

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2019

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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, 2019, 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 79 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities. We did not audit the financial statements of the Destination Medical Center Corporation (DMCC) (a blended component unit), which represent 1 percent, 0 percent, and 0 percent, respectively, of the total assets, fund balance, and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds and the DMCC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota, as of December 31, 2019, 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
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020, 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 22, 2020

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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, 2019, with comparative data for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Rochester exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,410,518,014 (*net position*). Of this amount, \$274,346,635 (*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 \$79,711,620.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$192,772,083, an increase of \$13,316,981 in comparison with the prior year. Approximately 18 percent of this total amount, or \$35,515,035, 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 \$40,042,758 or approximately 45 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester decreased total outstanding long-term debt obligations by \$23,953,000 during the current fiscal year.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Additional explanation of these sections of the financial statements follows.

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

The City of Rochester maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, both of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided with the *combining statements* on pages 96-106 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 100-106) 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 36-90 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 96-111 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,410,518,014 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (76 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 267,768,519	\$ 246,802,961	\$ 235,854,935	\$ 221,345,613	\$ 503,623,454	\$ 468,148,574
Capital assets	784,113,841	769,288,717	672,213,159	663,711,711	1,456,327,000	1,433,000,428
Total assets	1,051,882,360	1,016,091,678	908,068,094	885,057,324	1,959,950,454	1,901,149,002
Deferred outflows of resources	26,938,671	47,571,860	2,650,728	6,792,555	29,589,399	54,364,415
Total assets and deferred outflows of resources	1,078,821,031	1,063,663,538	910,718,822	891,849,879	1,989,539,853	1,955,513,417
Long-term liabilities						
outstanding	141,093,307	151,449,097	267,747,063	284,691,858	408,840,370	436,140,955
Other liabilities	81,222,085	74,039,142	42,335,234	42,405,597	123,557,319	116,444,739
Total liabilities	222,315,392	225,488,239	310,082,297	327,097,455	532,397,689	552,585,694
Deferred inflows of resources	40,711,216	62,209,488	5,912,934	9,911,841	46,624,150	72,121,329
Total liabilities and deferred inflows of resources	263,026,608	287,697,727	315,995,231	337,009,296	579,021,839	624,707,023
Net position:						
Net investment in capital assets	654,541,381	630,541,436	421,097,162	395,350,081	1,075,638,543	1,025,891,517
Restricted	60,030,830	56,933,634	502,006	477,204	60,532,836	57,410,838
Unrestricted	101,222,212	88,490,741	173,124,423	159,013,298	274,346,635	247,504,039
Total net position	\$ 815,794,423	\$ 775,965,811	\$ 594,723,591	\$ 554,840,583	\$ 1,410,518,014	\$ 1,330,806,394

An additional portion of the City of Rochester's net position (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$274,346,635) 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 \$39,828,612. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions, transit grants, and state grants for Destination Medical Center capital projects). Additional net position growth resulted from increased operating grants and contributions, program revenues over budget, and unused contingency.

Business-type activities. Business-type activities increased the City of Rochester's net position by \$39,883,008. 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:

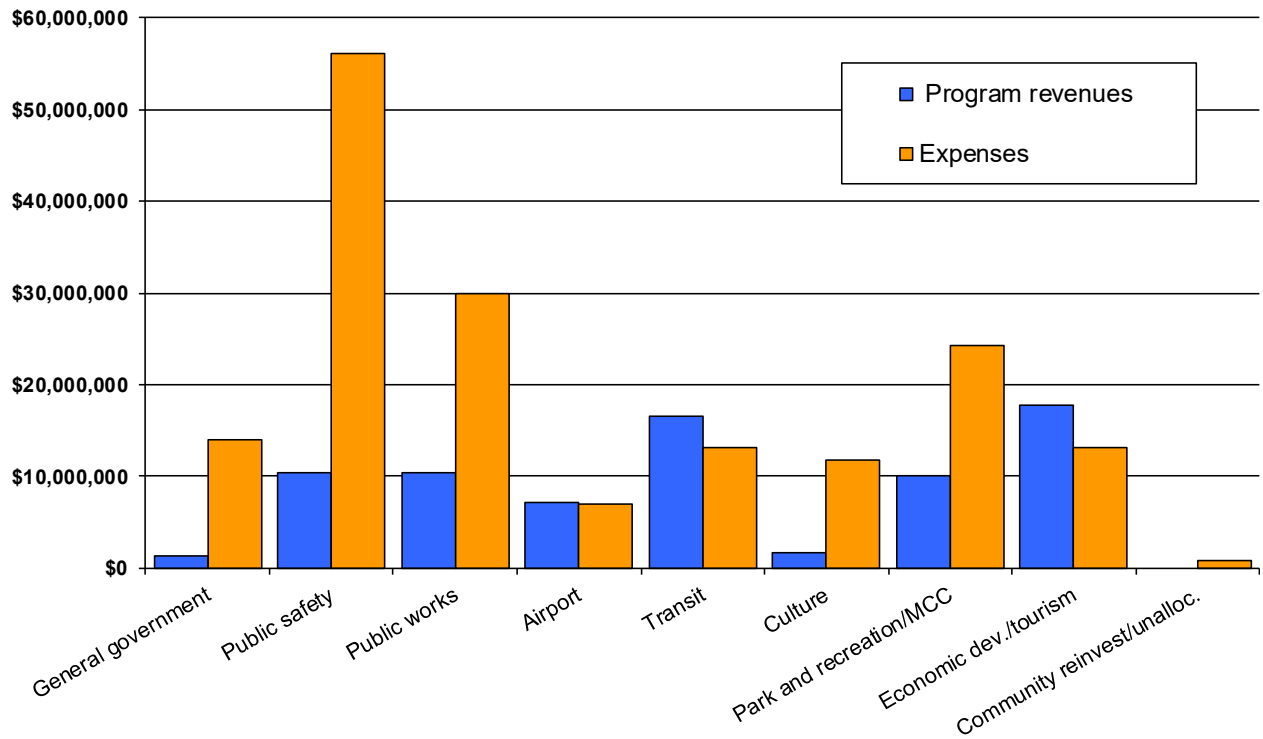
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenue:						
Program revenues:						
Charges for services	\$ 29,449,918	\$ 29,720,776	\$ 222,147,260	\$ 225,164,131	\$ 251,597,178	\$ 254,884,907
Operating grants and contributions	15,629,736	14,941,118			15,629,736	14,941,118
Capital grants and contributions	30,531,514	48,387,645	3,761,983	4,403,270	34,293,497	52,790,915
General revenues:						
Property taxes	74,393,424	68,593,874			74,393,424	68,593,874
Other taxes	34,596,873	33,502,258			34,596,873	33,502,258
Grants and contributions not restricted to specific programs						
Local government aid	7,525,463	7,497,955			7,525,463	7,497,955
Other	3,139,232	3,094,471		9,796	3,139,232	3,104,267
Miscellaneous	9,001,019	4,633,188	5,658,961	3,072,884	14,659,980	7,706,072
Total revenues	<u>204,267,179</u>	<u>210,371,285</u>	<u>231,568,204</u>	<u>232,650,081</u>	<u>435,835,383</u>	<u>443,021,366</u>
Expenses:						
General government	14,054,824	12,026,232			14,054,824	12,026,232
Public safety	56,158,527	53,173,580			56,158,527	53,173,580
Public works	29,986,312	30,766,446			29,986,312	30,766,446
Airport	7,027,098	6,688,809			7,027,098	6,688,809
Transit	13,109,713	11,340,008			13,109,713	11,340,008
Culture	11,819,593	11,241,614			11,819,593	11,241,614
Park and recreation/Mayo Civic Center	24,217,797	23,832,446			24,217,797	23,832,446
Economic development/tourism	13,199,647	15,050,315			13,199,647	15,050,315
Community reinvestment/unallocated	857,267	811,093			857,267	811,093
Interest on long-term debt	4,323,447	5,135,625			4,323,447	5,135,625
Parking			5,247,595	4,649,288	5,247,595	4,649,288
Electric			143,564,632	149,047,715	143,564,632	149,047,715
Water			10,342,165	9,997,928	10,342,165	9,997,928
Sewer			17,671,928	18,222,587	17,671,928	18,222,587
Storm water			4,543,218	5,013,106	4,543,218	5,013,106
Total expenses	<u>174,754,225</u>	<u>170,066,168</u>	<u>181,369,538</u>	<u>186,930,624</u>	<u>356,123,763</u>	<u>356,996,792</u>
Increase in net position before transfers	29,512,954	40,305,117	50,198,666	45,719,457	79,711,620	86,024,574
Transfers	10,315,658	12,891,095	(10,315,658)	(12,891,095)		
Increase in net position	39,828,612	53,196,212	39,883,008	32,828,362	79,711,620	86,024,574
Net position - beginning of year	775,965,811	722,769,599	554,840,583	522,012,221	1,330,806,394	1,244,781,820
Net position, end of year	<u>\$ 815,794,423</u>	<u>\$ 775,965,811</u>	<u>\$ 594,723,591</u>	<u>\$ 554,840,583</u>	<u>\$ 1,410,518,014</u>	<u>\$ 1,330,806,394</u>

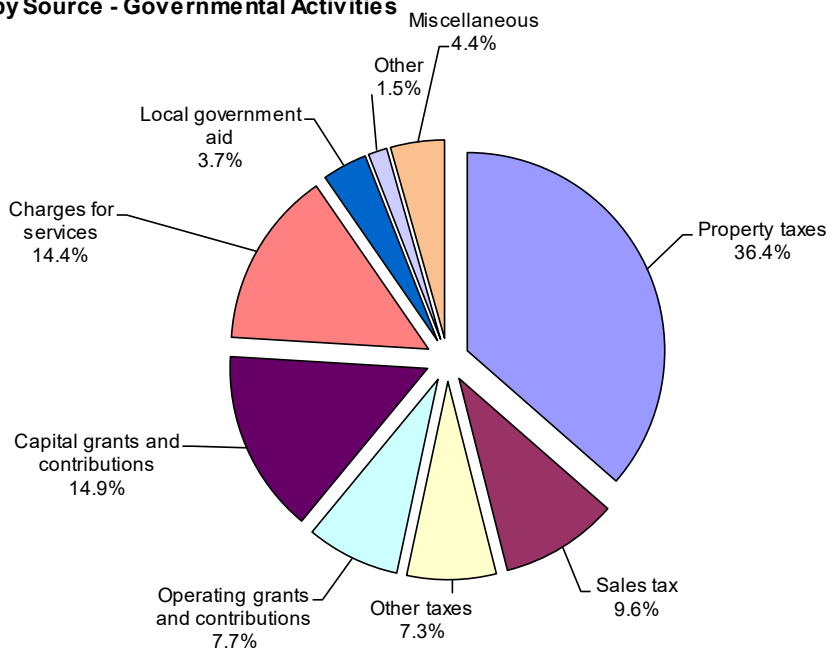
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



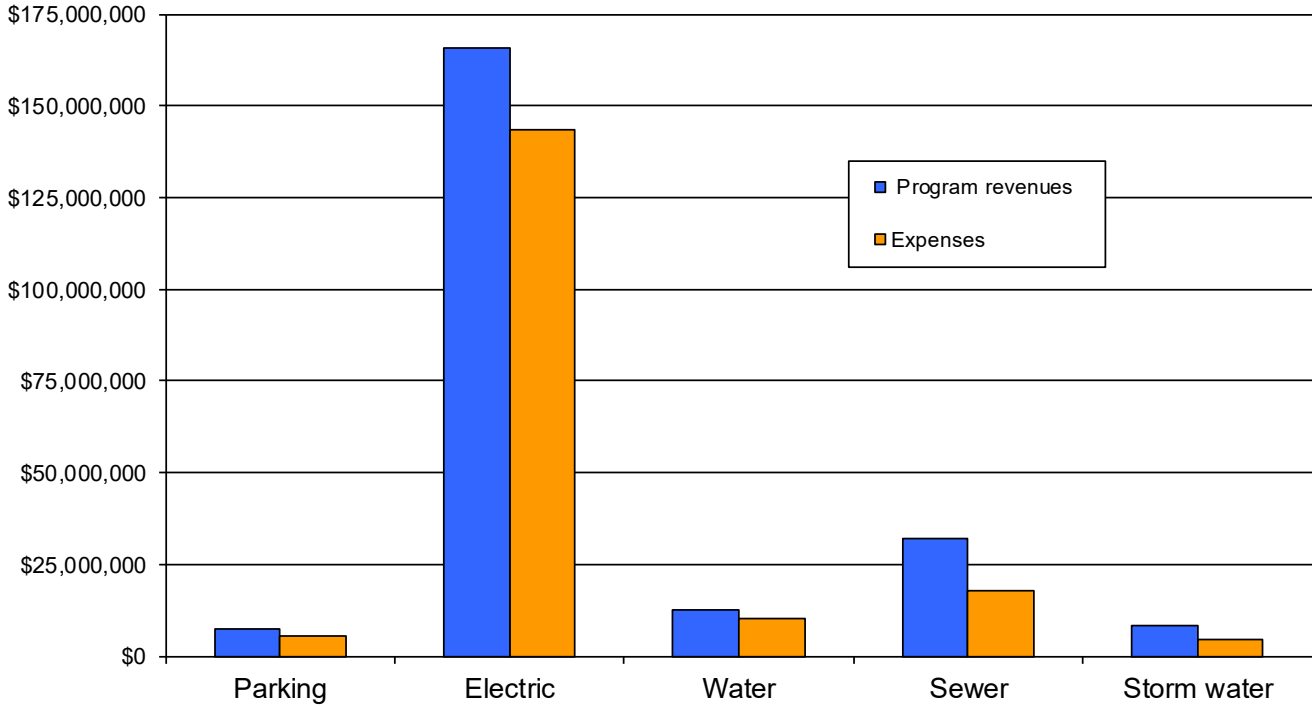
Revenues by Source - Governmental Activities



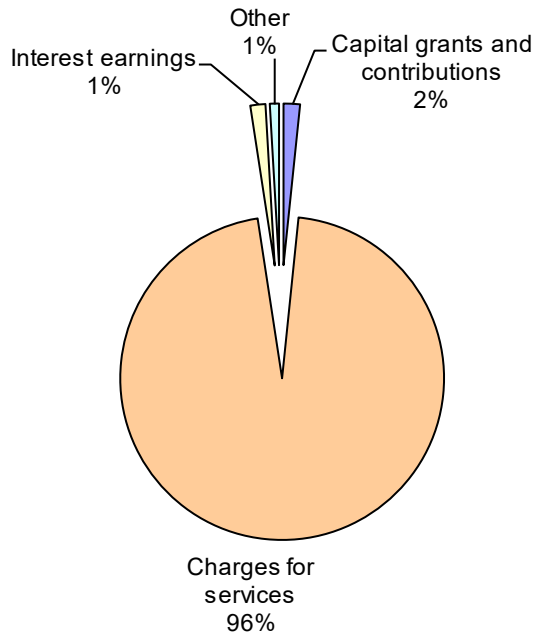
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$192,772,083, an increase of \$13,316,981 from the prior year. The general fund increased fund balance by \$2.5 million due to new community development revenue, operational savings of various departments, and remaining contingency balance. The capital improvement fund increased fund balance by \$7.7 million, largely due to sales tax collections and state money for Destination Medical Center. Additionally, all other governmental funds reflected a net increase of \$3.1 million in fund balance, largely showing up in the Airport and Transit funds.

