWTOC Building/Site Operations	46,245	46,245	54,602	(8,357)
Traffic Engineer	1,300,762	1,300,762	1,289,670	11,092
Infrastructure Maintenance	8,447,077	8,658,624	8,249,304	409,320
City Lighting	1,281,006	1,281,006	1,278,685	2,321
Total Public Works	<u>14,086,316</u>	<u>14,306,914</u>	<u>13,586,312</u>	<u>720,602</u>
Culture:				
Art Center/Theatre/Senior Center	864,110	944,110	812,422	131,688
Music Department	1,037,000	1,179,324	987,852	191,472
Total Culture	<u>1,901,110</u>	<u>2,123,434</u>	<u>1,800,274</u>	<u>323,160</u>
Economic Development/Tourism	<u>2,551,000</u>	<u>2,948,366</u>	<u>2,785,183</u>	<u>163,183</u>
Community Reinvestment and Unallocated	<u>1,738,820</u>	<u>924,969</u>	<u>787,312</u>	<u>137,657</u>
Total Expenditures	<u>78,161,878</u>	<u>80,135,711</u>	<u>76,411,255</u>	<u>3,724,456</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,746,417)</u>	<u>(13,861,608)</u>	<u>(8,869,805)</u>	<u>4,991,803</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,478,117	12,503,117	12,303,390	(199,727)
Transfers out	(1,662,992)	(2,220,435)	(2,311,392)	(90,957)
Total other financing sources (uses)	<u>10,815,125</u>	<u>10,282,682</u>	<u>9,991,998</u>	<u>(290,684)</u>
Net change in fund balances	<u>(1,931,292)</u>	<u>(3,578,926)</u>	<u>1,122,193</u>	<u>4,701,119</u>
Fund Balance - beginning	<u>33,641,893</u>	<u>33,641,893</u>	<u>33,641,893</u>	
Fund Balance - ending	<u>\$31,710,601</u>	<u>\$30,062,967</u>	<u>\$34,764,086</u>	<u>\$ 4,701,119</u>

**CITY OF ROCHESTER, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 December 31, 2017**

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 708,984	\$ 7,913,016	\$ 991,554
Investments	18,110,152	48,929,771	6,131,229
Accrued interest receivable	63,102		
Accounts receivable	262,129	13,530,767	477,621
Accrued utility revenues		6,216,518	187,017
Taxes receivable delinquent			
Inventory, material, supplies and fuel		4,868,762	183,655
Due from other funds			
Advances to other funds	2,784,687		
Due from other governmental units			
Restricted and reserved cash		1,174,333	
Other assets		1,019,434	62,361
Total Current Assets	<u>21,929,054</u>	<u>83,652,601</u>	<u>8,033,437</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	20,433,209	85,894,066	2,328,353
Depreciable	38,804,137	383,930,683	143,915,043
Less: Accumulated depreciation	<u>(25,251,814)</u>	<u>(208,366,872)</u>	<u>(48,766,855)</u>
Net capital assets	33,985,532	261,457,877	97,476,541
Restricted and reserved cash	16,295,263	23,073,722	
Restricted investments		12,955,835	
Other assets		12,576,723	
Total Noncurrent Assets	<u>50,280,795</u>	<u>310,064,157</u>	<u>97,476,541</u>
Total Assets	<u>72,209,849</u>	<u>393,716,758</u>	<u>105,509,978</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding		1,326,102	
Deferred outflows from pension activity	125,943	6,698,740	785,265
Total Deferred Outflows of Resources	<u>125,943</u>	<u>8,024,842</u>	<u>785,265</u>
Total Assets and Deferred Outflows of Resources	<u>72,335,792</u>	<u>401,741,600</u>	<u>106,295,243</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts and contracts payable	1,376,018	12,968,951	339,335
Deposits payable	48,758	858,354	80,799
Accrued interest payable		719,333	
Accrued compensation and payroll taxes	8,818	402,924	48,835
Accrued compensated absences	40,662	1,659,179	255,406
Due to other funds	355	2,779,427	53,243
Due to other governmental units	56,209		
Unearned revenue			
Accrued claims			
Current maturities of long term debt		5,460,000	
Total Current Liabilities	<u>1,530,820</u>	<u>24,848,168</u>	<u>777,618</u>
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		200,038,796	
Accrued compensated absences	34,729	1,249,821	192,904
Net pension liability	276,564	15,060,666	1,756,779
Unearned revenue		4,102,700	
Accrued claims		6,000	
Post employment benefit obligation			
Total Noncurrent Liabilities	<u>311,293</u>	<u>220,457,983</u>	<u>1,949,683</u>
Total Liabilities	<u>1,842,113</u>	<u>245,306,151</u>	<u>2,727,301</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Advance payments on leases		446,855	220,964
Deferred charge on refunding			
Deferred inflows from pension activity	99,117	5,346,164	625,698
Total Deferred Inflows of Resources	<u>99,117</u>	<u>5,793,019</u>	<u>846,662</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,941,230</u>	<u>251,099,170</u>	<u>3,573,963</u>
<b>NET POSITION</b>			
Net investment in capital assets	33,985,532	93,314,740	97,476,541
Restricted			
Debt service		455,000	
Unrestricted	36,409,030	56,872,690	5,244,739
Total Net Position	<u>\$ 70,394,562</u>	<u>\$ 150,642,430</u>	<u>\$ 102,721,280</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	
\$ 1,314,303	\$ 467,391	\$ 11,395,248	\$ 273,396
35,706,600	12,685,900	121,563,652	27,183,646
128,501	44,209	235,812	98,947
65,032	14,250	14,349,799	34,116
		6,403,535	
			5,956
2,789		5,055,206	
2,313,394	528,368	2,841,762	
		2,784,687	7,963,773
9,148		9,148	3,321
		1,174,333	
		1,081,795	
<u>39,539,767</u>	<u>13,740,118</u>	<u>166,894,977</u>	<u>35,563,155</u>
3,783,782	5,318,619	117,758,029	899,805
333,033,325	80,359,998	980,043,186	38,871,752
(165,355,598)	(14,340,584)	(462,081,723)	(23,561,695)
<u>171,461,509</u>	<u>71,338,033</u>	<u>635,719,492</u>	<u>16,209,862</u>
		39,368,985	
		12,955,835	
11,993		12,588,716	
<u>171,473,502</u>	<u>71,338,033</u>	<u>700,633,028</u>	<u>16,209,862</u>
<u>211,013,269</u>	<u>85,078,151</u>	<u>867,528,005</u>	<u>51,773,017</u>
		1,326,102	
1,180,862	181,071	8,971,881	
<u>1,180,862</u>	<u>181,071</u>	<u>10,297,983</u>	
212,194,131	85,259,222	877,825,988	51,773,017
181,573	248,114	15,113,991	69,949
4,610		992,521	8,047
1,102,000	2,316	1,823,649	4,724
136,854	13,668	611,099	
223,091	23,714	2,202,052	
221,959	61,438	3,116,422	
4,591	117	60,917	13,561
			116,672
			1,483,429
7,835,000		13,295,000	140,000
<u>9,709,678</u>	<u>349,367</u>	<u>37,215,651</u>	<u>1,836,382</u>
84,052,339		284,091,135	195,000
258,335	10,358	1,746,147	
2,660,524	272,908	20,027,441	
		4,102,700	
		6,000	1,585,765
			6,276,676
<u>86,971,198</u>	<u>283,266</u>	<u>309,973,423</u>	<u>8,057,441</u>
<u>96,680,876</u>	<u>632,633</u>	<u>347,189,074</u>	<u>9,893,823</u>
		667,819	
2,099,090		2,099,090	
946,377	113,077	7,130,433	
<u>3,045,467</u>	<u>113,077</u>	<u>9,897,342</u>	
99,726,343	745,710	357,086,416	9,893,823
77,475,080	71,338,033	373,589,926	15,874,862
		455,000	
34,992,708	13,175,479	146,694,646	26,004,332
<u>\$ 112,467,788</u>	<u>\$ 84,513,512</u>	<u>520,739,572</u>	<u>\$ 41,879,194</u>
		1,272,649	
		<u>\$ 522,012,221</u>	

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
For the Year Ended December 31, 2017

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 7,545,182	\$	\$
Sales and charges for services, pledged as security for revenue bonds		148,601,128	9,121,342
Miscellaneous		12,178,970	1,091,226
Total Operating Revenues	<u>7,545,182</u>	<u>160,780,098</u>	<u>10,212,568</u>
Operating Expenses:			
Purchased power		93,061,685	
Maintenance and operations	3,295,165	30,394,251	6,864,692
Amortization of regulatory assets		419,967	
Depreciation	1,052,803	10,554,847	2,639,588
Total Operating Expenses	<u>4,347,968</u>	<u>134,430,750</u>	<u>9,504,280</u>
Operating Income (Loss)	<u>3,197,214</u>	<u>26,349,348</u>	<u>708,288</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	59,191		
Interest earnings	225,143	851,248	89,331
Net decrease in the fair value of investments	(63,700)		
Interest and fiscal charges		(4,946,276)	(51)
Amortization of regulatory assets		(92,646)	
Gain on disposal of property			
Other income (expense)	48,993	(570,278)	(132,044)
Total Nonoperating Revenues (Expenses)	<u>269,627</u>	<u>(4,757,952)</u>	<u>(42,764)</u>
Income (Loss) Before Transfers and Capital Contributions	3,466,841	21,591,396	665,524
Capital contributions	126,579	3,066,425	2,492,600
Transfers in	22,434,897		302,571
Transfers out	(2,706,293)	(8,724,415)	(370,319)
Change in net position	23,322,024	15,933,406	3,090,376
Net Position - Beginning of Year	<u>47,072,538</u>	<u>134,709,024</u>	<u>99,630,904</u>
Net Position - End of Year	<u>\$ 70,394,562</u>	<u>\$ 150,642,430</u>	<u>\$ 102,721,280</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	
\$	\$ 6,286,367	\$ 13,831,549	\$ 23,028,961
29,044,236		186,766,706	
164,659	482,660	13,917,515	
<u>29,208,895</u>	<u>6,769,027</u>	<u>214,515,770</u>	<u>23,028,961</u>
		93,061,685	
9,824,928	3,635,755	54,014,791	23,331,681
		419,967	
<u>8,074,725</u>	<u>1,523,005</u>	<u>23,844,968</u>	<u>3,432,657</u>
<u>17,899,653</u>	<u>5,158,760</u>	<u>171,341,411</u>	<u>26,764,338</u>
<u>11,309,242</u>	<u>1,610,267</u>	<u>43,174,359</u>	<u>(3,735,377)</u>
			444,385
9,219		68,410	46,695
487,321	155,198	1,808,241	521,856
(165,653)	(62,100)	(291,453)	(63,200)
(2,405,390)		(7,351,717)	(11,666)
		(92,646)	
			116,596
<u>72,527</u>	<u>9,807</u>	<u>(570,995)</u>	
<u>(2,001,976)</u>	<u>102,905</u>	<u>(6,430,160)</u>	<u>1,054,666</u>
9,307,266	1,713,172	36,744,199	(2,680,711)
2,378,117	3,996,776	12,060,497	
144,426	1,091,997	23,973,891	583,451
<u>(3,917,043)</u>	<u>(917,435)</u>	<u>(16,635,505)</u>	<u>(75,775)</u>
7,912,766	5,884,510	56,143,082	(2,173,035)
<u>104,555,022</u>	<u>78,629,002</u>		<u>44,052,229</u>
<u>\$ 112,467,788</u>	<u>\$ 84,513,512</u>		<u>\$ 41,879,194</u>
		<u>(919,501)</u>	
		<u>\$ 55,223,581</u>	