Approximately 18 percent of the total fund balance, or \$35,515,035, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,255,872 is considered to be nonspendable (prepaid or inventory), \$75,739,975 has been restricted by grantors, donors, debt covenants, or regulation, \$65,053,348 has been committed by council action for CIP projects, and \$15,207,853 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 \$2,524,166 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$37,808,279 while total fund balance amounted to \$41,087,941. 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 42 percent of total general fund expenditures, while total fund balance represents 46 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 42 percent.

The library fund decreased its fund balance by \$64,927 for the year. Much of this decrease was the result of lower than expected fine revenue. Operational expenditures were held \$516,683 below the approved budget. Of that amount, \$543,218 related to rollover of gift appropriations which are not reflected in the budget.

The municipal recreation fund decreased its fund balance by \$436,668 as a net gain in the National Volleyball Center was not enough to offset losses in the Park Operations, Golf, Graham Arena, and Rec Center programs. The decrease in fund balance can be attributed to \$575,425 being transferred out for capital improvement needs.

The Mayo Civic Center fund decreased its fund balance by \$26,069, which can be attributed to \$240,597 being transferred out for capital improvement needs.

The airport fund increased its total fund balance by \$1,489,806 for the year to \$6,019,604, which can be attributed to revenues exceeding budget and expenditures being under budget. Additionally, Council provided \$509,148 in budgeted tax levy for the airport in 2019 and there were no capital improvement transfers all in an effort to restore fund balance in this area.

The transit fund saw an increase in fund balance of \$1,630,061 due to an increase in grant revenue, user fee revenue, and lower than expected supply costs.

Minnesota Bio Science Center fund decreased fund balance by \$114,806, which can be attributed to \$1,505,229 being transferred out for debt service and repayment of internal borrowing. The facility continues to maintain a consistently high occupancy level.

Debt service fund balances increased by \$626,164.

The capital improvement fund increased fund balance by \$7,686,108 due in large part to the sales tax collections and state money for Destination Medical Center projects.

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

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

The unrestricted net position in the respective proprietary funds are Parking - \$15,849,865 Electric - \$83,459,702, Water - \$8,100,334, Sewer - \$44,874,106, and Storm Water - \$19,388,915. All proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$14.3 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 \$3,400 in 2019. The schedule of rate increases was necessary as sewer flows continued to fall below plan and funding is needed for significant capital needs.

The Water Utility's net position increased \$2.0 million in 2019. This utility's rates were increased by 6.0% in January of 2019 and 3.5% in January of 2020. A water utility cost of service study was completed in 2019, with the Utility Board and City Council accepting a five-year schedule of rate adjustments.

The Electric Utility net position growth of \$15.7 million occurred after rates were increased 1.9% in January of 2019 based on a cost of service study accepted by the Utility Board and City Council in November of 2017. The rates held steady in 2020.

The Parking Enterprise growth in net position of \$962,276 was due to increased parking revenues. During 2018, the City Council approved a rate study setting rates for 2019 through 2023. The plan calls for rate increases every other year with the goal of continual support of operations and capital needs.

The Storm Water Utility's net position increased \$6.4 million in 2019. Storm Water rates increased 10.75% in January 2019 based on a storm water rate study completed in 2015. This rate study approved by the City Council created a five-year rate adjustment plan. Prior to 2016, this utility's last increase was in 2011, an increase of 3% following the rate structure approved by Council for years 2008 through 2011.

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

The equipment revolving fund's net position increased \$978,284 in 2019 primarily due to an increase in equipment rental revenues.

The information technology revolving fund's net position increased \$407,251 in 2019 primarily due to an increase in equipment rental revenues.

The self-insurance fund's net position increased \$2,472,314 in 2019 primarily due to an increase in both departmental and employee insurance charges.

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

General Fund Budgetary Highlights

The City approved the 2019 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 budget due to appropriation of revenue and community development to address expenditures for professional services.
- Reductions in unallocated contingency account to offset increases in mayor and council, city clerk, public works, and other initiatives.
- Economic development budget was increased to reflect the higher than expected lodging tax.

At the close of the year, general fund total expenditures were \$5,091,265 below final budget while actual revenues were above final budget by \$825,204. These variances to budget can be traced to higher than expected lodging tax, police and fire state aid, permit revenues, and savings in police and fire budgets due to a delay in hiring of approved positions and lower than expected overtime usage.

Capital Asset and Debt Administration

Capital assets. The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2019, amounts to \$1,456,327,000 (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 \$23,326,572, or 1.6 percent. This increase is a result of significant construction activities in building expansions and infrastructure including streets, underground mains, and continued improvements to the electric distribution and transmission systems.

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

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 75,575,149	\$ 75,482,308	\$ 22,485,642	\$ 22,161,442	\$ 98,060,791	\$ 97,643,750
Buildings	264,016,491	262,625,849	277,474,159	269,597,413	541,490,650	532,223,262
Improvements other than buildings	26,349,226	24,101,261			26,349,226	24,101,261
Machinery and equipment	37,749,498	37,494,183	316,835,135	311,792,106	354,584,633	349,286,289
Infrastructure	348,516,247	340,816,172			348,516,247	340,816,172
Construction in progress	31,907,230	28,768,944	55,418,223	60,160,750	87,325,453	88,929,694
Total	\$ 784,113,841	\$ 769,288,717	\$ 672,213,159	\$ 663,711,711	\$ 1,456,327,000	\$ 1,433,000,428

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

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

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$362,531,000 in bonds and notes outstanding. Of this amount, \$181,915,000 comprises debt backed by the full faith and credit of the government, and \$180,616,000 represents bonds and notes secured solely by specified revenue sources. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds, and Notes Payable

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 2,040,000	\$ 6,330,000	\$	\$	\$ 2,040,000	\$ 6,330,000
General obligation tax increment revenue bonds	20,715,000	21,265,000			20,715,000	21,265,000
General obligation lodging tax revenue bonds	38,090,000	39,345,000			38,090,000	39,345,000
General obligation equipment certificates of indebtedness	2,225,000	2,320,000			2,225,000	2,320,000
General obligation taxable Build America bonds	20,300,000	21,255,000			20,300,000	21,255,000
General obligation sales tax revenue bonds	32,870,000	35,360,000			32,870,000	35,360,000
General obligation revenue crossover refunding bonds			65,675,000	73,800,000	65,675,000	73,800,000
Revenue bonds	9,436,000	9,904,000	171,180,000	176,905,000	180,616,000	186,809,000
Total	<u>\$ 125,676,000</u>	<u>\$ 135,779,000</u>	<u>\$ 236,855,000</u>	<u>\$ 250,705,000</u>	<u>\$ 362,531,000</u>	<u>\$ 386,484,000</u>

The City of Rochester's total bonds and notes payable decreased by \$23,953,000 during the current fiscal year.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt and a partial call on the GO Taxable Tax Increment Bonds, Series 2009A. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 63.

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

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

Economic Factors and Next Year's Budgets and Rates

- The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing or limitations of businesses, as well as shelter in place orders for citizens. While the disruption is temporary and gradual reopening is starting to occur, the City completed a total of \$26.6 million in combined reductions in the 2020 budget for all funds in anticipation of fiscal impacts of the pandemic. There is expected to be some lingering impact into 2021 resulting in austere budget planning for the coming year.
- Rochester's unemployment rate decreased by 0.2 percent to 3.4 percent by the end of March 2020. This remains below the state and U.S. averages of 3.9 percent and 4.5 percent, respectively. A loss of 741 jobs brought the total employment figure through March 2020 to 121,324 from the March 2019 level of 122,065.
- Building activity fell in 2019. Commercial and residential building permits issued for 2019 totaled \$483,468,201. Permit totals were down 17.7 percent from a year ago and down 7.9 percent from 2017. Permit values for the first quarter of 2020 totaled \$101,680,065. This represents an increase of 23.7 percent over first quarter 2019 and a decrease of 9.9 percent over the first quarter of 2018.
- The DMCC plan adopted by the City Council and the Destination Medical Center Board in 2015 is a strategic business plan to address land use, transportation, infrastructure, business development, marketing and operational strategies over the 20-year period. It outlines a \$6 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future.

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

- A number of projects under the voter-approved extension of Rochester's 1/2-cent sales tax were completed. Further road and transit facility projects are planned for 2020.
- Design work is nearing completion for the important reconstruction work on the City's main runway 2/20 at the Rochester International Airport. This project is estimated to cost \$79.2 million and will require a mix of state, City, and federal funds to complete.
- The City's tax levy was increased by approximately \$4.8 million or 6.5 percent for pay 2020 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.

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

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

- Interest rates have remained at historical lows since 2010 and were just beginning to increase until the pandemic impacted the national economy. This continues to make earnings of the City's investment portfolio fall significantly below prior levels and affecting our reserve funds.
- Expansion and remodeling of the City's north precinct police facility started in 2019 and will be completed by 3rd quarter of 2020. The remodeled area is now the Development Infrastructure Services Center, with new space added onto the building for the police precinct. Total project cost is estimated to be just over \$23.5 million.

All of these factors were considered in preparing the City of Rochester's budget for the 2020 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources.

Requests for Information

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

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CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,342,266	\$ 16,900,387	\$ 26,242,653
Investments	219,012,495	162,574,452	381,586,947
Land held for resale	625,000		625,000
Receivables (net of allowance for uncollectibles)	25,091,573	14,558,040	39,649,613
Internal balances	(3,006,367)	3,006,367	
Due from other governmental units	15,405,722	14,256	15,419,978
Accrued utility revenues		4,702,570	4,702,570
Restricted cash and investments	41,958	14,244,975	14,286,933
Restricted funds held in trust		756	756
Inventory	1,048,704	6,248,690	7,297,394
Prepaid items	207,168		207,168
Other assets		13,604,442	13,604,442
Capital assets:			
Nondepreciable	107,482,379	77,903,865	185,386,244
Depreciable, net	676,631,462	594,309,294	1,270,940,756
Total Assets	<u>1,051,882,360</u>	<u>908,068,094</u>	<u>1,959,950,454</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from OPEB activity	512,148		512,148
Deferred outflows from pension activity	26,426,523	1,682,887	28,109,410
Unamortized deferred amount on refunding		967,841	967,841
Total Deferred Outflows of Resources	<u>26,938,671</u>	<u>2,650,728</u>	<u>29,589,399</u>
LIABILITIES			
Accounts and contracts payable	9,358,858	12,610,738	21,969,596
Deposits payable	1,314,376	1,849,636	3,164,012
Accrued interest payable	1,590,979	1,551,621	3,142,600
Accrued compensation and payroll taxes	2,703,343	819,208	3,522,551
Accrued claims	2,468,543	6,000	2,474,543
Due to other governmental units	4,400,060	51,934	4,451,994
Unearned revenue	286,123	8,622,433	8,908,556
Noncurrent liabilities:			
Due within one year	13,322,000	16,948,742	30,270,742
Due in more than one year	127,771,307	250,798,321	378,569,628
Other post-employment benefit liability	11,074,983		11,074,983
Net pension liability	48,024,820	16,823,664	64,848,484
Total Liabilities	<u>222,315,392</u>	<u>310,082,297</u>	<u>532,397,689</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from OPEB activity	297,279		297,279
Deferred inflows from pension activity	40,413,937	3,462,460	43,876,397
Unamortized deferred amount on refunding		1,579,727	1,579,727
Solar choice deferred inflows of resources		462,584	462,584
Advance payments on leases		408,163	408,163
Total Deferred Inflows of Resources	<u>40,711,216</u>	<u>5,912,934</u>	<u>46,624,150</u>
NET POSITION			
Net investment in capital assets	654,541,381	421,097,162	1,075,638,543
Restricted for:			
Airport	6,019,604		6,019,604
CDBG loans	4,023,228		4,023,228
Economic development loan	329,856		329,856
Civic music endowment	41,958		41,958
Park and recreation	110,065		110,065
Debt service	1,850,580	501,250	2,351,830
Children's playgrounds	688,377		688,377
Flood control	15,024,274		15,024,274
Tax increment financing	1,634,042		1,634,042
Sales tax authorized projects	30,308,846		30,308,846
Funds held in trust		756	756
Unrestricted	<u>101,222,212</u>	<u>173,124,423</u>	<u>274,346,635</u>
Total Net Position	<u>\$ 815,794,423</u>	<u>\$ 594,723,591</u>	<u>\$ 1,410,518,014</u>

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

<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	\$ 14,054,824	\$ 881,245	\$ 71,367	\$ 469,228
Public safety	56,158,527	7,400,811	3,079,688	
Public works	29,986,312	691,939	1,574,297	8,159,211
Airport	7,027,098	5,136,179	283,320	1,769,256
Transit	13,109,713	3,569,149	8,810,599	4,222,400
Culture	11,819,593	218,365	1,460,471	
Park and recreation/Mayo Civic Center	24,217,797	8,019,812	263,018	1,743,821
Economic development/tourism	13,199,647	3,532,418	86,976	14,167,598
Community reinvestment/unallocated	857,267			
Interest on long-term debt	4,323,447			
Total governmental activities	<u>174,754,225</u>	<u>29,449,918</u>	<u>15,629,736</u>	<u>30,531,514</u>
Business-Type activities:				
Parking	5,247,595	7,587,085		577
Electric utility	143,564,632	164,893,341		736,296
Water utility	10,342,165	11,657,335		889,532
Sewer utility	17,671,928	29,919,090		1,907,878
Storm water utility	4,543,218	8,090,409		227,700
Total business-type activities	<u>181,369,538</u>	<u>222,147,260</u>		<u>3,761,983</u>
Total	<u>\$ 356,123,763</u>	<u>\$ 251,597,178</u>	<u>\$ 15,629,736</u>	<u>\$ 34,293,497</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
- Gain on disposition of property
- Net increase in the fair value of investments
- Miscellaneous
- Transfers
 - Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (12,632,984)	\$	\$ (12,632,984)
(45,678,028)		(45,678,028)
(19,560,865)		(19,560,865)
161,657		161,657
3,492,435		3,492,435
(10,140,757)		(10,140,757)
(14,191,146)		(14,191,146)
4,587,345		4,587,345
(857,267)		(857,267)
(4,323,447)		(4,323,447)
<u>(99,143,057)</u>		<u>(99,143,057)</u>
	2,340,067	2,340,067
	22,065,005	22,065,005
	2,204,702	2,204,702
	14,155,040	14,155,040
	3,774,891	3,774,891
	<u>44,539,705</u>	<u>44,539,705</u>
<u>(99,143,057)</u>	<u>44,539,705</u>	<u>(54,603,352)</u>
74,393,424		74,393,424
3,025,092		3,025,092
19,671,264		19,671,264
11,900,517		11,900,517
7,525,463		7,525,463
3,139,232		3,139,232
5,054,454	3,485,903	8,540,357
102,528	42,357	144,885
2,507,130	1,881,601	4,388,731
1,336,907	249,100	1,586,007
10,315,658	(10,315,658)	
<u>138,971,669</u>	<u>(4,656,697)</u>	<u>134,314,972</u>
39,828,612	39,883,008	79,711,620
<u>775,965,811</u>	<u>554,840,583</u>	<u>1,330,806,394</u>
<u>\$ 815,794,423</u>	<u>\$ 594,723,591</u>	<u>\$ 1,410,518,014</u>

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2019

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 38,901	\$ 5,269,433	\$ 2,333,092	\$ 7,641,426
Investments	41,168,995	126,066,800	20,612,300	187,848,095
Land held for resale		625,000		625,000
Accrued interest receivable	617,890	713,004	116,684	1,447,578
Accounts receivable (net of allowance for uncollectibles)	1,271,510	328,558	3,004,648	4,604,716
Loans receivable		438,804	4,023,228	4,462,032
Taxes receivable delinquent	608,516	54,812	187,989	851,317
Special assessments receivable:				
Deferred		13,278,273		13,278,273
Delinquent	29,816	53,216	131,139	214,171
Due from other funds	995,549	719,280	319,102	2,033,931
Due from other governmental units	1,557,052	11,328,621	2,518,484	15,404,157
Prepaid items	12,114		195,054	207,168
Restricted cash and investments	41,958			41,958
Inventory	991,111		57,593	1,048,704
TOTAL ASSETS	\$ 47,333,412	\$ 158,875,801	\$ 33,499,313	\$ 239,708,526
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Accounts and contracts payable	\$ 2,146,906	\$ 5,064,911	\$ 1,771,853	\$ 8,983,670
Deposits payable	410,801	416,847	522,611	1,350,259
Accrued compensation and payroll taxes	2,038,206		665,137	2,703,343
Due to other funds	747,501	336,505	304,791	1,388,797
Advances from other funds		7,030,978	2,200,000	9,230,978
Unearned revenue		450	76,873	77,323
Due to other governmental units	263,725	8,201	4,124,354	4,396,280
Total Liabilities	5,607,139	12,857,892	9,665,619	28,130,650
Deferred Inflows of Resources:				
Unavailable revenue				
Property taxes	608,516	54,812	187,989	851,317
Special assessments	29,816	13,331,489	131,139	13,492,444
Loans receivable		438,804	4,023,228	4,462,032
Total Deferred Inflows of Resources	638,332	13,825,105	4,342,356	18,805,793
Fund Balance:				
Nonspendable	1,003,225		252,647	1,255,872
Restricted	41,958	67,139,456	8,558,561	75,739,975
Committed		65,053,348		65,053,348
Assigned	2,234,479		12,973,374	15,207,853
Unassigned	37,808,279		(2,293,244)	35,515,035
Total Fund Balance	41,087,941	132,192,804	19,491,338	192,772,083
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 47,333,412	\$ 158,875,801	\$ 33,499,313	\$ 239,708,526

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, 2019

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

Total governmental fund balances (page 22)		\$ 192,772,083
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 1,143,855,499	
Less: Accumulated depreciation	<u>(377,745,854)</u>	766,109,645
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 1,065,488	
Deferred special assessments and utility connection agreements	13,278,273	
Loans receivable	<u>4,462,032</u>	18,805,793
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and deferred outflows of resources and liabilities and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.		
		40,497,493
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	\$ 26,426,523	
Deferred inflows related to pensions	<u>(40,413,937)</u>	(13,987,414)
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	\$ (123,401,000)	
Net pension liability	(48,024,820)	
Compensated absences	(11,520,847)	
Accrued interest	(1,560,050)	
Unamortized bond premium	<u>(3,896,460)</u>	(188,403,177)
Net position of governmental activities (page 19)		<u>\$ 815,794,423</u>

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

For the Year Ended December 31, 2019

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES				
General property taxes	\$ 52,634,886	\$ 4,589,360	\$ 16,753,775	\$ 73,978,021
Tax increments collection		2,507,010	518,083	3,025,093
Sales tax		19,671,264		19,671,264
Special assessments		2,401,030		2,401,030
Utility connection and availability		207,855		207,855
Nonproperty taxes	5,005,927	4,497,320	2,397,270	11,900,517
Licenses and permits	4,423,079			4,423,079
Fines and forfeits	491,693			491,693
Intergovernmental revenues	11,639,626	27,684,250	11,014,876	50,338,752
Charges for services	4,105,863	762,921	14,684,155	19,552,939
Interest earnings	512,260	3,488,569	379,453	4,380,282
Net increase in the fair value of investments	462,930	1,455,400	232,500	2,150,830
Rental revenues	59,920	818,468	4,808,493	5,686,881
Miscellaneous revenues	505,510	2,648,403	1,040,754	4,194,667
Total Revenues	79,841,694	70,731,850	51,829,359	202,402,903
EXPENDITURES				
Current:				
General government	12,120,583			12,120,583
Public safety	53,806,915		3,798	53,810,713
Public works	17,117,665			17,117,665
Airport operations			4,577,255	4,577,255
Transit			11,064,621	11,064,621
Culture	1,986,022		8,730,624	10,716,646
Park and recreation/Mayo Civic Center			18,089,077	18,089,077
Economic development/tourism	3,073,798		4,695,281	7,769,079
Community reinvestment and unallocated	857,394			857,394
Debt service			14,616,226	14,616,226
Capital outlay		52,797,567		52,797,567
Total Expenditures	88,962,377	52,797,567	61,776,882	203,536,826
Excess (deficiency) of revenues over (under) expenditures	(9,120,683)	17,934,283	(9,947,523)	(1,133,923)
OTHER FINANCING SOURCES (USES)				
Transfers in	14,646,831	5,181,635	15,524,504	35,352,970
Transfers out	(3,001,982)	(15,429,810)	(2,470,274)	(20,902,066)
Total other financing sources (uses)	11,644,849	(10,248,175)	13,054,230	14,450,904
Net change in fund balances	2,524,166	7,686,108	3,106,707	13,316,981
Fund Balance - beginning	38,563,775	124,506,696	16,384,631	179,455,102
Fund Balance - ending	\$ 41,087,941	\$ 132,192,804	\$ 19,491,338	\$ 192,772,083

See Notes to the Financial Statements

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

For the Year Ended December 31, 2019

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

Net change in fund balances - total governmental funds (page 24)		\$ 13,316,981
<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	\$ 44,299,724	
Depreciation expense	<u>(26,376,028)</u>	
		17,923,696
<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>		
		(4,183,653)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.</p>		
		(5,834)
<p>Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues increased by this amount this year.</p>		
		(1,001,005)
<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, 2019	\$ (11,520,847)	
Compensated absences December 31, 2018	<u>11,527,845</u>	
		6,998
<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	\$ 9,958,000	
Change in pension activity	(2,214)	
Amortization of bond premium	245,792	
Change in accrued interest	<u>164,049</u>	
		10,365,627
<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>3,405,802</u>
Change in net position of governmental activities (pages 20 and 21)		<u>\$ 39,828,612</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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 53,008,708	\$ 53,008,708	\$ 52,634,886	\$ (373,822)
Nonproperty taxes	4,326,172	4,696,148	5,005,927	309,779
Licenses and permits	4,186,655	4,186,655	4,423,079	236,424
Fines and forfeits	409,308	513,541	491,693	(21,848)
Intergovernmental	11,159,137	11,691,296	11,639,626	(51,670)
Charges for services	3,877,605	4,192,374	4,105,863	(86,511)
Interest earnings	235,000	235,303	512,260	276,957
Net increase (decrease) in the fair value of investments	(50,000)	(50,000)	462,930	512,930
Rental revenues	61,966	61,966	59,920	(2,046)
Miscellaneous revenues	231,362	480,499	505,510	25,011
Total Revenues	<u>77,445,913</u>	<u>79,016,490</u>	<u>79,841,694</u>	<u>825,204</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	815,187	888,179	839,844	48,335
City Administrator	1,108,919	1,124,928	949,316	175,612
Development District Administration	211,741	211,741	199,775	11,966
City Clerk	842,308	890,394	807,580	82,814
Elections and Voter Registration	108,706	108,706	96,552	12,154
Finance Department	2,071,131	2,035,150	1,803,934	231,216
Information Systems	2,244,462	2,244,462	2,142,903	101,559
City Attorney	2,103,280	2,211,354	1,809,745	401,609
Human Resources	2,082,668	2,157,668	1,879,418	278,250
Community Development	1,309,422	1,519,422	1,051,639	467,783
City Hall Maintenance	604,999	616,754	539,877	76,877
Total General Government	<u>13,502,823</u>	<u>14,008,758</u>	<u>12,120,583</u>	<u>1,888,175</u>
Public Safety:				
Police Department	30,343,831	30,902,048	29,505,837	1,396,211
Fire Department	18,613,668	18,866,930	18,189,261	677,669
Fire Hazmat Response Team	315	64,868	91,109	(26,241)
Building Safety	3,996,887	4,502,177	4,484,668	17,509
Animal Control	447,864	458,820	406,074	52,746
Drug Enforcement Administration		419,792	100,643	319,149
Flood Control	649,711	649,711	683,975	(34,264)
Emergency Mgmt/Safety Council	327,386	343,286	345,348	(2,062)
Total Public Safety	<u>54,379,662</u>	<u>56,207,632</u>	<u>53,806,915</u>	<u>2,400,717</u>

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXPENDITURES (continued)				
Current:				
Public Works:				
Engineering	3,483,610	3,483,965	3,342,255	141,710
PWTOC Building/Site Operations	51,046	51,046	55,176	(4,130)
Traffic Engineer	1,668,551	1,674,091	1,633,160	40,931
Infrastructure Maintenance	9,383,514	10,571,768	10,654,569	(82,801)
City Lighting	1,347,528	1,347,528	1,432,505	(84,977)
Total Public Works	<u>15,934,249</u>	<u>17,128,398</u>	<u>17,117,665</u>	<u>10,733</u>
Culture:				
Art Center/Theatre/Senior Center	858,290	858,620	836,555	22,065
Music Department	1,117,193	1,323,712	1,149,467	174,245
Total Culture	<u>1,975,483</u>	<u>2,182,332</u>	<u>1,986,022</u>	<u>196,310</u>
Economic Development/Tourism	<u>2,703,570</u>	<u>3,126,832</u>	<u>3,073,798</u>	<u>53,034</u>
Community Reinvestment and Unallocated	<u>1,866,475</u>	<u>1,399,690</u>	<u>857,394</u>	<u>542,296</u>
Total Expenditures	<u>90,362,262</u>	<u>94,053,642</u>	<u>88,962,377</u>	<u>5,091,265</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,916,349)</u>	<u>(15,037,152)</u>	<u>(9,120,683)</u>	<u>5,916,469</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,597,953	13,341,560	14,646,831	1,305,271
Transfers out	<u>(1,819,750)</u>	<u>(1,819,750)</u>	<u>(3,001,982)</u>	<u>(1,182,232)</u>
Total other financing sources (uses)	<u>12,597,953</u>	<u>11,521,810</u>	<u>11,644,849</u>	<u>123,039</u>
Net change in fund balances	<u>(318,396)</u>	<u>(3,515,342)</u>	<u>2,524,166</u>	<u>6,039,508</u>
Fund Balance - beginning	<u>38,563,775</u>	<u>38,563,775</u>	<u>38,563,775</u>	
Fund Balance - ending	<u>\$38,245,379</u>	<u>\$35,048,433</u>	<u>\$41,087,941</u>	<u>\$ 6,039,508</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2019

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 295,304	\$ 14,452,906	\$ 1,715,107
Investments	13,566,552	74,274,809	8,814,091
Accrued interest receivable	69,424		
Accounts receivable	221,149	13,232,748	602,526
Accrued utility revenues		4,571,314	131,256
Taxes receivable delinquent			
Inventory, material, supplies and fuel		6,049,595	195,928
Due from other funds			
Advances to other funds	2,200,000		
Due from other governmental units			
Restricted and reserved cash		1,174,592	
Other assets		1,323,880	91,473
Total Current Assets	<u>16,352,429</u>	<u>115,079,844</u>	<u>11,550,381</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	45,535,045	17,710,669	2,808,300
Depreciable	37,910,731	488,972,656	150,144,226
Less: Accumulated depreciation	(26,431,418)	(233,038,771)	(54,041,515)
Net capital assets	<u>57,014,358</u>	<u>273,644,554</u>	<u>98,911,011</u>
Restricted and reserved cash	114,548		
Restricted investments		12,955,835	
Restricted funds held in trust		756	
Other assets		12,178,734	
Total Noncurrent Assets	<u>57,128,906</u>	<u>298,779,879</u>	<u>98,911,011</u>
Total Assets	<u>73,481,335</u>	<u>413,859,723</u>	<u>110,461,392</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		967,841	
Deferred outflows from OPEB activity			
Deferred outflows from pension activity	22,943	1,262,052	150,893
Total Deferred Outflows of Resources	<u>22,943</u>	<u>2,229,893</u>	<u>150,893</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	292,539	10,931,198	289,505
Deposits payable	289	1,711,204	128,158
Accrued interest payable		673,342	
Accrued compensation and payroll taxes	13,231	581,801	74,998
Accrued compensated absences	28,174	1,771,081	329,013
Due to other funds	475	2,881,704	705,549
Due to other governmental units	44,275		
Unearned revenue			
Accrued claims			
Current maturities of long term debt		6,015,000	
Total Current Liabilities	<u>378,983</u>	<u>24,565,330</u>	<u>1,527,223</u>
Noncurrent Liabilities:			
Bonds payable, net of unamortized premium		183,986,491	
Accrued compensated absences	18,488	1,366,041	177,380
Net pension liability	197,712	12,584,021	1,561,107
Unearned revenue		8,622,433	
Accrued claims		6,000	
Post employment benefit obligation			
Total Noncurrent Liabilities	<u>216,200</u>	<u>206,564,986</u>	<u>1,738,487</u>
Total Liabilities	<u>595,183</u>	<u>231,130,316</u>	<u>3,265,710</u>
DEFERRED INFLOWS OF RESOURCES			
Advance payments on leases		375,515	32,648
Deferred charge on refunding			
Solar choice deferred inflows of resources		462,584	
Deferred inflows from OPEB activity			
Deferred inflows from pension activity	44,872	2,592,754	302,582
Total Deferred Inflows of Resources	<u>44,872</u>	<u>3,430,853</u>	<u>335,230</u>
NET POSITION			
Net investment in capital assets	57,014,358	97,566,739	98,911,011
Restricted			
Debt service		501,250	
Funds held in trust		756	
Unrestricted	15,849,865	83,459,702	8,100,334
Total Net Position	<u>\$ 72,864,223</u>	<u>\$ 181,528,447</u>	<u>\$ 107,011,345</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