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2017

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers	\$ 7,567,522	\$ 162,451,337	\$ 10,296,725
Cash received from other City funds	51,317	6,566,848	195,845
Cash received from employees			
Cash paid to employees	(406,240)	(15,212,070)	(1,829,109)
Cash paid to suppliers	(2,026,559)	(118,529,336)	(5,478,648)
Service territory acquisition		(314,706)	
Other income	48,993		
Net Cash Provided By (Used In)			
Operating Activities	<u>5,235,033</u>	<u>34,962,073</u>	<u>3,184,813</u>
<b>Cash Flows From Noncapital Financing Activities:</b>			
General property taxes			
Intergovernmental revenues	59,191		
Transfers in	22,434,897		
Transfers out	(2,706,293)	(8,724,530)	(371,400)
Net Cash Provided By (Used In)			
Noncapital Financing Activities	<u>19,787,795</u>	<u>(8,724,530)</u>	<u>(371,400)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Proceeds from the sale of property			
Proceeds from the issuance of bonds		133,092,816	
Principal payments on bonds		(48,180,000)	
Interest and fiscal charges		(8,590,498)	
Repayment of developer agreements			
Capital contributions received		3,066,425	302,571
Acquisition of capital assets	(9,553,623)	(58,884,052)	(1,787,930)
Net Cash Provided By (Used In) Capital and			
Related Financing Activities	<u>(9,553,623)</u>	<u>20,504,691</u>	<u>(1,485,359)</u>
<b>Cash Flows From Investing Activities:</b>			
Investment income	219,049	851,248	89,281
Net (increase) decrease in investments	1,052,100	(22,772,360)	(1,355,595)
Net Cash Provided By (Used In) Investing Activities	<u>1,271,149</u>	<u>(21,921,112)</u>	<u>(1,266,314)</u>
Net Increase (Decrease) in Cash and			
Cash Equivalents	16,740,354	24,821,122	61,740
Cash and Cash Equivalents, Beginning of Year	263,893	7,339,949	929,814
Cash and Cash Equivalents, End of Year	<u>\$ 17,004,247</u>	<u>\$ 32,161,071</u>	<u>\$ 991,554</u>
<b>Classified As:</b>			
Cash and Cash Equivalents	\$ 708,984	\$ 7,913,016	\$ 991,554
Restricted and Reserved Cash	16,295,263	24,248,055	
Total Cash and Cash Equivalents, End of Year	<u>\$ 17,004,247</u>	<u>\$ 32,161,071</u>	<u>\$ 991,554</u>

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 29,284,014	\$ 6,689,870	\$ 216,289,468	\$
104,356	210,493	7,128,859	16,654,485
(4,056,353)	(201,878)	(21,705,650)	1,674,999
(5,520,935)	(3,663,440)	(135,218,918)	(23,617,147)
		(314,706)	
72,527	9,807	131,327	
19,883,609	3,044,852	66,310,380	(5,287,663)
			442,925
9,219		68,410	46,695
144,426	1,091,997	23,671,320	583,451
(3,917,043)	(917,435)	(16,636,701)	(75,775)
(3,763,398)	174,562	7,103,029	997,296
			337,940
		133,092,816	
(29,320,000)		(77,500,000)	(135,000)
(4,224,953)	(1,641)	(12,817,092)	(13,307)
	(111,367)	(111,367)	
		3,368,996	
(153,466)	(885,915)	(71,264,986)	(4,899,120)
(33,698,419)	(998,923)	(25,231,633)	(4,709,487)
			529,205
453,208	143,073	1,755,859	8,464,854
17,701,068	(1,980,400)	(7,355,187)	8,994,059
18,154,276	(1,837,327)	(5,599,328)	
576,068	383,164	42,582,448	(5,795)
738,235	84,227	9,356,118	279,191
\$ 1,314,303	\$ 467,391	\$ 51,938,566	\$ 273,396
\$ 1,314,303	\$ 467,391	\$ 11,395,248	\$ 273,396
		40,543,318	
\$ 1,314,303	\$ 467,391	\$ 51,938,566	\$ 273,396

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2017

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

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 3,197,214	\$ 26,349,348	\$ 708,288
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:			
Depreciation and amortization expense	1,052,803	10,974,814	2,639,588
Other income (expense)	48,993	(574,251)	(132,044)
Service territory payments		(314,706)	
Bad debts		163,166	12,928
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	(71,741)	(2,272,499)	(62,454)
Inventory		57,785	(27,360)
Due from other funds			
Due from other governmental units			
Advances due from other funds	150,000		
Prepaid items			(61,618)
Deferred outflows from pension activity	16,209	794,747	95,284
Other assets		(447,637)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	833,008	(4,460,841)	(41,345)
Deposits payable	(4,677)	266,191	22,761
Accrued expenses and other liabilities	8,765		
Post employment benefit obligations			
Deferred inflows from pension activity	58,027	3,199,184	371,486
Net pension liability	(61,887)	(2,839,508)	(348,431)
Unearned revenues		4,066,280	7,730
Accrued claims			
Due to other funds	75		
Due to other governmental units	8,244		
Net Cash Provided By (Used In) Operating Activities	\$ 5,235,033	\$ 34,962,073	\$ 3,184,813
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ (63,700)	\$ (335,500)	\$
Allowance for funds used during construction		1,414,316	
Amortization of bond premiums, discounts, and refunding		(1,875,613)	
Amortization of bond issue costs		92,646	
Receipt of contributed property	126,579		2,492,600
Capital assets in accounts payable at year end	515,052		

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$ 11,309,242	\$ 1,610,267	\$ 43,174,359	\$ (3,735,377)
8,074,725	1,523,005	24,264,935	3,432,657
72,527	9,807	(574,968)	
		(314,706)	
		176,094	
273,152	169,024	(1,964,518)	(11,822)
(519)		29,906	
(110,402)	(57,076)	(167,478)	
(2,679)		(2,679)	871
		150,000	(4,688,526)
50,000		(11,618)	
138,602	47,033	1,091,875	
2,659		(444,978)	
(27,906)	(63,787)	(3,760,871)	(841,807)
		284,275	(3,098)
(8,144)	8,411	9,032	(486)
			907,391
562,466	46,747	4,237,910	
(470,092)	(267,930)	(3,987,848)	
		4,074,010	19,917
			(365,518)
19,404	19,388	38,867	
574	(37)	8,781	(1,865)
<u>\$ 19,883,609</u>	<u>\$ 3,044,852</u>	<u>\$ 66,310,380</u>	<u>\$ (5,287,663)</u>
\$ (165,653)	\$ (62,100)	\$ (626,953)	\$ (63,200)
		1,414,316	
		(1,875,613)	
		92,646	
2,378,117	3,996,776	8,994,072	379
		515,052	

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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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 2017 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, 2017 are available from the DMCC.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017**

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, 2017**

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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, 2017**

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.

2. Cash and investments with escrow agent

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Receivables, payables, and deferred inflows of resources

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, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

4. Other Assets

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

5. Inventory

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

6. Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The City has two items that qualify for reporting in this category. The deferred charge on advance refunding of revenue bonds and deferred outflows from pension 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.

7. Capital assets

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

7. 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.

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

8. Utility connection charges

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

9. Compensated absences benefits

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

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

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

10. Long-term obligations

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

11. Deferred Inflow of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents receipt of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The City has received advance payments on leases and deferred inflows from pension activity 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.

12. 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.

As of December 31, 2017, \$1,817,839 of the CIAC the customer had paid has been recorded as an unearned revenue which represents the amount of the potential refund related to excess capacity costs incurred as of that date. Starting in 2018, an annual determination will be made of whether or not the customer's measured load met the terms defined in the agreement to earn a refund. 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. 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, 2017, RPU has received \$2,270,461 in ATRR payments. The payments are subject to refund if the FERC determines 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, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

13. 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, 2017**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

13. 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.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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

A. Budgetary Information (continued)

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).

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

Investment Policy

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy (continued)

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

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

Interest Rate Risk

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

- purchasing a combination of shorter term and longer term investments
- 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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2017, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2017 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&amp;P</u>	<u>MOODY</u>
Commercial Paper	\$ 4,951,200	0.66	A-1	P1
Municipal Bonds	4,979,120	N/A	AA+	Aa2
US Government and Agency Securities:				
Federal Farm Credit Bank	34,585,745	3.59	N/A	N/A
Federal Home Loan Bank	60,591,540	2.71	N/A	N/A
Federal Home Loan Mortgage Corporation	32,529,331	3.50	N/A	N/A
Federal National Mortgage Association	28,247,132	3.33	N/A	N/A
Treasury Note	<u>117,856,705</u>	2.71	N/A	N/A
Sub-total Investments	283,740,773			
Cash and Deposits	<u>83,301,159</u>			
Total	<u>\$ 367,041,932</u>			

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal Agency Securities	\$ 34,585,745
Federal Home Loan Bank	Federal Agency Securities	60,591,540
Federal Home Loan Mortgage Corporation	Federal Agency Securities	32,529,331
Federal National Mortgage Association	Federal Agency Securities	28,247,132
Treasury Note	United States Treasury Securities	117,856,705

**CITY OF ROCHESTER, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2017 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	\$ 22,181,771
Investments	288,658,294
Cash and investments with escrow agent	2,658,493
Restricted and reserved cash and investments	<u>53,543,374</u>
Total Cash and Investments	<u>\$ 367,041,932</u>

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017 and 2016 were as follows:

	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>
		At December 31, 2016		
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Commercial Paper	\$ 4,987,100	\$	\$ 4,987,100	\$
Municipal Bonds	4,996,486		4,996,486	
US Government and Agency Securities:				
Federal Farm Credit Bank	56,659,475		56,659,475	
Federal Home Loan Bank	83,839,361		83,839,361	
Federal Home Loan Mortgage Corporation	28,465,280		28,465,280	
Federal National Mortgage Association	28,436,410		28,436,410	
Treasury Note	82,181,075		82,181,075	
Total	<u>\$ 289,565,187</u>	<u>\$</u>	<u>\$ 289,565,187</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 Construction Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2017.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

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, 2017 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 150,258	\$ 820,838	\$ 547,221	\$ 63,826	\$ 1,582,143
Special Revenue	312,707	373,330	115,112	10,789	811,938
Capital Project	4,003,873	5,444,627	580,483		10,028,983
Debt Service			9,839		9,839
Enterprise		690	8,458		9,148
Internal Service	677		2,644		3,321
Totals	<u>\$4,467,515</u>	<u>\$ 6,639,485</u>	<u>\$1,263,757</u>	<u>\$ 74,615</u>	<u>\$12,445,372</u>

Amounts due to other governmental units as of December 31, 2017 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,700	\$ 93,632	\$ 240,818	\$ 5,674	\$ 341,824
Special Revenue	2,136	39,968	126,939	6,570	175,613
Capital Project		4,981	143,359		148,340
Enterprise		840	60,077		60,917
Internal Service		13,561			13,561
Totals	<u>\$ 3,836</u>	<u>\$ 152,982</u>	<u>\$ 571,193</u>	<u>\$ 12,244</u>	<u>\$ 740,255</u>

**CITY OF ROCHESTER, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

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

Restricted cash are deposits held for specifically required purposes. Reserved cash are deposits reserved by council action for a particular purpose. Cash and investments with escrow agent are deposits into an irrevocable trust with an escrow agent held for specifically required purposes. Descriptions of the items and balances as of December 31, 2017 are as follows:

*Restricted Cash -*

General Fund

Civic Music Endowment:		
Rochester Area Foundation Endowment	\$	44,221

Debt Service Funds

Economic Development Authority Bond	2,658,493
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Enterprise Funds:

Parking Fund:	
Bioscience Building Debt Service	114,548
Electric Fund:	
Debt Service Fund	1,174,333

*Restricted Investments -*

Enterprise Funds

Electric Fund:	
Debt Service Reserve Accounts	36,029,557

*Reserved Cash -*

Enterprise Funds

Parking Fund:	
Parking Ramp Construction	16,180,715

Total	\$ 56,201,867
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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017 was as follows:

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 73,297,895	\$ 1,664,467	\$	\$ 74,962,362
Construction in progress	101,179,388	46,348,197	101,960,864	45,566,721
Total capital assets, not being depreciated	<u>174,477,283</u>	<u>48,012,664</u>	<u>101,960,864</u>	<u>120,529,083</u>
Capital assets, being depreciated:				
Buildings	259,872,276	86,554,682	3,704,689	342,722,269
Improvements other than buildings	50,405,552	887,459	35,937	51,257,074
Infrastructure	494,365,132	10,866,650		505,231,782
Machinery and equipment	88,444,888	8,151,051	3,207,211	93,388,728
Total capital assets, being depreciated	<u>893,087,848</u>	<u>106,459,842</u>	<u>6,947,837</u>	<u>992,599,853</u>
Less accumulated depreciation for:				
Buildings	87,981,841	6,749,823	2,670,549	92,061,115
Improvements other than buildings	24,527,767	1,553,661	35,937	26,045,491
Infrastructure	162,439,259	11,262,949		173,702,208
Machinery and equipment	58,186,121	6,946,471	2,868,331	62,264,261
Total accumulated depreciation	<u>333,134,988</u>	<u>26,512,904</u>	<u>5,574,817</u>	<u>354,073,075</u>
Total capital assets, being depreciated, net	<u>559,952,860</u>	<u>79,946,938</u>	<u>1,373,020</u>	<u>638,526,778</u>
Governmental activities capital assets, net	<u>\$ 734,430,143</u>	<u>\$ 127,959,602</u>	<u>\$ 103,333,884</u>	<u>\$ 759,055,861</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2017 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 21,689,211	\$ 428,433	\$ 54,727	\$ 22,062,917
Construction in progress	45,851,859	64,455,248	14,611,995	95,695,112
Total capital assets, not being depreciated	<u>67,541,070</u>	<u>64,883,681</u>	<u>14,666,722</u>	<u>117,758,029</u>
Capital assets, being depreciated:				
Buildings and improvements	451,999,997	11,069,976	100,000	462,969,973
Machinery and equipment	499,900,135	22,254,996	5,081,918	517,073,213
Total capital assets, being depreciated	<u>951,900,132</u>	<u>33,324,972</u>	<u>5,181,918</u>	<u>980,043,186</u>
Less accumulated depreciation for:				
Buildings and improvements	193,951,490	9,386,491	100,000	203,237,981
Machinery and equipment	248,733,116	14,458,477	4,347,851	258,843,742
Total accumulated depreciation	<u>442,684,606</u>	<u>23,844,968</u>	<u>4,447,851</u>	<u>462,081,723</u>
Total capital assets, being depreciated, net	<u>509,215,526</u>	<u>9,480,004</u>	<u>734,067</u>	<u>517,961,463</u>
Business-type activities capital assets, net	<u>\$ 576,756,596</u>	<u>\$ 74,363,685</u>	<u>\$ 15,400,789</u>	<u>\$ 635,719,492</u>

**CITY OF ROCHESTER, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2017 was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 661,142
Public safety	3,074,940
Public works	10,345,878
Airport operations	1,952,769
Transit	1,361,878
Culture	1,198,418
Park and recreation/Mayo Civic Center	3,741,373
Economic development/tourism	743,849
Subtotal	23,080,247
Internal Service Funds:	
Equipment revolving	3,192,343
Information technology	240,314

Total depreciation expense - governmental activities	\$ 26,512,904
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**Business-Type Activities:**

Parking	\$ 1,052,803
Electric utility	10,554,847
Water utility	2,639,588
Sewer utility	8,074,725
Storm water utility	1,523,005

Total depreciation expense - business type activities	\$ 23,844,968
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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 950,929	\$ 425,677
Construction Improvement	51,000	337,945
Subtotal	1,001,929	763,622
Non-Major Governmental Funds:		
Special Revenue -		
Library		7,192
Municipal Recreation System		66,678
Mayo Civic Center	512	49,435
Edward Byrne Memorial JAG		22
Airport Operations		35,382
Transit		448
Community Development Projects		32,576
DMCC	331,161	51,000
Debt Service -		
TIF Revenue Bond		52,587
Subtotal	331,673	295,320
Total Governmental Funds	1,333,602	1,058,942
Proprietary Funds:		
Enterprise -		
Parking		355
Electric Utility		2,779,427
Water Utility		53,243
Sewer Utility	2,313,394	221,959
Storm Water Utility	528,368	61,438
Total Proprietary Funds	2,841,762	3,116,422
Total All Funds	\$ 4,175,364	\$ 4,175,364

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

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, 2017, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Governmental Funds:		
Construction Improvement	\$	\$ 7,992,213
FE Williams Estate	28,440	
Economic Development Authority Bond		2,784,687
Proprietary Fund:		
Parking	2,784,687	
Internal Service Fund:		
Self-Insurance	7,963,773	
Total All Funds	<u>\$ 10,776,900</u>	<u>\$ 10,776,900</u>

Transfers during the year ended December 31, 2017 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 12,303,390	\$ 2,311,392
Capital Project	6,579,005	31,659,618
Other Governmental Funds		
Library		22,445
Municipal Recreation System	32,554	284,755
Mayo Civic Center		56,570
Airport Operations		162,003
Minnesota Bio Science Center		1,177,512
Transit		794,789
Community Development Projects		37,223
DMCC	2,471,264	
Facility Energy Improvements Loan	566,965	
GO Variable Rate Sales Tax Bond	2,930,167	
Lodging Tax Revenue Bond	2,599,388	
Economic Development Authority Bond	1,177,512	
Subtotal Other Governmental Funds	<u>9,777,850</u>	<u>2,535,297</u>
Subtotal Governmental Funds	28,660,245	36,506,307
Enterprise	23,973,891	16,635,505
Internal Service	583,451	75,775
Totals	<u>\$ 53,217,587</u>	<u>\$ 53,217,587</u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

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	\$ 28,660,245
Transfers out	(36,506,307)
Internal Service Funds:	
Transfer in	583,451
Transfers out	(75,775)
Capital assets transferred from Govt- Activities to Business-type activities	(2,548,647)
Government-wide Statement of Activities - Transfers in/out	\$ (9,887,033)

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, 2017 totaled \$566,138.