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$ 229,317	\$ 207,753	\$ 16,900,387	\$ 1,700,840
46,747,800	19,171,200	162,574,452	31,164,400
247,813	97,277	414,514	157,989
55,139	31,964	14,143,526	72,514
		4,702,570	2,983
3,167		6,248,690	
2,531,097	665,690	3,196,787	
		2,200,000	7,030,978
14,256		14,256	1,565
		1,174,592	
		1,415,353	
<u>49,828,589</u>	<u>20,173,884</u>	<u>212,985,127</u>	<u>40,131,269</u>
6,190,453	5,659,398	77,903,865	1,356,376
337,297,045	88,756,838	1,103,081,496	44,493,338
(177,589,265)	(17,671,233)	(508,772,202)	(27,845,518)
165,898,233	76,745,003	672,213,159	18,004,196
		114,548	
		12,955,835	
		756	
10,355		12,189,089	
<u>165,908,588</u>	<u>76,745,003</u>	<u>697,473,387</u>	<u>18,004,196</u>
<u>215,737,177</u>	<u>96,918,887</u>	<u>910,458,514</u>	<u>58,135,465</u>
		967,841	
			512,148
218,328	28,671	1,682,887	
<u>218,328</u>	<u>28,671</u>	<u>2,650,728</u>	<u>512,148</u>
756,557	340,939	12,610,738	375,188
9,985		1,849,636	3,536
877,875	404	1,551,621	30,929
131,790	17,388	819,208	
270,090	30,384	2,428,742	
202,811	51,382	3,841,921	
6,985	674	51,934	3,780
			169,381
			1,376,953
8,505,000		14,520,000	85,000
<u>10,761,093</u>	<u>441,171</u>	<u>37,673,800</u>	<u>2,044,767</u>
64,953,455		248,939,946	2,190,000
279,959	16,507	1,858,375	
2,169,785	311,039	16,823,664	
		8,622,433	
		6,000	1,091,590
			11,074,983
<u>67,403,199</u>	<u>327,546</u>	<u>276,250,418</u>	<u>14,356,573</u>
<u>78,164,292</u>	<u>768,717</u>	<u>313,924,218</u>	<u>16,401,340</u>
		408,163	
1,579,727		1,579,727	
		462,584	
			297,279
477,329	44,923	3,462,460	
<u>2,057,056</u>	<u>44,923</u>	<u>5,912,934</u>	<u>297,279</u>
90,860,051	76,745,003	421,097,162	15,729,196
		501,250	
		756	
44,874,106	19,388,915	171,672,922	26,219,798
<u>\$ 135,734,157</u>	<u>\$ 96,133,918</u>	<u>593,272,090</u>	<u>\$ 41,948,994</u>
		1,451,501	
		<u>\$ 594,723,591</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2019

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 7,587,085	\$	\$
Sales and charges for services, pledged as security for revenue bonds		150,442,628	9,959,245
Miscellaneous		14,450,713	1,698,090
Total Operating Revenues	<u>7,587,085</u>	<u>164,893,341</u>	<u>11,657,335</u>
Operating Expenses:			
Purchased power		89,721,650	
Maintenance and operations	4,237,557	33,460,390	7,605,004
Amortization of regulatory assets		439,550	
Depreciation	1,022,805	13,565,823	2,741,529
Total Operating Expenses	<u>5,260,362</u>	<u>137,187,413</u>	<u>10,346,533</u>
Operating Income	<u>2,326,723</u>	<u>27,705,928</u>	<u>1,310,802</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	295,627	1,826,106	98,907
Net increase in the fair value of investments	199,600	858,955	101,846
Interest and fiscal charges		(6,388,720)	(561)
Amortization of regulatory assets		(84,050)	
Gain (loss) on disposal of property			
Other income (expense)	122,259	(200,921)	(30,840)
Total Nonoperating Revenues (Expenses)	<u>618,063</u>	<u>(3,988,630)</u>	<u>169,352</u>
Income Before Transfers and Capital Contributions	2,944,786	23,717,298	1,480,154
Capital contributions		736,296	890,531
Transfers in			
Transfers out	<u>(1,982,510)</u>	<u>(8,714,477)</u>	<u>(357,668)</u>
Change in net position	962,276	15,739,117	2,013,017
Net Position - Beginning of Year	<u>71,901,947</u>	<u>165,789,330</u>	<u>104,998,328</u>
Net Position - End of Year	<u>\$ 72,864,223</u>	<u>\$ 181,528,447</u>	<u>\$ 107,011,345</u>

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

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

Change in net position of business-type activities

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$	\$ 7,756,747	\$ 15,343,832	\$ 29,760,427
29,766,401		190,168,274	
152,689	333,662	16,635,154	
<u>29,919,090</u>	<u>8,090,409</u>	<u>222,147,260</u>	<u>29,760,427</u>
		89,721,650	
10,075,229	2,844,391	58,222,571	23,933,641
		439,550	
<u>6,158,873</u>	<u>1,711,182</u>	<u>25,200,212</u>	<u>3,536,650</u>
<u>16,234,102</u>	<u>4,555,573</u>	<u>173,583,983</u>	<u>27,470,291</u>
<u>13,684,988</u>	<u>3,534,836</u>	<u>48,563,277</u>	<u>2,290,136</u>
			170,074
9,219		9,796	721
890,375	374,888	3,485,903	674,172
513,900	207,300	1,881,601	356,300
(1,532,510)		(7,921,791)	(75,262)
		(84,050)	
66,557	(24,200)	42,357	102,525
126,117	724	17,339	
<u>73,658</u>	<u>558,712</u>	<u>(2,568,845)</u>	<u>1,228,530</u>
13,758,646	4,093,548	45,994,432	3,518,666
3,356,921	2,903,829	7,887,577	339,039
1,134	250,000	251,134	87,169
<u>(2,847,940)</u>	<u>(799,587)</u>	<u>(14,702,182)</u>	<u>(87,025)</u>
14,268,761	6,447,790	39,430,961	3,857,849
<u>121,465,396</u>	<u>89,686,128</u>		<u>38,091,145</u>
<u>\$ 135,734,157</u>	<u>\$ 96,133,918</u>		<u>\$ 41,948,994</u>
		<u>452,047</u>	
		<u>\$ 39,883,008</u>	

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 8,101,411	\$ 166,553,977	\$ 11,369,914
Cash received from other City funds	52,240	5,891,453	187,775
Cash received from employees			
Cash paid to employees	(427,299)	(18,690,085)	(2,380,245)
Cash paid to suppliers	(4,771,787)	(106,128,678)	(5,198,352)
Service territory acquisition		(299,532)	
Other income	122,259		
Net Cash Provided By Operating Activities	<u>3,076,824</u>	<u>47,327,135</u>	<u>3,979,092</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	577		
Transfers in			
Transfers out	(1,982,510)	(8,684,031)	(354,414)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(1,981,933)</u>	<u>(8,684,031)</u>	<u>(354,414)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Principal payments on bonds		(5,725,000)	
Interest and fiscal charges		(8,366,350)	
Repayment of developer agreements			
Capital contributions received		736,296	
Acquisition of capital assets	(7,010,695)	(18,064,630)	(2,630,482)
Net Cash Used In Capital and Related Financing Activities	<u>(7,010,695)</u>	<u>(31,419,684)</u>	<u>(2,630,482)</u>
Cash Flows From Investing Activities:			
Investment income	306,641	2,685,061	200,192
Net increase (decrease) in investments	5,205,100	(7,112,380)	(859,853)
Net Cash Provided By (Used In) Investing Activities	<u>5,511,741</u>	<u>(4,427,319)</u>	<u>(659,661)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(404,063)	2,796,101	334,535
Cash and Cash Equivalents, Beginning of Year	813,915	12,831,397	1,380,572
Cash and Cash Equivalents, End of Year	<u>\$ 409,852</u>	<u>\$ 15,627,498</u>	<u>\$ 1,715,107</u>
Classified As:			
Cash and Cash Equivalents	\$ 295,304	\$ 14,452,906	\$ 1,715,107
Restricted and Reserved Cash	114,548	1,174,592	
Total Cash and Cash Equivalents, End of Year	<u>\$ 409,852</u>	<u>\$ 15,627,498</u>	<u>\$ 1,715,107</u>

Enterprise Funds			Governmental Activities- Internal Service Funds
Sewer Utility Fund	Storm Water Utility Fund	Total	
\$ 29,791,984	\$ 7,821,302	\$ 223,638,588	\$
127,124	264,362	6,522,954	28,738,030
(4,118,917)	(656,755)	(26,273,301)	2,329,775
(5,671,080)	(1,913,745)	(123,683,642)	(23,998,578)
		(299,532)	
126,117	724	249,100	
<u>20,255,228</u>	<u>5,515,888</u>	<u>80,154,167</u>	<u>7,069,227</u>
			171,525
9,219		9,796	721
1,134	250,000	251,134	87,169
<u>(2,847,940)</u>	<u>(799,587)</u>	<u>(14,668,482)</u>	<u>(87,025)</u>
<u>(2,837,587)</u>	<u>(549,587)</u>	<u>(14,407,552)</u>	<u>172,390</u>
			64,609
66,557		66,557	(145,000)
(8,125,000)		(13,850,000)	(47,239)
(3,140,905)	(388)	(11,507,643)	
	(27,625)	(27,625)	
		736,296	
<u>(287,853)</u>	<u>(1,863,385)</u>	<u>(29,857,045)</u>	<u>(4,047,722)</u>
<u>(11,487,201)</u>	<u>(1,891,398)</u>	<u>(54,439,460)</u>	<u>(4,175,352)</u>
			635,039
811,988	342,931	4,346,813	(3,213,500)
(7,966,500)	(3,785,500)	(14,519,133)	(2,578,461)
<u>(7,154,512)</u>	<u>(3,442,569)</u>	<u>(10,172,320)</u>	
(1,224,072)	(367,666)	1,134,835	487,804
1,453,389	575,419	17,054,692	1,213,036
<u>\$ 229,317</u>	<u>\$ 207,753</u>	<u>\$ 18,189,527</u>	<u>\$ 1,700,840</u>
\$ 229,317	\$ 207,753	\$ 16,900,387	\$ 1,700,840
		1,289,140	
<u>\$ 229,317</u>	<u>\$ 207,753</u>	<u>\$ 18,189,527</u>	<u>\$ 1,700,840</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2019

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

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income	\$ 2,326,723	\$ 27,705,928	\$ 1,310,802
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:			
Depreciation and amortization expense	1,022,805	14,005,373	2,741,529
Other income (expense)	122,259		
Service territory payments		(299,532)	
Bad debts		202,174	24,929
(Increase) Decrease In:			
Accounts receivables and accrued utility revenues	25,558	2,734,435	68,347
Inventory		(642,489)	2,860
Due from other funds			
Due from other governmental units			
Advances due from other funds	579,186		
Prepaid items			(20,455)
Deferred outflows from pension activity	54,303	2,951,364	344,941
Deferred outflows from OPEB activity			
Other assets		(282,715)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(975,992)	1,417,667	(86,459)
Deposits payable	(38,222)	281,821	(1,376)
Accrued expenses and other liabilities	17,582		
Post employment benefit obligations			
Deferred inflows from pension activity	(47,998)	(2,609,334)	(304,412)
Net pension liability	(18,039)	(242,273)	66,378
Unearned revenues		2,187,394	(167,992)
Solar choice deferred inflow		(46,258)	
Deferred lease revenue		(36,420)	
Accrued claims			
Due to other funds	44		
Due to other governmental units	8,615		
Net Cash Provided By Operating Activities	\$ 3,076,824	\$ 47,327,135	\$ 3,979,092
Non Cash Transactions:			
Increase in fair value of investments	\$ 199,600	\$ 858,955	\$ 101,846
Allowance for funds used during construction		83,791	
Amortization of bond premiums, discounts, and refunding		(1,901,509)	
Amortization of bond issue costs		84,050	
Receipt of contributed property			890,531
Capital assets in accounts payable at year end			

Sewer Utility Fund	Enterprise Funds		Governmental Activities- Internal Service Funds
	Storm Water Utility Fund	Total	
\$ 13,684,988	\$ 3,534,836	\$ 48,563,277	\$ 2,290,136
6,158,873	1,711,182	25,639,762	3,536,650
126,117	724	249,100	
		(299,532)	
		227,103	
61,405	3,342	2,893,087	(9,097)
(172)		(639,801)	
(51,402)	2,722	(48,680)	
(3,827)		(3,827)	1,655
		579,186	1,314,820
		(20,455)	
534,118	84,233	3,968,959	
			(103,804)
439		(282,276)	
431,301	213,164	999,681	(242,553)
		242,223	(887)
59,747	6,083	83,412	
			349,357
(467,082)	(61,229)	(3,490,055)	297,279
(275,867)	31,115	(438,686)	
		2,019,402	37,750
		(46,258)	
		(36,420)	
			(387,896)
(6,158)	(10,809)	(16,923)	
2,748	525	11,888	(14,183)
<u>\$ 20,255,228</u>	<u>\$ 5,515,888</u>	<u>\$ 80,154,167</u>	<u>\$ 7,069,227</u>
\$ 513,900	\$ 207,300	\$ 1,881,601	\$ 356,300
		83,791	
		(1,901,509)	
		84,050	
3,356,921	2,903,829	7,151,281	339,039
			247,581

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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 2019 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, 2019 are available from the DMCC.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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, 2019

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, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

1. Deposits and investments

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables, payables, and deferred inflows of resources

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Other assets

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

4. Inventory

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

5. Deferred outflows of resources

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

6. Capital assets

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

6. Capital assets (continued)

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

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

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

7. Utility connection charges

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

8. Compensated absences benefits

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

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

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

9. Long-term obligations

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

10. Deferred inflows of resources

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

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

11. Unearned revenues

Under the terms of a 2015 agreement, the Electric Utility constructed a substation to meet the specifications of a large customer. The customer paid a Contribution in Aid of Construction (CIAC) for redundant facilities for reliability purposes and for substation capacity in excess of current needs. Per the agreement, the customer can earn a refund of a portion of the CIAC related to excess capacity based on their measured load over the term from 2018 through 2027. A portion of the excess capacity payment becomes ineligible for refund in each of those years if the load requirement specified in the agreement is not achieved. During 2019, \$246,000 of the potential refund became ineligible for refund as the load requirement was not met and, as of December 31, 2019, \$1,968,000 of the potential refund remained recorded as an unearned revenue. The amount of unearned revenue will be reduced each year through the ten-year term, having either been refunded to the customer if load requirement has been met, or recorded as a contribution in aid of construction if not met. The substation went in service in May 2017.

As described in Note 4C under Contingent Liabilities, the Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission (FERC) involving the recovery of RPU's Annual Transmission Revenue Requirement (ATRR) from transmission customers in the Midcontinent Independent System Operator, Inc. region. The final resolution has not yet been determined however, as of December 31, 2019, RPU has received \$6,617,533 in ATRR payments. The payments are subject to refund if the ultimate outcome is that RPU is not eligible for recovery of its ATRR. Until the final resolution is determined, RPU is recording the amounts received as unearned revenue.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Fund equity

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

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

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

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

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

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

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1: Summary of Significant Accounting Policies (continued)

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

12. Fund equity (continued)

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

E. Pensions

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

F. Accounting Pronouncements Issued But Not Yet Implemented

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement is effective for the City for the year ending December 31, 2020. The impact of the adoption of this pronouncement has not yet been determined.