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:	
2018	\$ 54,741
2019	55,945
2020	57,176
2021	58,434
2022	59,720

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2017, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/17
General Obligation Bonds:				
GO Taxable Tax Increment Bonds				
District 36, Series 2009A	\$ 8,035,000	4.4-6.0%	2033	\$ 6,600,000
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	40,390,000
GO Revenue Bonds:				
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	51,665,000
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2026	18,215,000
Revenue Refunding Bonds, Series 2015D	14,156,000	Variable	2026	11,755,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	2.875-5.15%	2036	22,045,000
Direct Pay, Series 2010A - Equipment	425,000	2.875-3.70%	2020	150,000
GO Variable Rate Sales Tax Revenue				
Bonds, Series 2015C	40,432,813	Variable	2025	37,780,000
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	3.25-3.5%	2019	185,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	36,300,000
Bonds, Series 2015E	39,970,000	3.0-5.0%	2030	38,810,000
Bonds, Series 2017A	108,255,000	2.0-5.0%	2047	107,255,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	7,715,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	5,225,000
Energy Loan Payable	5,715,795	4.10%	2018	577,793
Compensated Absences				15,207,894
Post Employment Benefit Obligation				6,276,676
Less: Unamortized premium				37,774,179
Total Long-term Debt				<u>\$ 465,191,542</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, 2017**

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 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, 2017**

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. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included as part of the totals for governmental activities. The bond is payable from the general tax levy and is backed by the full faith, credit and taxing power of the City.

General Obligation Taxable Build America Bonds

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

Energy Loan Payable

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

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, 2017**

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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
GO Taxable Tax Increment Bonds					
District 36, Series 2009A	\$ 6,860,000	\$	\$ 260,000	\$ 6,600,000	\$ 270,000
GO Tax Increment Revenue Bond					
Series 2017A		21,265,000		21,265,000	
GO Lodging Tax Revenue					
Bonds, Series 2015A	41,330,000		940,000	40,390,000	1,045,000
GO Equipment Certificates of Indebtedness,					
Series 2009B	275,000		90,000	185,000	(1) 90,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	22,915,000		870,000	22,045,000	890,000
Direct Pay, Series 2010A - Equipment	195,000		45,000	150,000	(1) 50,000
GO Variable Rate Sales Tax Revenue					
Bonds, Series 2015C	39,682,813	447,187	2,350,000	37,780,000	2,420,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	8,035,000		320,000	7,715,000	335,000
REDA Lease Revenue Bonds, Series 2008	5,440,000		215,000	5,225,000	225,000
Municipal Loan Payable:					
Energy Loan	1,132,605		554,812	577,793	577,793
Plus: Unamortized Premium on Bonds	3,138,052	1,324,882	74,890	4,388,044	
Other Liabilities:					
Compensated Absences	11,063,474	6,600,073	6,403,852	11,259,695	6,660,000
Post-Employment Benefit Obligation	5,369,285	1,240,036	332,645	6,276,676	(1)
Governmental Activities Long-term Liabilities	<u>145,436,229</u>	<u>30,877,178</u>	<u>12,456,199</u>	<u>163,857,208</u>	<u>12,562,793</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Bonds, Series 2007A	21,830,000		21,830,000		
Revenue Crossover Refunding Series 04A					
Bonds, Series 2012A	56,340,000		4,675,000	51,665,000	4,940,000
Revenue Crossover Refunding					
Bonds, Series 2015B	19,805,000		1,590,000	18,215,000	1,665,000
Revenue Refunding					
Bonds, Series 2015D	12,980,000		1,225,000	11,755,000	1,230,000
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2007C	23,645,000		23,645,000		
Series 2013B	37,010,000		710,000	36,300,000	735,000
Series 2013A	815,000		815,000		
Electric Utility Revenue Refunding Bonds-					
Series 2015E	39,970,000		1,160,000	38,810,000	2,260,000
Electric Utility Temp Subordinate Revenue Bonds-					
Series 2016A	13,350,000	7,500,000	20,850,000		
Electric Utility Revenue Bonds-					
Series 2017A		108,255,000	1,000,000	107,255,000	2,465,000
Plus: Unamortized Premium	19,932,371	17,337,816	3,884,052	33,386,135	
Other Liabilities:					
Compensated Absences	3,733,518	652,216	437,535	3,948,199	2,202,052
Business-type Activities Long-term Liabilities	<u>249,410,889</u>	<u>133,745,032</u>	<u>81,821,587</u>	<u>301,334,334</u>	<u>15,497,052</u>
Total	<u>\$ 394,847,118</u>	<u>\$ 164,622,210</u>	<u>\$ 94,277,786</u>	<u>\$ 465,191,542</u>	<u>\$ 28,059,845</u>

(1) Debt recorded in the internal service funds.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017, the balance totaled \$2,099,090.

In 2015, the Sewer Utility issued \$19.8 million in Crossover Refunding Revenue Bonds, Series 2015B, to be used for a crossover refunding of the outstanding Series 2007A bonds, which were issued to fund the treatment plant expansion. The net proceeds of \$23 million (after payment of issuance costs) were used to purchase securities of the U.S. Government. Those securities were deposited into an irrevocable trust with an escrow agent to provide for three years of interest payments on the Series 2015B Bonds and the 2016-2026 maturities of the Series 2007A Bonds. The 2007A Bonds were called in 2017.

All Electric Utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are paid off. Principal and interest paid for 2017 was \$56,123,310, which consisted of \$11,628,310 of scheduled principal and interest payments, \$20,850,000 to refund the US Bank credit facility, and \$23,645,000 to refund the outstanding portion of the 2007C bond issue. Total gross revenues as defined for the same period were \$161,631,346. Annual principal and interest payments are expected to require 6% of gross revenues on average.

On April 19, 2016, a temporary subordinate revenue bond in the amount of \$25.0 million was issued in the form of a credit facility, or tax-exempt draw-down loan with U.S. Bank, at an average interest rate of 1.00%. The purpose of this borrowing was to provide temporary financing for the Westside Energy Station until permanent financing could be obtained in 2017. At the time of that financing, \$20,850,000 had been drawn down and was rolled into the permanent borrowing.

On February 15, 2017, bonds in the amount of \$108.3 million were issued with an average interest rate of 4.90% to finance the Westside Energy Station, Service Center expansion and renovation, transmission and substation work, and distribution system expansion, as well as to refund a \$20.85 million credit facility and \$23.645 million of outstanding bonds with an average interest rate of 4.57%. The cash flow requirements on the old bonds prior to the refunding were \$32,290,117 from 2017 through 2030. The cash flow requirements on the new bonds are \$28,405,415. The current refunding resulted in an economic gain of \$2,933,357.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2017, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue		Revenue Bonds		Energy Loan Payable	
	Principal	Interest *	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2018	\$ 4,765,000	\$ 4,281,270	\$ 560,000	\$ 595,532	\$ 577,793	\$ 17,827
2019	5,630,000	4,331,390	585,000	568,601		
2020	5,955,000	4,125,872	615,000	540,376		
2021	6,195,000	3,906,300	645,000	510,741		
2022	6,485,000	3,673,885	670,000	479,812		
2023-2027	47,500,000	13,697,023	3,875,000	1,881,498		
2028-2032	28,065,000	7,490,643	4,875,000	856,017		
2033-2037	22,390,000	1,892,801	1,115,000	26,226		
2038	1,430,000	22,344				
Totals	<u>\$ 128,415,000</u>	<u>\$ 43,421,528</u>	<u>\$ 12,940,000</u>	<u>\$ 5,458,803</u>	<u>\$ 577,793</u>	<u>\$ 17,827</u>
	General Obligation Revenue Bonds		Utility Revenue Bonds			
	Principal	Interest	Principal	Interest		
<u>Business-Type Activities</u>						
2018	\$ 7,835,000	\$ 3,481,450	\$ 5,460,000	\$ 8,632,000		
2019	8,125,000	3,119,045	5,725,000	8,366,350		
2020	8,505,000	2,740,185	6,015,000	8,080,100		
2021	8,845,000	2,343,760	6,315,000	7,779,350		
2022	9,195,000	1,930,770	6,625,000	7,472,050		
2023-2027	39,130,000	3,403,555	38,065,000	32,714,300		
2028-2032			34,985,000	23,487,850		
2033-2037			23,190,000	17,251,000		
2038-2042			29,240,000	11,194,550		
2043-2047			26,745,000	3,897,500		
Totals	<u>\$ 81,635,000</u>	<u>\$ 17,018,765</u>	<u>\$ 182,365,000</u>	<u>\$ 128,875,050</u>		

\* Interest on variable rate debt was estimated using the rate in effect at December 31, 2017.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2017, the City had not utilized \$189,333,180 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 \$2,323,907,787 and the balance outstanding at December 31, 2017 totals \$2,295,190,074.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Revenue Pledged

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

Bond Issue - Revenue Bonds	Use of Proceeds	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 Bonds, Series 2007A	Wastewater Treatment Plant Infrastructure	Utility Revenue	100%	2007 - 2017	\$	\$22,287,663	\$2,735,325
Revenue Crossover Refunding Series 04A Bonds, Series 2012A	Refund 2004A issue	Utility Revenue	100%	2012 - 2026	62,781,075	7,254,525	7,254,525
Revenue Crossover Refunding Bonds, Series 2015B	Refund 2007A issue	Utility Revenue	100%	2015 - 2026	23,053,000	2,580,250	2,580,250
Revenue Refunding Bonds, Series 2015D	Refund 2007B issue	Utility Revenue	100%	2015 - 2026	12,819,690 *	1,422,516	1,422,516
Revenue Bonds:							
REDA Lease Revenue Bonds, Series 2007	Bio Science building	Lease Revenue	100%	2007 - 2033	10,966,108	690,125	690,125
REDA Lease Revenue Bonds, Series 2008	Bio Science building	Lease Revenue	100%	2008 - 2033	7,432,695	466,161	466,161
Electric Utility Revenue Bonds -							
Series 2007C	Emission reduction equipment, transmission and substation work, distribution system expansion	Utility Revenue	100%	2007 - 2017		23,868,172	1,473,172
Series 2013B	Southwest Metro to Rochester to La Crosse transmission line project	Utility Revenue	100%	2013 - 2043	63,718,150	2,452,150	2,452,150
Series 2013A	Refund 2002 issue	Utility Revenue	100%	2013 - 2017		831,300	831,300
Electric Utility Revenue Refunding Bonds-							
Series 2015E	Advance refund a portion of 2007C issue	Utility Revenue	100%	2015 - 2030	49,595,650	2,761,900	2,761,900
Electric Utility Temp Subordinate Revenue Bonds - Series 2016A							
Series 2016A	Temporary financing for Westside Energy Station	Utility Revenue	100%	2016 - 2017		20,933,492	20,933,492
Electric Utility Revenue Bonds-							
Series 2017A	Finance Westside Energy Station, and Electric substation and improvements	Utility Revenue	100%	2017 - 2047	197,926,250	5,276,296	5,276,296

\* Interest on variable rate debt was estimated using the rate in effect at December 31, 2017.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2017 there were approximately 45 retirees participating in the City's group health plan.