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments. This Statement is effective for the City for the year ending December 31, 2022. The impact of the adoption of this pronouncement has not yet been determined.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed effective dates for Statement No. 84, *Fiduciary Activities*, by one year and Statement No. 87, *Leases*, by eighteen months to provide temporary relief to governments in light of the COVID-19 pandemic.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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

A. Budgetary Information (continued)

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

NOTE 3: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Deposits

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

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

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

The City's deposits in banks at December 31, 2019 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk

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

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

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2019, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2019 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Municipal Bonds	\$ 10,353,343	3.70	AAA/AA-	Aa2
4M Money Market Fund	3,072,153	N/A	N/A	N/A
US Government and Agency Securities:				
Federal Farm Credit Bank	49,751,607	3.48	AA+	Aaa
Federal Home Loan Bank	67,774,290	3.25	AA+	Aaa
Federal Home Loan Mortgage Corporation	37,368,324	2.82	AA+	Aaa
Federal National Mortgage Association	49,106,095	2.87	AA+	Aaa
Treasury Note	164,161,135	3.18	AA+	Aaa
Sub-total Investments	381,586,947			
Cash and Deposits	40,530,342			
Total	<u>\$ 422,117,289</u>			

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk

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

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 49,751,607
Federal Home Loan Bank	Federal Agency Securities	67,774,290
Federal Home Loan Mortgage Corporation	Federal Agency Securities	37,368,324
Federal National Mortgage Association	Federal Agency Securities	49,106,095
Treasury Note	United States Treasury Securities	164,161,135

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, 2019 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	\$ 26,242,653
Investments	381,586,947
Restricted cash and investments	14,286,933
Restricted funds held in trust	756
Total Cash and Investments	<u>\$ 422,117,289</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Fair Value Measurements

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

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, 2019 and 2018 were as follows:

	At December 31, 2019			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Municipal Bonds	\$ 10,353,343	\$	\$ 10,353,343	\$
4M Money Market Fund	3,072,153		3,072,153	
US Government and Agency Securities:				
Federal Farm Credit Bank	49,751,607		49,751,607	
Federal Home Loan Bank	67,774,290		67,774,290	
Federal Home Loan Mortgage Corporation	37,368,324		37,368,324	
Federal National Mortgage Association	49,106,095		49,106,095	
Treasury Note	164,161,135		164,161,135	
Total	<u>\$ 381,586,947</u>	<u>\$</u>	<u>\$ 381,586,947</u>	<u>\$</u>
		At December 31, 2018		
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Commercial Paper	\$ 21,387,391	\$	\$ 21,387,391	\$
Municipal Bonds	2,286,890		2,286,890	
US Government and Agency Securities:				
Federal Farm Credit Bank	36,662,505		36,662,505	
Federal Home Loan Bank	62,775,570		62,775,570	
Federal Home Loan Mortgage Corporation	28,951,644		28,951,644	
Federal National Mortgage Association	41,776,459		41,776,459	
Treasury Note	141,730,035		141,730,035	
Total	<u>\$ 335,570,494</u>	<u>\$</u>	<u>\$ 335,570,494</u>	<u>\$</u>

B. Land Held for Resale

In 2009, 2011, 2012, 2014, and 2016 the City acquired parcels of land from private parties for a total purchase price of \$2,270,000. The City intends to resell these properties in connection with the expansion of the University of Minnesota Rochester Campus and for private development. In 2014 and 2017, the City sold certain parcels of land with a cost basis totaling \$895,000 and \$750,000, respectively. The remaining parcels held for resale totaling \$625,000, are reported in the Capital Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2019.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

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, 2019 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 854,137	\$ 683,436	\$ 19,479	\$ 1,557,052
Special Revenue	2,224,789	109,182	167,562	5,387	2,506,920
Capital Project	2,668,917	8,526,353	133,351		11,328,621
Debt Service			11,564		11,564
Enterprise		1,424	12,832		14,256
Internal Service	305		1,260		1,565
Totals	<u>\$4,894,011</u>	<u>\$ 9,491,096</u>	<u>\$1,010,005</u>	<u>\$ 24,866</u>	<u>\$15,419,978</u>

Amounts due to other governmental units as of December 31, 2019 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 1,500	\$ 125,334	\$ 135,049	\$ 1,842	\$ 263,725
Special Revenue	2,679	3,791,918	323,545	6,212	4,124,354
Capital Project		8,075	126		8,201
Enterprise		1,235	50,699		51,934
Internal Service			3,780		3,780
Totals	<u>\$ 4,179</u>	<u>\$ 3,926,562</u>	<u>\$ 513,199</u>	<u>\$ 8,054</u>	<u>\$ 4,451,994</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Investments

Restricted cash are deposits held for specifically required purposes. Descriptions of the items and balances as of December 31, 2019 are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment \$ 41,958

Enterprise Funds:

Parking Fund:

Bioscience Building Debt Service 114,548

Electric Fund:

Debt Service Fund 1,174,592

Restricted Investments -

Electric Fund

Debt Service Reserve Accounts 12,955,835

Restricted Funds Held in Trust -

Electric Fund

CapX2020 Transmission Line Project 756

Total \$ 14,287,689

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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, 2019 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 75,482,308	\$ 92,841	\$	\$ 75,575,149
Construction in progress	28,768,944	44,641,500	41,503,214	31,907,230
Total capital assets, not being depreciated	<u>104,251,252</u>	<u>44,734,341</u>	<u>41,503,214</u>	<u>107,482,379</u>
Capital assets, being depreciated:				
Buildings	361,746,463	10,522,452	10,775	372,258,140
Improvements other than buildings	51,667,826	3,810,128		55,477,954
Infrastructure	525,120,655	19,730,329		544,850,984
Machinery and equipment	<u>103,854,518</u>	<u>7,449,003</u>	<u>1,667,765</u>	<u>109,635,756</u>
Total capital assets, being depreciated	<u>1,042,389,462</u>	<u>41,511,912</u>	<u>1,678,540</u>	<u>1,082,222,834</u>
Less accumulated depreciation for:				
Buildings	99,120,614	9,125,973	4,938	108,241,649
Improvements other than buildings	27,566,565	1,562,163		29,128,728
Infrastructure	184,304,483	12,030,254		196,334,737
Machinery and equipment	<u>66,360,335</u>	<u>7,194,288</u>	<u>1,668,365</u>	<u>71,886,258</u>
Total accumulated depreciation	<u>377,351,997</u>	<u>29,912,678</u>	<u>1,673,303</u>	<u>405,591,372</u>
Total capital assets, being depreciated, net	<u>665,037,465</u>	<u>11,599,234</u>	<u>5,237</u>	<u>676,631,462</u>
Governmental activities capital assets, net	<u>\$ 769,288,717</u>	<u>\$ 56,333,575</u>	<u>\$ 41,508,451</u>	<u>\$ 784,113,841</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2019 was as follows:

<u>Business-Type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 22,161,442	\$ 348,400	\$ 24,200	\$ 22,485,642
Construction in progress	60,160,750	17,038,111	21,780,638	55,418,223
Total capital assets, not being depreciated	<u>82,322,192</u>	<u>17,386,511</u>	<u>21,804,838</u>	<u>77,903,865</u>
Capital assets, being depreciated:				
Buildings and improvements	482,564,496	17,646,867	207,014	500,004,349
Machinery and equipment	584,196,202	20,688,407	1,807,462	603,077,147
Total capital assets, being depreciated	<u>1,066,760,698</u>	<u>38,335,274</u>	<u>2,014,476</u>	<u>1,103,081,496</u>
Less accumulated depreciation for:				
Buildings and improvements	212,967,083	9,770,127	207,020	222,530,190
Machinery and equipment	272,404,096	15,430,085	1,592,169	286,242,012
Total accumulated depreciation	<u>485,371,179</u>	<u>25,200,212</u>	<u>1,799,189</u>	<u>508,772,202</u>
Total capital assets, being depreciated, net	<u>581,389,519</u>	<u>13,135,062</u>	<u>215,287</u>	<u>594,309,294</u>
Business-type activities capital assets, net	<u>\$ 663,711,711</u>	<u>\$ 30,521,573</u>	<u>\$ 22,020,125</u>	<u>\$ 672,213,159</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2019 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 667,206
Public safety	2,988,111
Public works	11,107,736
Airport operations	2,242,970
Transit	1,749,100
Culture	1,165,636
Park and recreation/Mayo Civic Center	5,704,680
Economic development/tourism	750,589
Subtotal	<u>26,376,028</u>
Internal Service Funds:	
Equipment revolving	3,240,431
Information technology	<u>296,219</u>

Total depreciation expense - governmental activities	<u>\$ 29,912,678</u>
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Business-Type Activities:

Parking	\$ 1,022,805
Electric utility	13,565,823
Water utility	2,741,529
Sewer utility	6,158,873
Storm water utility	<u>1,711,182</u>

Total depreciation expense - business type activities	<u>\$ 25,200,212</u>
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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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, 2019, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 995,549	\$ 747,501
Capital Improvement	719,280	336,505
Subtotal	1,714,829	1,084,006
Non-Major Governmental Funds:		
Special Revenue -		
Library		6,260
Municipal Recreation System		54,294
Mayo Civic Center	274	55,897
Edward Byrne Memorial JAG		4,124
Airport Operations		35,036
Transit		746
Community Development Projects		97,434
DMCC	318,828	51,000
Subtotal	319,102	304,791
Total Governmental Funds	2,033,931	1,388,797
Proprietary Funds:		
Enterprise -		
Parking		475
Electric Utility		2,881,704
Water Utility		705,549
Sewer Utility	2,531,097	202,811
Storm Water Utility	665,690	51,382
Total Proprietary Funds	3,196,787	3,841,921
Total All Funds	\$ 5,230,718	\$ 5,230,718

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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, 2019, at the individual fund level are summarized below:

Funds	Advanced To Other Funds	Advanced From Other Funds
Governmental Funds:		
Capital Improvement	\$	\$ 7,030,978
Economic Development Authority Bond		2,200,000
Proprietary Fund:		
Parking	2,200,000	
Internal Service Fund:		
Self-Insurance	7,030,978	
Total All Funds	<u>\$ 9,230,978</u>	<u>\$ 9,230,978</u>

Transfers during the year ended December 31, 2019 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 14,646,831	\$ 3,001,982
Capital Improvement	5,181,635	15,429,810
Other Governmental Funds		
Municipal Recreation System	3,186	575,425
Mayo Civic Center		240,597
Minnesota Bio Science Center		1,505,229
Transit		99,338
DMCC	2,700,723	
Tax Increment Bonds	4,005,000	
TIF Revenue Bond	1,296,669	
Facility Energy Improvements Loan		49,685
GO Variable Rate Sales Tax Bond	3,206,434	
Lodging Tax Revenue Bond	2,807,263	
Economic Development Authority Bond	1,505,229	
Subtotal Other Governmental Funds	<u>15,524,504</u>	<u>2,470,274</u>
Subtotal Governmental Funds	35,352,970	20,902,066
Enterprise	251,134	14,702,182
Internal Service	87,169	87,025
Totals	<u>\$ 35,691,273</u>	<u>\$ 35,691,273</u>

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019**

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	\$ 35,352,970
Transfers out	(20,902,066)
Internal Service Funds:	
Transfer in	87,169
Transfers out	(87,025)
Capital assets transferred from Govt- activities to Business-type activities	(4,135,390)
Government-wide Statement of Activities - Transfers in/out	\$ 10,315,658

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, 2019 totaled \$639,978.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2019, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/19
General Obligation Bonds:				
GO Taxable Tax Increment Bonds				
District 36, Series 2009A	\$ 8,035,000	5.0-5.5%	2025	\$ 2,040,000
GO Tax Increment Revenue				
Bond Series 2017A	21,265,000	2.0-5.0%	2038	20,715,000
GO Lodging Tax Revenue Bonds:				
Bonds, Series 2015A	42,795,000	2.5-5.0%	2035	38,090,000
GO Revenue Bonds:				
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	41,590,000
Revenue Crossover Refunding Bonds, Series 2015B	19,805,000	5.0%	2026	14,800,000
Revenue Refunding Bonds, Series 2015D	14,156,000	Variable	2026	9,285,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	3.6-5.15%	2036	20,250,000
Direct Pay, Series 2010A - Equipment	425,000	3.6-3.7%	2020	50,000
GO Variable Rate Sales Tax Revenue				
Bonds, Series 2015C	40,880,000	Variable	2025	32,870,000
GO Equipment Certificates				
of Indebtedness, Series 2018A	2,225,000	3.25%	2028	2,225,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	34,800,000
Bonds, Series 2015E	39,970,000	3.0-5.0%	2030	34,180,000
Bonds, Series 2017A	108,255,000	2.0-5.0%	2047	102,200,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	5,624,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	3,812,000
Compensated Absences				15,807,964
Less: Unamortized premium				30,501,406
Total Long-term Debt				<u>\$ 408,840,370</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

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

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

General Obligation Revenue Bonds

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

Revenue Bonds – Electric Utility

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

Revenue Lease Bonds – Economic Development Authority

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

General Obligation Lodging Tax Revenue Bonds

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Sales Tax Revenue Bonds

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

General Obligation Equipment Certificates of Indebtedness

In 2009, the City issued \$815,000 of General Obligation Equipment Certificates of Indebtedness, Series 2009B. The proceeds of the issue were used to purchase and equip two new fire trucks for the City's Equipment Revolving Fund. In 2018, the City issued \$2,225,000 of General Obligation Equipment Certificates of Indebtedness, Series 2018A. The proceeds of the issue were used to finance the acquisition of certain items of capital equipment which is expected to include multiple fire safety vehicles for the City's Equipment Revolving Fund. Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included as part of the totals for governmental activities. The bonds are payable from the general tax levy and is backed by the full faith, credit and taxing power of the City. The 2009B certificate matured in 2019.

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.

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, 2019

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, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
GO Taxable Tax Increment Bonds					
District 36, Series 2009A	\$ 6,330,000	\$	\$ 4,290,000	\$ 2,040,000	\$ 300,000
GO Tax Increment Revenue Bond					
Series 2017A	21,265,000		550,000	20,715,000	735,000
GO Lodging Tax Revenue					
Bonds, Series 2015A	39,345,000		1,255,000	38,090,000	1,380,000
GO Equipment Certificates of Indebtedness,					
Series 2009B	95,000		95,000		(1)
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	21,155,000		905,000	20,250,000	925,000
Direct Pay, Series 2010A - Equipment	100,000		50,000	50,000	(1) 50,000
GO Variable Rate Sales Tax Revenue					
Bonds, Series 2015C	35,360,000		2,490,000	32,870,000	2,565,000
GO Equipment Certificates of Indebtedness,					
Series 2018A	2,225,000			2,225,000	(1) 35,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	5,904,000		280,000	5,624,000	292,000
REDA Lease Revenue Bonds, Series 2008	4,000,000		188,000	3,812,000	200,000
Plus: Unamortized Premium on Bonds	4,142,252		245,792	3,896,460	
Other Liabilities:					
Compensated Absences	11,527,845	7,095,936	7,102,934	11,520,847	6,840,000
Governmental Activities Long-term Liabilities	151,449,097	7,095,936	17,451,726	141,093,307	13,322,000
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Crossover Refunding Series 04A					
Bonds, Series 2012A	46,725,000		5,135,000	41,590,000	5,415,000
Revenue Crossover Refunding					
Bonds, Series 2015B	16,550,000		1,750,000	14,800,000	1,835,000
Revenue Refunding					
Bonds, Series 2015D	10,525,000		1,240,000	9,285,000	1,255,000
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2013B	35,565,000		765,000	34,800,000	805,000
Electric Utility Revenue Refunding Bonds-					
Series 2015E	36,550,000		2,370,000	34,180,000	2,490,000
Electric Utility Revenue Bonds-					
Series 2017A	104,790,000		2,590,000	102,200,000	2,720,000
Plus: Unamortized Premium	29,913,764		3,308,818	26,604,946	
Other Liabilities:					
Compensated Absences	4,073,094	712,212	498,189	4,287,117	2,428,742
Business-type Activities Long-term Liabilities	284,691,858	712,212	17,657,007	267,747,063	16,948,742
Total	\$ 436,140,955	\$ 7,808,148	\$ 35,108,733	\$ 408,840,370	\$ 30,270,742

(1) Debt recorded in the internal service funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

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, 2019, the balance totaled \$1,579,727.

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2019, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue		Revenue Bonds	
	Principal	Interest *	Principal	Interest
<u>Governmental Activities</u>				
2020	\$ 5,990,000	\$ 3,995,538	\$ 492,000	\$ 432,301
2021	6,440,000	3,768,502	516,000	408,593
2022	6,735,000	3,525,044	536,000	383,850
2023	7,060,000	3,266,954	564,000	357,978
2024	7,400,000	2,994,603	592,000	330,788
2025-2029	43,615,000	9,789,903	3,400,000	1,199,529
2030-2034	27,255,000	4,924,902	3,336,000	322,697
2035-2038	11,745,000	558,946		
Totals	<u>\$ 116,240,000</u>	<u>\$ 32,824,392</u>	<u>\$ 9,436,000</u>	<u>\$ 3,435,736</u>
	General Obligation Revenue		Utility Revenue Bonds	
	Bonds Principal	Interest *	Principal	Interest
<u>Business-Type Activities</u>				
2020	\$ 8,505,000	\$ 2,749,018	\$ 6,015,000	\$ 8,080,100
2021	8,845,000	2,351,191	6,315,000	7,779,350
2022	9,195,000	1,936,776	6,625,000	7,472,050
2023	9,555,000	1,504,784	6,955,000	7,140,800
2024	9,970,000	1,054,974	7,310,000	6,793,050
2025-2029	19,605,000	852,971	41,505,000	28,965,850
2030-2034			25,925,000	20,538,300
2035-2039			25,405,000	15,029,950
2040-2044			29,770,000	8,216,750
2045-2047			15,355,000	1,560,500
Totals	<u>\$ 65,675,000</u>	<u>\$ 10,449,714</u>	<u>\$ 171,180,000</u>	<u>\$ 111,576,700</u>

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2019.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2019, the City had not utilized \$230,532,000 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 \$2,609,638,988 and the balance outstanding at December 31, 2019 totals \$2,507,624,080.

Revenue Pledged

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

Bond Issue - Revenue Bonds	Use of Proceeds	Revenue Pledged			Remaining Principal and Interest	Current Year	
		Type	Percent of Total Debt Service	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
General Obligation Bonds:							
Wastewater Treatment Plant							
Revenue Crossover Refunding Series 04A Bonds, Series 2012A	Refund 2004A issue	Utility Revenue	100%	2012 - 2026	\$48,279,650	\$ 7,222,275	\$ 7,222,275
Revenue Crossover Refunding Bonds, Series 2015B	Refund 2007A issue	Utility Revenue	100%	2015 - 2026	17,899,750	2,577,500	2,577,500
Revenue Refunding Bonds, Series 2015D	Refund 2007B issue	Utility Revenue	100%	2015 - 2026	9,945,314 *	1,463,769	1,463,769
Revenue Bonds:							
REDA Lease Revenue Bonds, Series 2007	Bio Science building	Lease Revenue	100%	2007 - 2033	7,670,192	550,908	550,908
REDA Lease Revenue Bonds, Series 2008	Bio Science building	Lease Revenue	100%	2008 - 2033	5,201,544	371,973	371,973
Electric Utility Revenue Bonds -							
Series 2013B	Southwest Metro to Rochester to La Crosse transmission line project	Utility Revenue	100%	2013 - 2043	58,820,050	2,449,350	2,449,350
Electric Utility Revenue Refunding Bonds-							
Series 2015E	Advance refund a portion of 2007C issue	Utility Revenue	100%	2015 - 2030	41,967,650	3,812,500	3,812,500
Electric Utility Revenue Bonds-							
Series 2017A	Finance Westside Energy Station, and Electric substation and improvements	Utility Revenue	100%	2017 - 2047	181,969,000	7,829,500	7,829,500

* Interest on variable rate debt was estimated using the rate in effect at December 31, 2019.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits

A. Plan Description

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

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

B. Net OPEB Liability

The City's net OPEB liability was measured as of January 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the City at year-end were as follows:

Total OPEB liability	\$ 11,074,983
Covered payroll	\$ 72,914,859
Total OPEB liability as a % of payroll	15%

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

C. Funded Status and Funding Progress

As of January 1, 2019, the most recent measurement date, the actuarial accrued liability for benefits was \$11,074,983 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$72,914,859 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Methods and Assumptions

In the January 1, 2019 actuarial valuation, the entry age level percentage of pay method was used. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

D. Methods and Assumptions (continued)

The total OPEB liability was determined by an actuarial valuation as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.80%
20-year Municipal Bond Yield	3.80%
Inflation rate	2.50%
Mortality	Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel).
Medical trend rate	6.25% in 2019 grading to 5.00% over 5 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates. We have reviewed all provisions of the PPACA that may apply to this valuation and have not made any adjustments, currently, to the medical trend rate due to the potential future Cadillac Tax of the PPACA. We will continue to monitor the PPACA provisions and make adjustments to the Medical Trend Rate, if material.

E. Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 1/1/2019	\$ 10,725,626
Changes for the year:	
Service cost	726,221
Interest	371,228
Assumption changes	(339,748)
Benefit payments	(408,344)
Net Changes	<u>349,357</u>
Balance End of Year 12/31/2019	<u>\$ 11,074,983</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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

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

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (2.80%)	\$ 11,891,130
Current Discount Rate (3.80%)	11,074,983
1% increase in Discount Rate (4.80%)	10,313,958

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

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 9,945,693
Current Trend Rates	11,074,983
1% increase in Trend Rates	12,392,484

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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

As of the year ended December 31, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$	\$ 297,279
Contributions paid to OPEB subsequent to the measurement date	512,148	
	\$ 512,148	\$ 297,279

Contributions subsequent to the measurement date of \$512,148 will be recognized as a reduction of the OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2020	\$ (42,469)
2021	(42,469)
2022	(42,469)
2023	(42,469)
2024	(42,469)
Thereafter	(84,934)

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3: Detailed Notes on All Funds (continued)

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2019 were classified as follows:

	General Fund	Capital Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid Items	\$ 12,114	\$	\$ 195,054	\$ 207,168
Inventory	991,111		57,593	1,048,704
Total Nonspendable	<u>1,003,225</u>		<u>252,647</u>	<u>1,255,872</u>
<u>Restricted for:</u>				
Civic Music Endowment	41,958			41,958
Flood Control		15,024,274		15,024,274
Economic Development Loans		329,856		329,856
Park and Recreation		110,065		110,065
Tax Increment Financing		1,634,042		1,634,042
Sales Tax Authorized Projects		30,308,846		30,308,846
Destination Medical Center		19,732,373		19,732,373
Airport Operations			6,019,604	6,019,604
Children's Playgrounds			688,377	688,377
Debt Service			1,850,580	1,850,580
Total Restricted	<u>41,958</u>	<u>67,139,456</u>	<u>8,558,561</u>	<u>75,739,975</u>
<u>Committed to:</u>				
Capital Improvement		65,053,348		65,053,348
Total Committed		<u>65,053,348</u>		<u>65,053,348</u>
<u>Assigned to:</u>				
Subsequent Years Budgets	301,255			301,255
Encumbrances	1,933,224			1,933,224
Library Operations			3,028,318	3,028,318
Parks and Recreation			2,791,699	2,791,699
Mayo Civic Center			1,497,771	1,497,771
Transit			4,474,283	4,474,283
Minnesota Bio Science Center			1,181,303	1,181,303
Total Assigned	<u>2,234,479</u>		<u>12,973,374</u>	<u>15,207,853</u>
<u>Unassigned</u>	<u>37,808,279</u>		<u>(2,293,244)</u>	<u>35,515,035</u>
Total Fund Balances	<u>\$ 41,087,941</u>	<u>\$ 132,192,804</u>	<u>\$ 19,491,338</u>	<u>\$ 192,772,083</u>

Encumbrances are valid and executed contracts for equipment purchases as of December 31, 2019 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, 2019

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Position

	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
Governmental Activities				
<u>Major Governmental Funds:</u>				
<u>General Fund:</u>				
Civic Music Endowment	\$	\$ 41,958	\$	\$
<u>Capital Improvement Fund:</u>				
Flood Control				15,024,274
Economic Development Loans	329,856			
Park and Recreation		110,065		
Tax Increment Financing				1,634,042
Sales Tax Authorized Projects				30,308,846
<u>Nonmajor Governmental Funds:</u>				
<u>Special Revenue Funds:</u>				
Children's Playgrounds	688,377			
CDBG Loans	4,023,228			
Airport Operations				6,019,604
<u>Debt Service Funds:</u>				
Debt Service			1,850,580	
Total Governmental Restricted Net Position	5,041,461	152,023	1,850,580	52,986,766
Business-Type Activities				
Debt Service			501,250	
Funds Held in Trust			756	
Total Business-Type Restricted Net Position			502,006	
Total Government Wide Restricted Net Position	\$ 5,041,461	\$ 152,023	\$ 2,352,586	\$ 52,986,766

L. Deficit Fund Balance

Special Revenue Fund:		
Edward Byrne Memorial Justice Assistance Grant Fund		\$ 4,124
Community Development Projects		16,649
TIF Revenue Bonds		200
Economic Development Authority Bond		2,077,887
Lodging Tax Revenue Bond		200

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

M. Excess Expenditures over Appropriations

At December 31, 2019, excess of expenditures over appropriations, all the result of a planned process, were as follows:

Special Revenue Funds	Expenditures	Appropriation	Excess
Mayo Civic Center	\$ 6,152,668	\$ 6,102,128	\$ 50,540

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information

A. Risk Management

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

The City maintains a self-insurance program for employee group health coverage and worker’s compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$315,000 per group health claim (with a variable annual aggregate) and \$1,000,000 for each worker’s compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$2,468,543 reported in the Fund at December 31, 2019 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, 2019 and 2018 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2019	\$ 2,856,439	\$ 19,295,632	\$ (19,683,528)	\$ 2,468,543
2018	3,069,194	18,129,059	(18,341,814)	2,856,439

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4: Other Information (continued)

B. Commitments

Power Sales Agreement

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

Service Territory Settlements

Under settlement agreements with People's Energy Cooperative (PEC), the Electric Utility is required to make payments to PEC related to the acquisitions of certain electric service rights from PEC. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 14.61 mills (tenths of a cent) per kWh to 25.99 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 1,202,681,862 kilowatt hours totaling \$88,736,360 from SMMPA during the year ended December 31, 2019.

In December of 2019, RPU received a \$3,049,030 distribution of excess reserves from Southern Minnesota Municipal Power Agency. The distribution was recorded as other operating revenues.

The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a noncancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and annual 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, 2019**

NOTE 4: Other Information (continued)

B. Commitments (continued)

Central Minnesota Municipal Power Agency

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

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

Lake Zumbro Restoration

Lake Zumbro is a reservoir on the Zumbro River formed by the Zumbro Dam which was placed in service in 1919. RPU is the owner and operator of the Zumbro Dam & Hydroelectric Facility and owns in fee title much of the lake bed. Over the years sedimentation has filled in portions of the lake. In December 2015, RPU along with Olmsted County, Wabasha County, and the Lake Zumbro Improvement District executed an agreement where each party committed to providing funding that in total matched \$3,500,000 originally committed by the State of Minnesota to dredge sediment from portions of the lake. RPU's committed amount is \$1,167,000. Olmsted County is acting as the project manager and fiscal agent for the parties committed in the agreement. Funding by RPU occurs only as project expenditures are incurred. As of December 31, 2019, RPU had recorded the entire committed amount of \$1,167,000 with \$53,995 of that remaining to be remitted to the fiscal agent.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

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, 2019, the City's commitments with contractors and vendors were as follows:

<u>Construction Projects</u>	Remaining Commitment
Major Street Projects	\$ 5,218,099
Sewer and Water Projects	1,917,550
Sidewalk Projects	192,818
Traffic Projects	55,162
Bridge Projects	13,710
Storm Water / Storm Sewer Projects	324,647
Flood Control	383,367
Water Reclamation Projects	1,645,029
Parking Ramp Rehabilitation	214,025
Airport Projects	3,322,883
Mass Transit Garage Expansion	169,368
DSIC and North Station	4,255,980
Recreation Center	10,350
Parks Projects - Various	1,000,853
Destination Medical Center	63,676
Electric Projects	9,796,465
Water Projects	356,639
Total Construction Projects	<u>\$ 28,940,621</u>
<u>Equipment Purchase Commitments</u>	
Police Precinct #2-Access Points	\$ 4,405
Energy Performance Improvements	3,635
Finance Office Remodel	29,225
Dispatch Work Stations @ LEC	101,416
Library Information Technology/Software	48,360
LEC Electronic Citation System	96,297
Identity Mgmt & Video Mgmt	10,000
JDE Software-Cetova Support	3,800
Replace Auto External Defib (AED)	5,329
City Wide IT Integration	253,375
City Wide Area Network	12,305
Buses	573,164
Bus Equipment-Radios; AVL	71,953
Total Equipment Purchase Commitments	<u>\$ 1,213,264</u>
<u>General Fund Encumbrances</u>	
*General Fund Equipment Purchase Commitments	\$ 1,933,224
Total General Fund Encumbrances	<u>\$ 1,933,224</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4: Other Information (continued)

C. Contingent Liabilities

General Litigation:

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

The Electric Utility is engaged in an administrative hearing before the Federal Energy Regulatory Commission involving the recovery of RPU's Annual Transmission Revenue Requirement from transmission customers in the Midcontinent Independent System Operator, Inc. (MISO) region. During 2018 FERC issued an order affirming the Administrative Law Judge's 2017 ruling that RPU was entitled to recovery of its revenue requirement related to its investment in MISO Zone 16. However, FERC's order is subject to requests for rehearing and possible appeals to the United States Court of Appeals. The case will not be final until either the time for filing of a petition for review lapses with no such petition having been filed, or upon final order of the Court of Appeals. The related payments MISO has made and will make to RPU until the final determination is known remain subject to refund. As of December 31, 2019, RPU had \$6,617,533 recorded as an unearned revenue related to this matter. The matter does not involve a claim or assessment against RPU.