The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute. As of January 1, 2017 there were 5 disabled police and fire fighters receiving the benefit.

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

The following table shows the components of the City's annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 1,241,630
Interest on net OPEB obligations	241,618
Adjustment to ARC	<u>(243,212)</u>
Annual OPEB Cost	1,240,036
Contributions during the year	<u>(332,645)</u>
Increase in net OPEB obligation	907,391
Net OPEB beginning of year	<u>5,369,285</u>
Net OPEB end of year	<u><u>\$ 6,276,676</u></u>

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2015	\$ 1,048,821	\$ 3,785,373	\$ 244,906	23.35%	\$ 4,589,288
December 31, 2016	1,093,245	4,589,288	313,248	28.65%	5,369,285
December 31, 2017	1,240,036	5,369,285	332,645	26.83%	6,276,676

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

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded Actuarial Accrued Liability ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
1/1/2015		\$ 7,938,311	\$ 7,938,311	0.00%	\$ 62,339,039	12.73%
1/1/2016		8,709,145	8,709,145	0.00%	64,676,753	13.47%
1/1/2017		8,979,261	8,979,261	0.00%	66,497,969	13.50%

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

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

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

In the January 1, 2017 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using underlying long-term inflation assumption of 3% and a 3.5% annual increase in covered payroll. The annual healthcare cost trend rate is 8.0% initially, reduced incrementally to an ultimate rate of 5% after nine years. The unfunded actuarial accrued liability is being amortized as a percent of payroll over a 30-year closed amortization period. The average remaining amortization period at December 31, 2017, was 25 years.

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2017 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 25,156	\$	\$ 253,843	\$ 278,999
Inventory	858,882		65,706	924,588
Total Nonspendable	<u>884,038</u>		<u>319,549</u>	<u>1,203,587</u>
<u>Restricted for:</u>				
Civic music endowment	44,221			44,221
Flood control		19,101,903		19,101,903
Economic development loans		329,856		329,856
Park and recreation		112,572		112,572
Tax increment financing		4,253,675		4,253,675
Sales tax authorized projects		15,475,886		15,475,886
Airport operations			3,098,021	3,098,021
Children's playgrounds			673,878	673,878
Debt service			1,759,628	1,759,628
Total Restricted	<u>44,221</u>	<u>39,273,892</u>	<u>5,531,527</u>	<u>44,849,640</u>
<u>Committed to:</u>				
Capital improvement projects		56,112,376		56,112,376
Total Committed		<u>56,112,376</u>		<u>56,112,376</u>
<u>Assigned to:</u>				
Subsequent years budgets	351,703			351,703
Encumbrances	417,836			417,836
Library operations			2,902,045	2,902,045
Parks and recreation			3,600,301	3,600,301
Mayo Civic Center			764,468	764,468
Transit			2,354,902	2,354,902
Minnesota Bio Science Center			1,019,053	1,019,053
Total Assigned	<u>769,539</u>		<u>10,640,769</u>	<u>11,410,308</u>
<u>Unassigned</u>				
	<u>33,066,288</u>		<u>(229,825)</u>	<u>32,836,463</u>
Total Fund Balances	<u>\$ 34,764,086</u>	<u>\$ 95,386,268</u>	<u>\$ 16,262,020</u>	<u>\$ 146,412,374</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2017 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, 2017**

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>				
<u>General Fund:</u>				
Civic Music Endowment	\$	\$ 44,221	\$	\$
<u>Construction Improvement Fund:</u>				
Flood Control				19,101,903
Economic Development Loans	329,856			
Park and Recreation		112,572		
Tax Increment Financing				4,253,675
Sales Tax Authorized Projects				15,475,886
<u>Nonmajor Governmental Funds:</u>				
<u>Special Revenue Funds:</u>				
Children's Playgrounds	673,878			
CDBG Loans	3,735,115			
Airport Operations				3,098,021
<u>Debt Service Funds:</u>				
Debt Service			1,759,628	
Total Governmental Restricted Net Position	<u>4,738,849</u>	<u>156,793</u>	<u>1,759,628</u>	<u>41,929,485</u>
<u>Business-Type Activities</u>				
Debt Service			455,000	
Total Government Wide Restricted Net Position	<u>\$ 4,738,849</u>	<u>\$ 156,793</u>	<u>\$ 2,214,628</u>	<u>\$ 41,929,485</u>

L. Deficit Fund Balance

<u>Special Revenue Fund:</u>			
Edward Byrne Memorial Justice Assistance Grant Fund		\$	22

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

M. Excess Expenditures over Appropriations

At December 31, 2017, excess of expenditures over appropriations, all the result of a planned process, were as follows:

Special Revenue Funds	Expenditures	Appropriation	Excess
Mayo Civic Center	\$ 5,128,089	\$ 5,015,178	\$ 112,911
Airport Operations Fund	3,838,328	3,654,066	184,262

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

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 \$3,069,194 reported in the Fund at December 31, 2017 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, 2017 and 2016 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2017	\$ 3,434,712	\$ 18,730,802	\$ (19,096,320)	\$ 3,069,194
2016	2,323,697	17,421,547	(16,310,532)	3,434,712

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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.

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 13.82 mills (tenths of a cent) per kWh to 16.51 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 1,213,883,068 kilowatt hours totaling \$92,254,159 from SMMPA during the year ended December 31, 2017.

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, 2017**

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:

<u>Planning Year</u>	<u>Megawatts (per month)</u>	<u>Contract Price (\$ per MW)</u>	<u>Purchase Price</u>
June 1, 2017 - May 31, 2018	4	\$ 1,900	\$ 91,200
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

Westside Energy Station

Construction of the Westside Energy Station began in October, 2016. It is comprised of five reciprocating gas engines driving generators with a total capacity of 46MW at an expected project cost of \$68 million. The quick responding, highly efficient natural gas powered generating station will provide for future capacity needs and support system reliability. As more intermittent renewable generation is added to the regional grid, quick responding generating units such as this are critical to ensure grid stability. Work prior to construction included acquiring the necessary permits, purchasing the engines, executing an engineer, procure, and construct (EPC) contract with Westside Energy Partners (a collaboration between Sargent & Lundy and Boldt Construction), and performing detailed design. Substantial completion was accomplished in December 2017. Commercial operation began March 20, 2018.

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 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, 2017, RPU had provided \$48,282 in funding leaving a committed balance of \$1,118,718. Funding by RPU occurs only as project expenditures are incurred.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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, 2017, the City's commitments with contractors and vendors were as follows:

<u>Construction Projects</u>	Remaining Commitment
Major Street Projects	\$ 479,867
Sewer and Water Projects	5,828,874
Sidewalk Projects	190,572
Traffic Projects	171,825
Bridge Projects	142,270
Storm Water / Storm Sewer Projects	513,628
Flood Control	17,816
Parking Ramp Rehabilitation	16,579,475
Airport Projects	6,028,413
Civic Center Improvements	2,087,243
Golf Projects	10,897
Recreation Center	229,623
Parks Projects - Various	1,592,028
Electric Projects	16,565,115
Water Projects	229,006
Total Construction Projects	<u>\$ 50,666,652</u>
<u>Equipment Purchase Commitments</u>	
Police Precinct #2-Remodel, Licenses	\$ 15,606
Traffic Operations Building Electrical Work	23,075
City Hall Carpet Replacement	95,880
City Hall Security Upgrades	84,844
BioScience Building Improvements	19,720
Police Drone Battery	1,650
City Wide IT Security Tooling	25,276
Upgrade City Hall Security Access	14,398
GIS Work Management Software	3,161
LEC Electronic Citation System	96,297
In-Squad Video Recording Equipment	26,877
City Wide IT Integration	117,000
Park & Rec Management Software	10,000
Transit Vehicle Location System	161,782
Buses	2,717,322
Total Equipment Purchase Commitments	<u>\$ 3,412,888</u>
<u>General Fund Encumbrances</u>	
*General Fund Equipment Purchase Commitments	<u>\$ 417,836</u>
Total General Fund Encumbrances	<u>\$ 417,836</u>

\*See additional disclosures regarding encumbrances in footnote 3:K.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

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. region. It does not involve a claim or assessment against RPU. It is not presently expected that the outcome of this matter, when resolved, will have a material adverse impact on the financial position of the Electric Utility.

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, 2017, 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, 2017**

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 Employee Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent increases.

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

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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.

2. Police and Fire Plan Benefits

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

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$3,721,078. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

2. Police and Fire Plan Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The City's was required to contribute 16.20 percent of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$3,669,622. 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, 2017, the City reported a liability of \$49,162,676 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 \$6 million to the fund in 2017. 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 \$618,213. The net pension liability was measured as of June 30, 2017, 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 proportion 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.7701 percent which was an increase of 0.043 percent from its proportion measured at June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$6,931,761 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$17,855 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Fund Pension Costs (continued)

At December 31, 2017, 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	\$ 1,620,252	\$ 2,998,265
Changes in actuarial assumptions	7,706,319	4,928,563
Difference between projected and actual investment earnings	8,215,242	8,347,445
Changes in proportion	2,618,535	1,210,434
Contributions paid to PERA subsequent to the measurement date	1,847,478	
Total	\$ 22,007,826	\$ 17,484,707

\$1,847,478 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2018	\$ 1,725,576
2019	3,221,202
2020	(184,269)
2021	(2,086,868)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$29,797,126 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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 proportion 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

2. Police and Fire Fund Pension Costs (continued)

At June 30, 2017, the City's proportion was 2.207 percent which was an increase of 0.065 percent from its proportion measured at June 30, 2016. The City also recognized \$198,630 for the year ended December 31, 2017 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, 2017, the City recognized pension expense of \$7,449,344 for its proportionate share of the Police and Fire Fund's pension expense.