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Neighborhood Stabilization Program, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2019, 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, 2019

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

Plan Description

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

1. General Employees Retirement Plan

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

2. Public Employees Police and Fire Plan

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

Benefits Provided

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

1. General Employees Plan Benefits

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

1. General Employees Plan Benefits (continued)

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. Police and Fire Plan Benefits

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019, were \$3,966,432. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Plan Contributions

Police and Fire member's contribution rates increased from 10.8 percent of pay to 11.3 percent and employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019 were, \$3,864,563. 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, 2019, the City reported a liability of \$41,316,543 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,284,111. The net pension liability was measured as of June 30, 2019, 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 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.7473 percent which was an increase of 0.0002 percent from its proportionate share measured at June 30, 2018.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

City's proportionate share of the net pension liability	\$41,316,543
State of Minnesota's proportionate share of the net Pension liability associated with the City	<u>1,284,111</u>
Total	<u>\$42,600,654</u>

For the year ended December 31, 2019, the City recognized pension expense of (\$1,026,036) for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$96,168 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,161,009	\$
Changes in actuarial assumptions		3,295,882
Difference between projected and actual investment earnings		4,370,029
Changes in proportion	881,167	734,153
Contributions paid to PERA subsequent to the measurement date	2,098,171	
Total	<u>\$ 4,140,347</u>	<u>\$ 8,400,064</u>

The \$2,098,171 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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ (1,848,877)
2021	(3,751,471)
2022	(824,125)
2023	66,585

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$23,531,941 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 2.2104 percent which was an increase of 0.0732 percent from its proportionate share measured at June 30, 2018. The City also recognized \$298,402 for the year ended December 31, 2019, 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 until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$983,604 for its proportionate share of the Police and Fire Fund's pension expense.

At December 31, 2019, 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	\$ 987,915	\$ 3,483,872
Changes in actuarial assumptions	18,923,498	26,359,151
Difference between projected and actual investment earnings		4,872,493
Changes in proportion	1,985,080	760,817
Contributions paid to PERA subsequent to the measurement date	2,072,570	
Total	<u>\$ 23,969,063</u>	<u>\$ 35,476,333</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Costs (continued)

2. Police and Fire Fund Pension Costs (continued)

The \$2,072,570 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2020	\$ (1,509,646)
2021	(3,222,497)
2022	(8,913,396)
2023	(44,421)
2024	110,120

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2019 was \$352,138.

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50 percent per year
Active Member Payroll Growth	3.25 percent per year
Investment Rate of Return	7.50 percent

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the June 30, 2019 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 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate 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 in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

Pension Liability Sensitivity

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

Sensitivity Analysis						
<i>Net Pension Liability at Different Discount Rates</i>						
	General Employees Fund			Police and Fire Fund		
1% Lower	6.50%	\$	67,922,172	6.50%	\$	51,436,450
Current Discount Rate	7.50%	\$	41,316,543	7.50%	\$	23,531,941
1% Higher	8.50%	\$	19,348,307	8.50%	\$	455

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.

NOTE 5: Accounting for the Effects of Rate Regulation

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

NOTE 6: Tax Abatement Agreements

As of December 31, 2019, 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, 2019, the City had eighteen said Districts in which \$1,987,276 of tax revenue was paid out to developers under these agreements.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 7: Subsequent Events

On March 30, 2020, the EDA issued Lease Revenue Bonds, Series 2020A in the amount of \$20,300,000. The proceeds of the bonds will be used to finance the remodeling and addition to the Development Services and Infrastructure Center (DSIC) and North Police Station at the former Think Bank Building Site on West River Road and 41st Street NW in Rochester. On March 30, 2020, the EDA also issued Taxable General Obligation Waste Water Revenue Refunding Bonds, Series 2020B in the amount of \$23,380,000. The proceeds of the bonds will be used to crossover refund the 2012A Sewer Utility Bond. The proceeds will be held in escrow until the crossover date August 1, 2022.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of businesses, as well as shelter in place orders for citizens. While the disruption is temporary, there is considerable uncertainty around the duration of the closings and length of shelter in place orders. While we expect this matter to negatively impact our operating results, the related financial impact and duration cannot be reasonably estimated at this time.

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 22, 2020, the date the financial statements were available to be issued.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

CITY OF ROCHESTER, MINNESOTA
Schedules of City Pension Contributions
December 31, 2019

PERA General Employees Retirement Fund
Last Ten Years*

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,212,117	\$ 3,212,117	\$	\$ 42,828,227	7.5%
2016	3,383,825	3,383,825		45,117,667	7.5%
2017	3,721,078	3,721,078		49,614,373	7.5%
2018	3,765,952	3,765,952		50,212,693	7.5%
2019	3,966,432	3,966,432		52,885,760	7.5%

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

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,140,595	\$ 3,140,595	\$	\$ 19,386,389	16.2%
2016	3,342,831	3,342,831		20,634,759	16.2%
2017	3,669,622	3,669,622		22,651,988	16.2%
2018	3,648,935	3,648,935		22,524,290	16.2%
2019	3,864,563	3,864,563		23,855,327	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, 2019

PERA General Employees Retirement Fund
Last Ten Years*

Fiscal Year Ended June 30	City's Proportionate Share (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated With the City (a+b)	Covered Payroll (c)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.7410%	\$ 38,402,466	\$	\$ 38,402,466	\$ 46,112,718	83.3%	78.20%
2016	0.7271%	59,036,914	771,048	59,807,962	43,972,947	136.0%	68.90%
2017	0.7701%	49,162,676	618,213	49,780,889	47,366,020	105.1%	75.90%
2018	0.7471%	41,446,045	1,359,493	42,805,538	49,913,533	85.8%	79.53%
2019	0.7473%	41,316,543	1,284,111	42,600,654	51,549,227	82.6%	80.23%

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

Fiscal Year Ended June 30	City's Proportionate Share (Percentage) of Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	City's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.1770%	\$ 24,735,814	\$ 20,924,808	118.2%	86.60%
2016	2.1420%	85,962,187	20,010,574	429.6%	63.90%
2017	2.2070%	29,797,126	21,643,373	137.7%	85.40%
2018	2.1372%	22,780,351	22,588,139	100.9%	88.84%
2019	2.2104%	23,531,941	23,189,809	101.5%	89.26%

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

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

Total OPEB Liability	2019	2018
Service cost	\$ 726,221	\$ 762,822
Interest cost	371,228	347,995
Assumption changes	(339,748)	
Benefit payments	(408,344)	(332,645)
Net change in total OPEB liability	349,357	778,172
Total OPEB Liability - beginning of year	10,725,626	9,947,454
Total OPEB Liability - end of year	\$ 11,074,983	\$ 10,725,626
Covered Payroll	\$ 72,914,859	\$ 70,791,125
Total OPEB Liability as a % of payroll	15%	15%

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

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2019

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2019

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, 2019

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, 2019

	Special Revenue							
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center
ASSETS								
Cash and cash equivalents	\$ 66,257	\$ 13,111	\$ 100,334	\$	\$ 107,879	\$ 15,098	\$ 124,251	\$ 21,878
Investments	3,033,300	2,817,000	1,887,400		4,781,200	669,900	6,453,100	970,400
Accrued interest receivable	15,574	17,410	9,557		24,289	3,379	32,786	4,905
Accounts receivable (net of allowance for uncollectibles)	245,403	626,101	361,776		1,353,074		183,432	184,862
Loans receivable								
Taxes receivable delinquent	77,962	84,619			5,630		303	
Special assessments receivable delinquent		131,139						
Due from other funds			274					
Due from other governmental units	49,146	120,216	87,697		42,654		2,000,008	
Prepaid items	870							
Inventory		6,042	27,278				24,273	
TOTAL ASSETS	\$ 3,488,512	\$ 3,815,638	\$ 2,474,316	\$	\$ 6,314,726	\$ 688,377	\$ 8,818,153	\$ 1,182,045
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 176,076	\$ 131,921	\$ 343,391	\$	\$ 33,957	\$	\$ 587,920	\$
Deposits payable	6,817	174,677	123,297		217,820			
Accrued compensation and payroll taxes	185,010	190,323	286,653				3,151	
Due to other funds	6,260	54,294	55,897	4,124	35,036		746	
Advances from other funds								
Unearned revenue		2,406	2,290					
Due to other governmental units	7,199	248,518	137,739		2,679		3,727,477	742
Total Liabilities	381,362	802,139	949,267	4,124	289,492		4,319,294	742
Deferred Inflows of Resources:								
Unavailable revenue								
Property taxes	77,962	84,619			5,630		303	
Special assessments		131,139						
Loans receivable								
Total Deferred Inflows of Resources	77,962	215,758			5,630		303	
Fund Balance:								
Nonspendable	870	6,042	27,278				24,273	
Restricted					6,019,604	688,377		
Assigned	3,028,318	2,791,699	1,497,771				4,474,283	1,181,303
Unassigned				(4,124)				
Total Fund Balance	3,029,188	2,797,741	1,525,049	(4,124)	6,019,604	688,377	4,498,556	1,181,303
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 3,488,512	\$ 3,815,638	\$ 2,474,316	\$	\$ 6,314,726	\$ 688,377	\$ 8,818,153	\$ 1,182,045

Community Development Projects	Debt Service										Total Nonmajor Governmental Funds
	DMCC	Total	Tax Increment Bonds	TIF Revenue Bond	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond	Lodging Tax Revenue Bond	GO Variable Rate Sales Tax Bond	Total	
\$	\$ 1,148	\$ 449,956	\$	\$	\$	\$ 106	\$ 1,830,245	\$	\$ 52,785	\$ 1,883,136	\$ 2,333,092
		20,612,300									20,612,300
		107,900					8,538		246	8,784	116,684
	50,000	3,004,648									3,004,648
4,023,228		4,023,228									4,023,228
		168,514					19,475			19,475	187,989
		131,139									131,139
	318,828	319,102									319,102
207,199		2,506,920					11,564			11,564	2,518,484
	72,177	73,047				122,007				122,007	195,054
		57,593									57,593
<u>\$ 4,230,427</u>	<u>\$ 442,153</u>	<u>\$ 31,454,347</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 122,113</u>	<u>\$ 1,869,822</u>	<u>\$</u>	<u>\$ 53,031</u>	<u>\$ 2,044,966</u>	<u>\$ 33,499,313</u>
\$ 126,414	\$ 318,976	\$ 1,718,655	\$	\$ 200	\$	\$	\$ 197	\$ 200	\$ 52,601	\$ 53,198	\$ 1,771,853
		522,611									522,611
		665,137									665,137
97,434	51,000	304,791									304,791
						2,200,000				2,200,000	2,200,000
	72,177	76,873									76,873
		4,124,354									4,124,354
<u>223,848</u>	<u>442,153</u>	<u>7,412,421</u>		<u>200</u>		<u>2,200,000</u>	<u>197</u>	<u>200</u>	<u>52,601</u>	<u>2,253,198</u>	<u>9,665,619</u>
		168,514					19,475			19,475	187,989
		131,139									131,139
4,023,228		4,023,228									4,023,228
<u>4,023,228</u>		<u>4,322,881</u>					<u>19,475</u>			<u>19,475</u>	<u>4,342,356</u>
	72,177	130,640				122,007				122,007	252,647
		6,707,981					1,850,150		430	1,850,580	8,558,561
		12,973,374									12,973,374
(16,649)	(72,177)	(92,950)		(200)		(2,199,894)		(200)		(2,200,294)	(2,293,244)
<u>(16,649)</u>		<u>19,719,045</u>		<u>(200)</u>		<u>(2,077,887)</u>	<u>1,850,150</u>	<u>(200)</u>	<u>430</u>	<u>(227,707)</u>	<u>19,491,338</u>
<u>\$ 4,230,427</u>	<u>\$ 442,153</u>	<u>\$ 31,454,347</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 122,113</u>	<u>\$ 1,869,822</u>	<u>\$</u>	<u>\$ 53,031</u>	<u>\$ 2,044,966</u>	<u>\$ 33,499,313</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	Special Revenue							Minnesota Bio Science Center
	Library	Municipal Recreation System	Mayo Civic Center	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	
REVENUES								
General property taxes	\$ 6,978,565	\$ 7,623,422	\$ 4,580	\$	\$ 509,148	\$	\$ 14	\$
Tax increment								
Nonproperty tax			2,397,270					
Intergovernmental revenues	1,065,807	88,492			283,320		8,810,599	
Charges for services	102,801	4,089,546	3,908,574		3,102,301		3,480,933	
Interest earnings (loss)	39,709	39,683	30,793	(64)	90,414	13,960	122,732	16,946
Net increase in the fair value of investments	38,800	43,000	21,700		48,000	7,900	60,100	13,000
Rental revenues					2,033,878			2,774,615
Miscellaneous revenues	440,015	187,837	4,279				319,642	
Total Revenues	8,665,697	12,071,980	6,367,196	(64)	6,067,061	21,860	12,794,020	2,804,561
EXPENDITURES								
Culture	8,730,624							
Park and recreation/Mayo Civic Center		11,936,409	6,152,668					
Public safety				3,798				
Airport operations					4,577,255			
Transit							11,064,621	
Economic development/tourism								1,414,138
Debt service								
Total Expenditures	8,730,624	11,936,409	6,152,668	3,798	4,577,255		11,064,621	1,414,138
Excess (deficiency) of revenues over (under) expenditures	(64,927)	135,571	214,528	(3,862)	1,489,806	21,860	1,729,399	1,390,423
OTHER FINANCING SOURCES (USES)								
Transfers in		3,186						
Transfers out		(575,425)	(240,597)				(99,338)	(1,505,229)
Total Other Financing Sources (Uses)		(572,239)	(240,597)				(99,338)	(1,505,229)
Net change in fund balances	(64,927)	(436,668)	(26,069)	(3,862)	1,489,806	21,860	1,630,061	(114,806)
Fund Balances - beginning	3,094,115	3,234,409	1,551,118	(262)	4,529,798	666,517	2,868,495	1,296,109
Fund Balances - ending	\$ 3,029,188	\$ 2,797,741	\$ 1,525,049	\$ (4,124)	\$ 6,019,604	\$ 688,377	\$ 4,498,556	\$ 1,181,303

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			
\$	\$	\$ 15,115,729	\$	\$	\$	\$	\$	\$ 1,638,046	\$	\$	\$ 1,638,046	\$ 16,753,775
		2,397,270	518,083								518,083	518,083
453,953		10,702,171						312,705			312,705	11,014,876
		14,684,155										14,684,155
2,913	14	357,100		(6)				21,753		606	22,353	379,453
		232,500										232,500
		4,808,493										4,808,493
88,981		1,040,754										1,040,754
545,847	14	49,338,172	518,083	(6)				1,972,504		606	2,491,187	51,829,359
		8,730,624										8,730,624
		18,089,077										18,089,077
		3,798										3,798
		4,577,255										4,577,255
		11,064,621										11,064,621
560,699	2,700,737	4,675,574		200			19,507				19,707	4,695,281
			4,521,833	1,299,506			922,881	1,857,695	2,807,463	3,206,848	14,616,226	14,616,226
560,699	2,700,737	47,140,949	4,521,833	1,299,706			942,388	1,857,695	2,807,463	3,206,848	14,635,933	61,776,882
(14,852)	(2,700,723)	2,197,223	(4,003,750)	(1,299,712)			(942,388)	114,809	(2,807,463)	(3,206,242)	(12,144,746)	(9,947,523)
	2,700,723	2,703,909	4,005,000	1,296,669			1,505,229		2,807,263	3,206,434	12,820,595	15,524,504
		(2,420,589)					(49,685)				(49,685)	(2,470,274)
	2,700,723	283,320	4,005,000	1,296,669			(49,685)	1,505,229	2,807,263	3,206,434	12,770,910	13,054,230
(14,852)		2,480,543	1,250	(3,043)	(49,685)	562,841	114,809		(200)	192	626,164	3,106,707
(1,797)		17,238,502	(1,250)	2,843	49,685	(2,640,728)	1,735,341			238	(853,871)	16,384,631
\$ (16,649)	\$	\$ 19,719,045	\$	\$ (200)	\$	\$ (2,077,887)	\$ 1,850,150	\$ (200)	\$ 430	\$ (227,707)	\$ 19,491,338	