At December 31, 2017, 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	\$ 685,869	\$ 7,770,012
Changes in actuarial assumptions	37,846,998	42,304,526
Difference between projected and actual investment earnings	9,608,437	9,455,075
Changes in proportion	2,265,607	265,122
Contributions paid to PERA subsequent to the measurement date	1,818,462	
Total	\$ 52,225,373	\$ 59,794,735

\$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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2018	\$ 592,225
2019	592,224
2020	(485,225)
2021	(2,198,075)
2022	(7,888,973)

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Aggregate Pension Costs

Pension expense recognized by the City for the year ended December 31, 2017 is as follows:

GERF	\$6,931,761
PEPFF	<u>7,449,344</u>
Total	<u>\$14,381,105</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using 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 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 for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and the 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Assumptions (continued)

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP- 2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Police and Fire Fund (continued)

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's proportionate share of the GERF net pension liability	\$ 76,254,963	\$ 49,162,676	\$ 26,982,718
City's proportionate share of the PEPFF net pension liability	56,116,683	29,797,126	8,068,880
Total Net Pension Liability	\$ 132,371,646	\$ 78,959,802	\$ 35,051,598

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](http://www.mnpera.org).

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.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2017**

NOTE 6: Tax Abatement Agreements

As of December 31, 2017, 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, 2017, the City had thirteen said Districts in which \$1,168,389 of tax revenue was paid out to developers under these agreements.

NOTE 7: Change in Accounting Principle

In 2017, the City adopted the provisions of GASB Statement No. 80, *Blending Requirements for Certain Component Units* to Enhance the Compatibility of Financial Statements among Governments.

The implementation of this new standard resulted in the blending of the component unit, DMCC, in the 2017 financial statements. Prior to 2017, the DMCC was reported as a discretely presented component unit. The DMCC reported no fund balance at December 31, 2016, therefore the implementation of GASB Statement No. 80 had no impact on beginning fund balance.

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**CITY OF ROCHESTER, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2017**

**CITY OF ROCHESTER, MINNESOTA**  
**Schedules of City Pension Contributions**  
**December 31, 2017**

**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 (d)	Contributions as a Percentage of Covered Payroll (b/d)
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%

**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 (d)	Contributions as a Percentage of Covered Payroll (b/d)
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%

\* 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, 2017**

**PERA General Employees Retirement Fund**  
**Last Ten Years\***

Fiscal Year Ended June 30	City's Proportionate (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	City's Proportionate Share of the Net Pension Liability and the State'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%	78.2%
2016	0.7271%	59,036,914	771,048	59,807,962	43,972,947	136.0%	68.9%
2017	0.7701%	49,162,676	618,213	49,780,889	47,366,020	105.1%	75.9%

**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 and the State'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%	86.6%
2016	2.1420%	85,962,187	192,780	86,154,967	20,010,574	430.5%	63.9%
2017	2.2070%	29,797,126	198,630	29,995,756	21,643,373	138.6%	85.4%

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

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS**  
**December 31, 2017**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded Actuarial Accrued Liability ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
1/1/2015	\$	7,938,311	7,938,311	0.00%	62,339,039	12.73%
1/1/2016		8,709,145	8,709,145	0.00%	64,676,753	13.47%
1/1/2017		8,979,261	8,979,261	0.00%	66,497,969	13.50%

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

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL NONMAJOR**  
**FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2017**

# CITY OF ROCHESTER, MINNESOTA

## NONMAJOR FUNDS

DECEMBER 31, 2017

### 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, 2017

### 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, 2017

	Special Revenue							
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
<b>ASSETS</b>								
Cash and cash equivalents	\$ 113,895	\$	\$ 628,239	\$	\$ 75,072	\$ 22,947	\$ 48,792	\$ 36,285
Investments	3,059,800	3,685,790	381,700		2,032,100	620,300	2,931,000	834,200
Accrued interest receivable	10,719	13,341	1,325		7,121	2,191	10,206	3,459
Accounts receivable (net of allowance for uncollectibles)	5,577	487,513	224,882		1,216,885		92,367	145,513
Loans receivable								
Taxes receivable delinquent	67,450	73,865			5,121		607	
Special assessments receivable delinquent		92,056						
Due from other funds			512					
Advances to other funds						28,440		
Due from other governmental units	37,064	80,809	311,414		80,002		268,587	
Prepaid items	2,111							
Restricted cash and investments								
Inventory		6,863	45,025				13,818	
<b>TOTAL ASSETS</b>	<b>\$ 3,296,616</b>	<b>\$ 4,440,237</b>	<b>\$ 1,593,097</b>	<b>\$</b>	<b>\$ 3,416,301</b>	<b>\$ 673,878</b>	<b>\$ 3,365,377</b>	<b>\$ 1,019,457</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>								
Liabilities:								
Accounts payable	\$ 66,959	\$ 197,864	\$ 189,993	\$	\$ 58,641	\$	\$ 950,130	\$
Deposits payable	6,817	168,817	411,377		217,000			
Accrued compensation and payroll taxes	228,235	174,346	69,581				6,174	
Due to other funds	7,192	66,678	49,435	22	35,382		448	
Advances from other funds								
Unearned revenue		2,407	2,290					
Due to other governmental units	15,807	57,040	60,928		2,136		39,298	404
<b>Total Liabilities</b>	<b>325,010</b>	<b>667,152</b>	<b>783,604</b>	<b>22</b>	<b>313,159</b>		<b>996,050</b>	<b>404</b>
Deferred Inflows of Resources:								
Unavailable revenue								
Property taxes	67,450	73,865			5,121		607	
Special assessments		92,056						
Loans receivable								
<b>Total Deferred Inflows of Resources</b>	<b>67,450</b>	<b>165,921</b>			<b>5,121</b>		<b>607</b>	
Fund Balance:								
Nonspendable	2,111	6,863	45,025				13,818	
Restricted								
Assigned	2,902,045	3,600,301	764,468		3,098,021	673,878	2,354,902	1,019,053
Unassigned				(22)				
<b>Total Fund Balance</b>	<b>2,904,156</b>	<b>3,607,164</b>	<b>809,493</b>	<b>(22)</b>	<b>3,098,021</b>	<b>673,878</b>	<b>2,368,720</b>	<b>1,019,053</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 3,296,616</b>	<b>\$ 4,440,237</b>	<b>\$ 1,593,097</b>	<b>\$</b>	<b>\$ 3,416,301</b>	<b>\$ 673,878</b>	<b>\$ 3,365,377</b>	<b>\$ 1,019,457</b>

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	
\$	\$ 894	\$ 926,124	\$	\$	\$ 77,520	\$ 69	\$ 1,604,474	\$ 59,362	\$	\$ 1,741,425	\$ 2,667,549
		13,544,890									13,544,890
		48,362		161	237		4,915		184	5,497	53,859
3,735,115	50,000	2,222,737									2,222,737
		3,735,115									3,735,115
		147,043					17,279			17,279	164,322
		92,056									92,056
	331,161	331,673									331,673
		28,440									28,440
34,062		811,938					9,839			9,839	821,777
	103,678	105,789								148,054	253,843
				55,523						2,658,493	2,714,016
		65,706									65,706
<b>\$ 3,769,177</b>	<b>\$ 485,733</b>	<b>\$ 22,059,873</b>	<b>\$</b>	<b>\$ 55,684</b>	<b>\$ 77,757</b>	<b>\$ 2,806,616</b>	<b>\$ 1,636,507</b>	<b>\$ 59,362</b>	<b>\$ 184</b>	<b>\$ 4,636,110</b>	<b>\$ 26,695,983</b>
\$	1,486	\$ 331,055	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1,796,128
		804,011									804,011
		478,336									478,336
32,576	51,000	242,733		52,587						52,587	295,320
						2,784,687				2,784,687	2,784,687
	103,678	108,375									108,375
		175,613									175,613
34,062	485,733	3,605,196		52,587		2,784,687				2,837,274	6,442,470
		147,043									147,043
		92,056									92,056
3,735,115		3,735,115								17,279	3,735,115
3,735,115		3,974,214					17,279			17,279	3,991,493
	103,678	171,495				148,054				148,054	319,549
		3,771,899		3,097	77,757		1,619,228	59,362	184	1,759,628	5,531,527
		10,640,769									10,640,769
	(103,678)	(103,700)				(126,125)				(126,125)	(229,825)
		14,480,463		3,097	77,757	21,929	1,619,228	59,362	184	1,781,557	16,262,020
<b>\$ 3,769,177</b>	<b>\$ 485,733</b>	<b>\$ 22,059,873</b>	<b>\$</b>	<b>\$ 55,684</b>	<b>\$ 77,757</b>	<b>\$ 2,806,616</b>	<b>\$ 1,636,507</b>	<b>\$ 59,362</b>	<b>\$ 184</b>	<b>\$ 4,636,110</b>	<b>\$ 26,695,983</b>

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2017

	Special Revenue							Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
<b>REVENUES</b>								
General property taxes	\$ 6,191,826	\$ 6,832,414	\$ 4,580	\$	\$ 534,873	\$	\$	\$
Tax increment								
Nonproperty tax			1,767,872					
Intergovernmental revenues	997,437	63,867		35,164	250,644		6,663,769	
Charges for services	156,122	3,968,921	3,485,757		2,583,428		2,675,613	
Interest earnings	22,073	27,728	3,466		21,624	9,313	39,474	9,053
Net decrease in the fair value of investments	(13,100)	(17,000)	(400)		(15,500)	(2,500)	(21,900)	(3,400)
Rental revenues					1,760,098			2,663,387
Miscellaneous revenues	259,100	230,437	27,700		2,036		116,417	
<b>Total Revenues</b>	<b>7,613,458</b>	<b>11,106,367</b>	<b>5,288,975</b>	<b>35,164</b>	<b>5,137,203</b>	<b>6,813</b>	<b>9,473,373</b>	<b>2,669,040</b>
<b>EXPENDITURES</b>								
Culture	7,410,731							
Park and recreation/Mayo Civic Center		10,538,967	5,128,089					
Public safety				30,954				
Airport operations					3,838,328			
Transit							8,603,957	
Economic development/tourism								1,381,390
Debt service								
<b>Total Expenditures</b>	<b>7,410,731</b>	<b>10,538,967</b>	<b>5,128,089</b>	<b>30,954</b>	<b>3,838,328</b>		<b>8,603,957</b>	<b>1,381,390</b>
Excess (deficiency) of revenues over (under) expenditures	202,727	567,400	160,886	4,210	1,298,875	6,813	869,416	1,287,650
<b>OTHER FINANCING SOURCES (USES)</b>								
Issuance of debt								
Transfers in		32,554						
Transfers out	(22,445)	(284,755)	(56,570)		(162,003)		(794,789)	(1,177,512)
<b>Total Other Financing Sources (Uses)</b>	<b>(22,445)</b>	<b>(252,201)</b>	<b>(56,570)</b>		<b>(162,003)</b>		<b>(794,789)</b>	<b>(1,177,512)</b>
<b>Net change in fund balances</b>	<b>180,282</b>	<b>315,199</b>	<b>104,316</b>	<b>4,210</b>	<b>1,136,872</b>	<b>6,813</b>	<b>74,627</b>	<b>110,138</b>
Fund Balances - beginning	2,723,874	3,291,965	705,177	(4,232)	1,961,149	667,065	2,294,093	908,915
<b>Fund Balances - ending</b>	<b>\$ 2,904,156</b>	<b>\$ 3,607,164</b>	<b>\$ 809,493</b>	<b>\$ (22)</b>	<b>\$ 3,098,021</b>	<b>\$ 673,878</b>	<b>\$ 2,368,720</b>	<b>\$ 1,019,053</b>

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			
\$	\$	\$13,563,693	\$	\$	\$	\$	\$	\$ 1,645,044	\$	\$	\$ 1,645,044	\$ 15,208,737
		1,767,872	633,810								633,810	633,810
507,719		8,518,600						327,915			327,915	1,767,872
		12,869,841										8,846,515
687	6	133,424		180	1,537	19,385		8,994	1,016	425	31,537	12,869,841
		(73,800)										164,961
		4,423,485										(73,800)
135,709		771,399										4,423,485
644,115	6	41,974,514	633,810	180	1,537	19,385		1,981,953	1,016	425	2,638,306	771,399
		7,410,731										44,612,820
		15,667,056										7,410,731
		30,954										15,667,056
		3,838,328										30,954
		8,603,957										3,838,328
606,892	2,471,270	4,459,552		99,522		18,826					118,348	8,603,957
			633,610	52,546	595,619	1,156,286		1,876,336	2,599,388	2,930,528	9,844,313	4,577,900
606,892	2,471,270	40,010,578	633,610	152,068	595,619	1,175,112		1,876,336	2,599,388	2,930,528	9,962,661	9,844,313
												49,973,239
37,223	(2,471,264)	1,963,936	200	(151,888)	(594,082)	(1,155,727)		105,617	(2,598,372)	(2,930,103)	(7,324,355)	(5,360,419)
				154,985							154,985	154,985
	2,471,264	2,503,818			566,965	1,177,512			2,599,388	2,930,167	7,274,032	9,777,850
(37,223)		(2,535,297)										(2,535,297)
(37,223)	2,471,264	(31,479)		154,985	566,965	1,177,512			2,599,388	2,930,167	7,429,017	7,397,538
		1,932,457	200	3,097	(27,117)	21,785		105,617	1,016	64	104,662	2,037,119
		12,548,006	(200)		104,874	144		1,513,611	58,346	120	1,676,895	14,224,901
\$	\$	\$14,480,463	\$	\$ 3,097	\$ 77,757	\$ 21,929	\$	\$ 1,619,228	\$ 59,362	\$ 184	\$ 1,781,557	\$16,262,020

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

For the Year Ended December 31, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 6,238,060	\$ 6,238,060	\$ 6,191,826	\$ (46,234)
Intergovernmental	956,027	1,002,578	997,437	(5,141)
Charges for services	169,700	169,700	156,122	(13,578)
Interest earnings	9,000	17,382	22,073	4,691
Net decrease in the fair value of investments	(3,000)	(3,000)	(13,100)	(10,100)
Miscellaneous revenues				
Contributions		257,805	257,805	
Other	900	900	1,295	395
Total Revenues	<u>7,370,687</u>	<u>7,683,425</u>	<u>7,613,458</u>	<u>(69,967)</u>
<b>EXPENDITURES</b>				
Public Library	7,373,973	7,404,922	7,170,169	234,753
Gifts appropriations		1,006,078	240,562	765,516
Total Expenditures	<u>7,373,973</u>	<u>8,411,000</u>	<u>7,410,731</u>	<u>1,000,269</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,286)</u>	<u>(727,575)</u>	<u>202,727</u>	<u>930,302</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(22,445)</u>	<u>(22,445)</u>	<u>(22,445)</u>	
Total Other Financing Uses	<u>(22,445)</u>	<u>(22,445)</u>	<u>(22,445)</u>	
Net change in fund balance	(25,731)	(750,020)	180,282	930,302
Fund Balance - beginning	<u>2,723,874</u>	<u>2,723,874</u>	<u>2,723,874</u>	
Fund Balance - ending	<u>\$ 2,698,143</u>	<u>\$ 1,973,854</u>	<u>\$ 2,904,156</u>	<u>\$ 930,302</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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 6,883,676	\$ 6,883,676	\$ 6,832,414	\$ (51,262)
Intergovernmental	74,754	85,050	63,867	(21,183)
Charges for services	3,928,350	3,931,899	3,968,921	37,022
Interest earnings	12,800	12,800	27,728	14,928
Net decrease in the fair value of investments	(4,000)	(4,000)	(17,000)	(13,000)
Miscellaneous revenues				
Contributions	16,000	33,132	79,755	46,623
Other	112,900	112,900	150,682	37,782
Total Revenues	<u>11,024,480</u>	<u>11,055,457</u>	<u>11,106,367</u>	<u>50,910</u>
<b>EXPENDITURES</b>				
Administration	551,303	551,303	565,723	(14,420)
Recreation Department	623,820	656,242	682,376	(26,134)
Golf	1,549,557	1,583,958	1,490,182	93,776
Tennis Center	48,216	48,216	47,547	669
Volleyball Center	349,205	366,131	359,130	7,001
Swimming Pools	125,625	125,625	137,515	(11,890)
Graham Arenas	754,846	754,846	787,315	(32,469)
Park	5,301,931	5,313,886	5,205,391	108,495
Plummer House	79,088	79,088	75,106	3,982
Recreation Center	1,398,833	1,398,833	1,188,682	210,151
Total Expenditures	<u>10,782,424</u>	<u>10,878,128</u>	<u>10,538,967</u>	<u>339,161</u>
Excess of revenues over expenditures	<u>242,056</u>	<u>177,329</u>	<u>567,400</u>	<u>390,071</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			32,554	32,554
Transfers out	(250,732)	(250,732)	(284,755)	(34,023)
Total Other Financing Sources (Uses)	<u>(250,732)</u>	<u>(250,732)</u>	<u>(252,201)</u>	<u>(1,469)</u>
Net change in fund balance	(8,676)	(73,403)	315,199	388,602
Fund Balance - beginning	<u>3,291,965</u>	<u>3,291,965</u>	<u>3,291,965</u>	
Fund Balance - ending	<u>\$ 3,283,289</u>	<u>\$ 3,218,562</u>	<u>\$ 3,607,164</u>	<u>\$ 388,602</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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 4,580	\$ 4,580	\$ 4,580	\$
Nonproperty taxes	1,767,872	1,767,872	1,767,872	
Charges for services	3,271,650	3,271,650	3,485,757	214,107
Interest earnings	150	150	3,466	3,316
Net decrease in the fair value of investments			(400)	(400)
Other	22,950	22,950	27,700	4,750
Total Revenues	<u>5,067,202</u>	<u>5,067,202</u>	<u>5,288,975</u>	<u>221,773</u>
<b>EXPENDITURES</b>				
Mayo Civic Center	<u>5,010,632</u>	<u>5,015,178</u>	<u>5,128,089</u>	<u>(112,911)</u>
Excess of revenues over expenditures	<u>56,570</u>	<u>52,024</u>	<u>160,886</u>	<u>108,862</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(56,570)</u>	<u>(56,570)</u>	<u>(56,570)</u>	
Total Other Financing Uses	<u>(56,570)</u>	<u>(56,570)</u>	<u>(56,570)</u>	
Net change in fund balance		(4,546)	104,316	108,862
Fund Balance - beginning	<u>705,177</u>	<u>705,177</u>	<u>705,177</u>	
Fund Balance - ending	<u>\$ 705,177</u>	<u>\$ 700,631</u>	<u>\$ 809,493</u>	<u>\$ 108,862</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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 537,932	\$ 537,932	\$ 534,873	\$ (3,059)
Intergovernmental	249,935	249,935	250,644	709
Charges for services	1,851,460	1,851,460	2,583,428	731,968
Interest earnings	5,500	5,500	21,624	16,124
Net decrease in the fair value of investments	(700)	(700)	(15,500)	(14,800)
Rental revenues	1,643,604	1,643,604	1,760,098	116,494
Miscellaneous revenues			2,036	2,036
Total Revenues	<u>4,287,731</u>	<u>4,287,731</u>	<u>5,137,203</u>	<u>849,472</u>
<b>EXPENDITURES</b>				
Airport operations	3,437,066	3,437,066	3,637,860	(200,794)
US customs operations	217,000	217,000	200,468	16,532
Total Expenditures	<u>3,654,066</u>	<u>3,654,066</u>	<u>3,838,328</u>	<u>(184,262)</u>
Excess of revenues over expenditures	<u>633,665</u>	<u>633,665</u>	<u>1,298,875</u>	<u>665,210</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(89,395)</u>	<u>(89,395)</u>	<u>(162,003)</u>	<u>(72,608)</u>
Net change in fund balance	544,270	544,270	1,136,872	592,602
Fund Balance - beginning	<u>1,961,149</u>	<u>1,961,149</u>	<u>1,961,149</u>	
Fund Balance - ending	<u>\$ 2,505,419</u>	<u>\$ 2,505,419</u>	<u>\$ 3,098,021</u>	<u>\$ 592,602</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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest earnings	\$ 6,044	\$ 6,044	\$ 9,313	\$ 3,269
Net decrease in the fair value of investments	(1,500)	(1,500)	(2,500)	(1,000)
Total Revenues	<u>4,544</u>	<u>4,544</u>	<u>6,813</u>	<u>2,269</u>
Net change in fund balance	<u>4,544</u>	<u>4,544</u>	<u>6,813</u>	<u>2,269</u>
Fund Balance - beginning	<u>667,065</u>	<u>667,065</u>	<u>667,065</u>	
Fund Balance - ending	<u><u>\$ 671,609</u></u>	<u><u>\$ 671,609</u></u>	<u><u>\$ 673,878</u></u>	<u><u>\$ 2,269</u></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, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues	\$ 6,610,374	\$ 6,610,374	\$ 6,663,769	\$ 53,395
Charges for services	2,577,617	2,577,617	2,675,613	97,996
Interest earnings	7,000	7,000	39,474	32,474
Net decrease in the fair value of investments	(1,000)	(1,000)	(21,900)	(20,900)
Miscellaneous revenues	100,000	100,502	116,417	15,915
<b>Total Revenues</b>	<u>9,293,991</u>	<u>9,294,493</u>	<u>9,473,373</u>	<u>178,880</u>
<b>EXPENDITURES</b>				
Fixed route	8,418,298	8,423,193	7,585,330	837,863
Demand response - ZIPS	875,693	875,693	1,018,627	(142,934)
<b>Total Expenditures</b>	<u>9,293,991</u>	<u>9,298,886</u>	<u>8,603,957</u>	<u>694,929</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(4,393)</u>	<u>869,416</u>	<u>873,809</u>
<b>OTHER FINANCING USES</b>				
Transfers out	(761,400)	(761,400)	(794,789)	(33,389)
<b>Total Other Financing Uses</b>	<u>(761,400)</u>	<u>(761,400)</u>	<u>(794,789)</u>	<u>(33,389)</u>
Net change in fund balance	(761,400)	(765,793)	74,627	840,420
Fund Balance - beginning	<u>2,294,093</u>	<u>2,294,093</u>	<u>2,294,093</u>	
Fund Balance - ending	<u>\$ 1,532,693</u>	<u>\$ 1,528,300</u>	<u>\$ 2,368,720</u>	<u>\$ 840,420</u>

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**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL**  
**FUND STATEMENTS AND SCHEDULES (CONTINUED)**  
**INTERNAL SERVICE FUNDS**  
**DECEMBER 31, 2017**

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, 2017

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 112,720	\$ 160,676	\$	\$ 273,396
Investments	3,050,700	4,350,200	19,782,746	27,183,646
Accounts receivable	22,294		11,822	34,116
Accrued interest receivable	10,690	15,132	73,125	98,947
Taxes receivable delinquent	3,007	2,949		5,956
Advances to other funds			7,963,773	7,963,773
Due from other governmental units	1,614	1,707		3,321
<b>Total Current Assets</b>	<u>3,201,025</u>	<u>4,530,664</u>	<u>27,831,466</u>	<u>35,563,155</u>
Noncurrent Assets:				
Capital assets:				
Construction in process	899,805			899,805
Machinery and equipment	36,329,246	2,542,506		38,871,752
Less: Accumulated depreciation	(21,515,035)	(2,046,660)		(23,561,695)
<b>Total capital assets (net of     accumulated depreciation)</b>	<u>15,714,016</u>	<u>495,846</u>		<u>16,209,862</u>
<b>Total Assets</b>	<u>18,915,041</u>	<u>5,026,510</u>	<u>27,831,466</u>	<u>51,773,017</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	379	3,572	65,998	69,949
Accrued interest payable	4,724			4,724
Deposits payable			8,047	8,047
Unearned revenue			116,672	116,672
Due to other governmental units		1,794	11,767	13,561
Accrued claims			1,483,429	1,483,429
Bonds payable	140,000			140,000
<b>Total Current Liabilities</b>	<u>145,103</u>	<u>5,366</u>	<u>1,685,913</u>	<u>1,836,382</u>
Noncurrent Liabilities:				
Bonds payable	195,000			195,000
Accrued claims			1,585,765	1,585,765
Post employment benefit obligation			6,276,676	6,276,676
<b>Total Noncurrent Liabilities</b>	<u>195,000</u>		<u>7,862,441</u>	<u>8,057,441</u>
<b>Total Liabilities</b>	<u>340,103</u>	<u>5,366</u>	<u>9,548,354</u>	<u>9,893,823</u>
<b>NET POSITION</b>				
Net investment in capital assets	15,379,016	495,846		15,874,862
Unrestricted	3,195,922	4,525,298	18,283,112	26,004,332
<b>Total Net Position</b>	<u>\$ 18,574,938</u>	<u>\$ 5,021,144</u>	<u>\$ 18,283,112</u>	<u>\$ 41,879,194</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, 2017

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Revenues:				
Charges for Services:				
Equipment rental	\$ 3,186,634	\$ 1,114,158	\$	\$ 4,300,792
Copy center charges	27,352			27,352
Departmental workers' compensation charges			698,316	698,316
Departmental insurance charges	30,396		16,273,159	16,303,555
Departmental flex charges			12,125	12,125
Employee insurance charges			1,180,239	1,180,239
Employee flex benefit contributions			506,582	506,582
Total Operating Revenues	<u>3,244,382</u>	<u>1,114,158</u>	<u>18,670,421</u>	<u>23,028,961</u>
Operating Expenses:				
Copy center	16,409			16,409
Minor equipment		341,150		341,150
Workers' compensation benefits			503,201	503,201
Workers' compensation insurance premiums			71,687	71,687
Health insurance claims			19,768,002	19,768,002
Flex benefits			529,970	529,970
Property and liability insurance			666,016	666,016
Property and liability claims			763,900	763,900
Other	13,887	657,459		671,346
Depreciation	3,192,343	240,314		3,432,657
Total Operating Expenses	<u>3,222,639</u>	<u>1,238,923</u>	<u>22,302,776</u>	<u>26,764,338</u>
Operating Income (Loss)	<u>21,743</u>	<u>(124,765)</u>	<u>(3,632,355)</u>	<u>(3,735,377)</u>
Nonoperating Revenues (Expenses):				
General property taxes	157,117	287,268		444,385
Interest earnings	35,904	50,413	435,539	521,856
Net decrease in the fair value of investments	(6,000)	(13,000)	(44,200)	(63,200)
Interest and fiscal charges	(11,666)			(11,666)
Gain on disposal of property	116,596			116,596
Intergovernmental revenues	46,695			46,695
Total Nonoperating Revenues	<u>338,646</u>	<u>324,681</u>	<u>391,339</u>	<u>1,054,666</u>
Income (Loss) Before Transfers	360,389	199,916	(3,241,016)	(2,680,711)
Transfers in	314,023	69,428	200,000	583,451
Transfers out		(75,775)		(75,775)
Change in Net Position	674,412	193,569	(3,041,016)	(2,173,035)
Total Net Position - beginning	<u>17,900,526</u>	<u>4,827,575</u>	<u>21,324,128</u>	<u>44,052,229</u>
Total Net Position - ending	<u>\$ 18,574,938</u>	<u>\$ 5,021,144</u>	<u>\$ 18,283,112</u>	<u>\$ 41,879,194</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2017

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
<b>Cash Flows From Operating Activities:</b>				
Cash received from other departments	\$ 3,244,814	\$ 1,114,597	\$ 12,295,074	\$ 16,654,485
Cash received from employees			1,674,999	1,674,999
Cash paid to suppliers	<u>(30,296)</u>	<u>(1,807,456)</u>	<u>(21,779,395)</u>	<u>(23,617,147)</u>
Net Cash Provided by (Used in) Operating Activities	<u>3,214,518</u>	<u>(692,859)</u>	<u>(7,809,322)</u>	<u>(5,287,663)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>				
General property taxes	156,498	286,427		442,925
Intergovernmental revenues	46,695			46,695
Transfers in	314,023	69,428	200,000	583,451
Transfers out		<u>(75,775)</u>		<u>(75,775)</u>
Net Cash Provided by Noncapital Financing Activities	<u>517,216</u>	<u>280,080</u>	<u>200,000</u>	<u>997,296</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Principal and interest payments on bonds	(148,307)			(148,307)
Proceeds from sale of property	337,940			337,940
Acquisition of capital assets	<u>(4,780,263)</u>	<u>(118,857)</u>		<u>(4,899,120)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(4,590,630)</u>	<u>(118,857)</u>		<u>(4,709,487)</u>
<b>Cash Flows From Investing Activities:</b>				
Investment income	36,958	50,069	442,178	529,205
Net decrease in investments	<u>903,700</u>	<u>603,400</u>	<u>6,957,754</u>	<u>8,464,854</u>
Net Cash Provided by Investing Activities	<u>940,658</u>	<u>653,469</u>	<u>7,399,932</u>	<u>8,994,059</u>
Net Increase (Decrease) in Cash and Cash Equivalents	81,762	121,833	(209,390)	(5,795)
Cash and Cash Equivalents, Beginning of Year	<u>30,958</u>	<u>38,843</u>	<u>209,390</u>	<u>279,191</u>
Cash and Cash Equivalents, End of Year	<u>\$ 112,720</u>	<u>\$ 160,676</u>	<u>\$</u>	<u>\$ 273,396</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2017

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)	\$ 21,743	\$ (124,765)	\$ (3,632,355)	\$ (3,735,377)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:				
Depreciation	3,192,343	240,314		3,432,657
(Increase) Decrease In:				
Accounts receivable			(11,822)	(11,822)
Due from other governmental units	432	439		871
Advances due from other funds			(4,688,526)	(4,688,526)
Increase (Decrease) In:				
Accounts payable		(809,658)	(32,149)	(841,807)
Deposits payable			(3,098)	(3,098)
Unearned revenue			19,917	19,917
Accrued compensation and payroll taxes			(486)	(486)
Due to other governmental units		811	(2,676)	(1,865)
Post employment benefit obligation			907,391	907,391
Accrued claims			(365,518)	(365,518)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 3,214,518</u>	<u>\$ (692,859)</u>	<u>\$ (7,809,322)</u>	<u>\$ (5,287,663)</u>
Non Cash Transactions:				
Decrease in fair value of investments	\$ (6,000)	\$ (13,000)	\$ (44,200)	\$ (63,200)
Equipment purchases in accounts payable at year end	379			379

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