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

For the Year Ended December 31, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 7,028,270	\$ 7,028,270	\$ 6,978,565	\$ (49,705)
Intergovernmental	1,028,477	1,062,807	1,065,807	3,000
Charges for services	155,600	155,600	102,801	(52,799)
Interest earnings	11,500	41,657	39,709	(1,948)
Net increase (decrease) in the fair value of investments	(3,000)	(3,000)	38,800	41,800
Miscellaneous revenues				
Contributions		237,773	237,773	
Other	1,950	1,950	202,242	200,292
Total Revenues	<u>8,222,797</u>	<u>8,525,057</u>	<u>8,665,697</u>	<u>140,640</u>
EXPENDITURES				
Public Library	8,252,509	8,339,777	8,366,312	(26,535)
Gifts appropriations		907,530	364,312	543,218
Total Expenditures	<u>8,252,509</u>	<u>9,247,307</u>	<u>8,730,624</u>	<u>516,683</u>
Excess (deficiency) of revenues over (under) expenditures	(29,712)	(722,250)	(64,927)	657,323
Fund Balance - beginning	<u>3,094,115</u>	<u>3,094,115</u>	<u>3,094,115</u>	
Fund Balance - ending	<u><u>\$ 3,064,403</u></u>	<u><u>\$ 2,371,865</u></u>	<u><u>\$ 3,029,188</u></u>	<u><u>\$ 657,323</u></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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 7,679,308	\$ 7,679,308	\$ 7,623,422	\$ (55,886)
Intergovernmental	37,202	47,926	88,492	40,566
Charges for services	4,227,712	4,227,712	4,089,546	(138,166)
Interest earnings	21,400	21,400	39,683	18,283
Net increase (decrease) in the fair value of investments	(4,000)	(4,000)	43,000	47,000
Miscellaneous revenues				
Contributions	11,500	22,337	10,690	(11,647)
Other	131,303	137,524	177,147	39,623
Total Revenues	<u>12,104,425</u>	<u>12,132,207</u>	<u>12,071,980</u>	<u>(60,227)</u>
EXPENDITURES				
Administration	612,332	612,332	608,362	3,970
Recreation Department	772,894	789,379	720,045	69,334
Golf	1,658,741	1,694,954	1,598,021	96,933
Tennis Center	55,680	55,680	54,135	1,545
Volleyball Center	348,044	348,044	370,053	(22,009)
Swimming Pools	133,195	133,195	130,504	2,691
Graham Arenas	792,451	792,451	842,457	(50,006)
Park	6,169,706	6,230,113	6,167,733	62,380
Plummer House	80,049	80,049	71,059	8,990
Recreation Center	1,269,671	1,269,671	1,374,040	(104,369)
Total Expenditures	<u>11,892,763</u>	<u>12,005,868</u>	<u>11,936,409</u>	<u>69,459</u>
Excess of revenues over expenditures	<u>211,662</u>	<u>126,339</u>	<u>135,571</u>	<u>9,232</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			3,186	3,186
Transfers out	(211,662)	(522,704)	(575,425)	(52,721)
Total Other Financing Sources (Uses)	<u>(211,662)</u>	<u>(522,704)</u>	<u>(572,239)</u>	<u>(49,535)</u>
Net change in fund balance		(396,365)	(436,668)	(40,303)
Fund Balance - beginning	<u>3,234,409</u>	<u>3,234,409</u>	<u>3,234,409</u>	
Fund Balance - ending	<u>\$ 3,234,409</u>	<u>\$ 2,838,044</u>	<u>\$ 2,797,741</u>	<u>\$ (40,303)</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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 4,580	\$ 4,580	\$ 4,580	\$
Nonproperty taxes	2,397,270	2,397,270	2,397,270	
Charges for services	3,837,500	3,837,500	3,908,574	71,074
Interest earnings	40	40	30,793	30,753
Net increase in the fair value of investments			21,700	21,700
Other	26,750	26,750	4,279	(22,471)
Total Revenues	<u>6,266,140</u>	<u>6,266,140</u>	<u>6,367,196</u>	<u>101,056</u>
EXPENDITURES				
Mayo Civic Center	<u>6,080,314</u>	<u>6,102,128</u>	<u>6,152,668</u>	<u>(50,540)</u>
Excess of revenues over expenditures	185,826	164,012	214,528	50,516
OTHER FINANCING USES				
Transfers out	<u>(231,931)</u>	<u>(231,931)</u>	<u>(240,597)</u>	<u>(8,666)</u>
Net change in fund balance	(46,105)	(67,919)	(26,069)	41,850
Fund Balance - beginning	<u>1,551,118</u>	<u>1,551,118</u>	<u>1,551,118</u>	
Fund Balance - ending	<u>\$ 1,505,013</u>	<u>\$ 1,483,199</u>	<u>\$ 1,525,049</u>	<u>\$ 41,850</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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 511,763	\$ 511,763	\$ 509,148	\$ (2,615)
Intergovernmental	249,935	249,935	283,320	33,385
Charges for services	2,902,207	2,902,207	3,102,301	200,094
Interest earnings	11,000	11,000	90,414	79,414
Net increase (decrease) in the fair value of investments	(700)	(700)	48,000	48,700
Rental revenues	1,884,363	1,884,363	2,033,878	149,515
Total Revenues	<u>5,558,568</u>	<u>5,558,568</u>	<u>6,067,061</u>	<u>508,493</u>
EXPENDITURES				
Airport operations	4,648,759	4,648,759	4,394,995	253,764
US customs operations	161,500	161,500	182,260	(20,760)
Total Expenditures	<u>4,810,259</u>	<u>4,810,259</u>	<u>4,577,255</u>	<u>233,004</u>
Excess of revenues over expenditures	748,309	748,309	1,489,806	741,497
Fund Balance - beginning	<u>4,529,798</u>	<u>4,529,798</u>	<u>4,529,798</u>	
Fund Balance - ending	<u>\$ 5,278,107</u>	<u>\$ 5,278,107</u>	<u>\$ 6,019,604</u>	<u>\$ 741,497</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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest earnings	\$ 7,242	\$ 7,242	\$ 13,960	\$ 6,718
Net increase (decrease) in the fair value of investments	(1,500)	(1,500)	7,900	9,400
Net change in fund balance	5,742	5,742	21,860	16,118
 Fund Balance - beginning	 666,517	 666,517	 666,517	
Fund Balance - ending	<u>\$ 672,259</u>	<u>\$ 672,259</u>	<u>\$ 688,377</u>	<u>\$ 16,118</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, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$	\$	\$ 14	\$ 14
Intergovernmental revenues	10,262,050	10,262,050	8,810,599	(1,451,451)
Charges for services	3,237,200	3,237,200	3,480,933	243,733
Interest earnings	26,700	26,700	122,732	96,032
Net increase (decrease) in the fair value of investments	(1,000)	(1,000)	60,100	61,100
Miscellaneous revenues	70,000	241,537	319,642	78,105
Total Revenues	<u>13,594,950</u>	<u>13,766,487</u>	<u>12,794,020</u>	<u>(972,467)</u>
EXPENDITURES				
Fixed route	12,047,616	12,296,875	10,029,027	2,267,848
Demand response - ZIPS	1,091,063	1,091,063	1,035,594	55,469
Total Expenditures	<u>13,138,679</u>	<u>13,387,938</u>	<u>11,064,621</u>	<u>2,323,317</u>
Excess of revenues over expenditures	456,271	378,549	1,729,399	1,350,850
OTHER FINANCING USES				
Transfers out	(182,000)	(182,000)	(99,338)	82,662
Net change in fund balance	274,271	196,549	1,630,061	1,433,512
Fund Balance - beginning	<u>2,868,495</u>	<u>2,868,495</u>	<u>2,868,495</u>	<u></u>
Fund Balance - ending	<u>\$ 3,142,766</u>	<u>\$ 3,065,044</u>	<u>\$ 4,498,556</u>	<u>\$ 1,433,512</u>

CITY OF ROCHESTER, MINNESOTA
DMCC FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2019

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest earnings	\$	\$	\$ 14	\$ 14
EXPENDITURES				
Economic development/tourism	2,897,606	2,897,606	2,700,737	196,869
Deficiency of revenues under expenditures	(2,897,606)	(2,897,606)	(2,700,723)	196,883
OTHER FINANCING SOURCES				
Transfers in	2,897,606	2,897,606	2,700,723	(196,883)
Net change in fund balance				
Fund Balance - beginning				
Fund Balance - ending	\$	\$	\$	\$

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2019

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, 2019

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 395,212	\$ 386,010	\$ 919,618	\$ 1,700,840
Investments	4,941,200	4,094,300	22,128,900	31,164,400
Accounts receivable	63,417		9,097	72,514
Accrued interest receivable	25,048	20,684	112,257	157,989
Taxes receivable delinquent	2,177	806		2,983
Advances to other funds			7,030,978	7,030,978
Due from other governmental units	1,515	50		1,565
Total Current Assets	<u>5,428,569</u>	<u>4,501,850</u>	<u>30,200,850</u>	<u>40,131,269</u>
Noncurrent Assets:				
Capital assets:				
Construction in process	1,356,376			1,356,376
Machinery and equipment	41,010,736	3,482,602		44,493,338
Less: Accumulated depreciation	<u>(25,266,873)</u>	<u>(2,578,645)</u>		<u>(27,845,518)</u>
Total capital assets (net of accumulated depreciation)	<u>17,100,239</u>	<u>903,957</u>		<u>18,004,196</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from OPEB activity			512,148	512,148
Total Assets and Deferred Outflows of Resources	<u>22,528,808</u>	<u>5,405,807</u>	<u>30,712,998</u>	<u>58,647,613</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	247,581	50,068	77,539	375,188
Accrued interest payable	30,929			30,929
Deposits payable			3,536	3,536
Unearned revenue			169,381	169,381
Due to other governmental units			3,780	3,780
Accrued claims			1,376,953	1,376,953
Bonds payable	85,000			85,000
Total Current Liabilities	<u>363,510</u>	<u>50,068</u>	<u>1,631,189</u>	<u>2,044,767</u>
Noncurrent Liabilities:				
Bonds payable	2,190,000			2,190,000
Accrued claims			1,091,590	1,091,590
Post employment benefit obligation			11,074,983	11,074,983
Total Noncurrent Liabilities	<u>2,190,000</u>		<u>12,166,573</u>	<u>14,356,573</u>
Total Liabilities	<u>2,553,510</u>	<u>50,068</u>	<u>13,797,762</u>	<u>16,401,340</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from OPEB activity			297,279	297,279
Total Liabilities and Deferred Inflows of Resources	<u>2,553,510</u>	<u>50,068</u>	<u>14,095,041</u>	<u>16,698,619</u>
NET POSITION				
Net investment in capital assets	14,825,239	903,957		15,729,196
Unrestricted	5,150,059	4,451,782	16,617,957	26,219,798
Total Net Position	<u>\$ 19,975,298</u>	<u>\$ 5,355,739</u>	<u>\$ 16,617,957</u>	<u>\$ 41,948,994</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, 2019

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Revenues:				
Charges for Services:				
Equipment rental	\$ 3,519,538	\$ 1,920,466	\$	\$ 5,440,004
Copy center charges	26,404			26,404
Departmental workers' compensation charges			697,840	697,840
Departmental insurance charges			21,243,928	21,243,928
Departmental flex charges			13,379	13,379
Employee insurance charges			1,749,100	1,749,100
Employee flex benefit contributions			589,772	589,772
Total Operating Revenues	<u>3,545,942</u>	<u>1,920,466</u>	<u>24,294,019</u>	<u>29,760,427</u>
Operating Expenses:				
Copy center	17,103			17,103
Minor equipment		252,701		252,701
Workers' compensation benefits			861,214	861,214
Workers' compensation insurance premiums			72,930	72,930
Health insurance claims			20,310,108	20,310,108
Flex benefits			594,135	594,135
Property and liability insurance			774,945	774,945
Property and liability claims			36,034	36,034
Other	8,956	1,005,515		1,014,471
Depreciation	3,240,431	296,219		3,536,650
Total Operating Expenses	<u>3,266,490</u>	<u>1,554,435</u>	<u>22,649,366</u>	<u>27,470,291</u>
Operating Income	<u>279,452</u>	<u>366,031</u>	<u>1,644,653</u>	<u>2,290,136</u>
Nonoperating Revenues (Expenses):				
General property taxes	170,456	(382)		170,074
Interest earnings	99,053	78,527	496,592	674,172
Net increase in the fair value of investments	62,300	50,100	243,900	356,300
Interest and fiscal charges	(75,262)			(75,262)
Gain on disposal of property	102,525			102,525
Intergovernmental revenues	721			721
Total Nonoperating Revenues	<u>359,793</u>	<u>128,245</u>	<u>740,492</u>	<u>1,228,530</u>
Income Before Transfers	639,245	494,276	2,385,145	3,518,666
Capital contributions	339,039			339,039
Transfers in			87,169	87,169
Transfers out		(87,025)		(87,025)
Change in Net Position	978,284	407,251	2,472,314	3,857,849
Total Net Position - beginning	<u>18,997,014</u>	<u>4,948,488</u>	<u>14,145,643</u>	<u>38,091,145</u>
Total Net Position - ending	<u>\$ 19,975,298</u>	<u>\$ 5,355,739</u>	<u>\$ 16,617,957</u>	<u>\$ 41,948,994</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Cash Flows From Operating Activities:				
Cash received from other departments	\$ 3,547,429	\$ 1,920,634	\$ 23,269,967	\$ 28,738,030
Cash received from employees			2,329,775	2,329,775
Cash paid to suppliers	<u>(26,059)</u>	<u>(1,558,269)</u>	<u>(22,414,250)</u>	<u>(23,998,578)</u>
Net Cash Provided by Operating Activities	<u>3,521,370</u>	<u>362,365</u>	<u>3,185,492</u>	<u>7,069,227</u>
Cash Flows From Noncapital Financing Activities:				
General property taxes	171,754	(229)		171,525
Intergovernmental revenues	721			721
Transfers in			87,169	87,169
Transfers out		<u>(87,025)</u>		<u>(87,025)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>172,475</u>	<u>(87,254)</u>	<u>87,169</u>	<u>172,390</u>
Cash Flows From Capital and Related Financing Activities:				
Principal and interest payments on bonds	(192,239)			(192,239)
Proceeds from sale of property	64,609			64,609
Acquisition of capital assets	<u>(3,839,343)</u>	<u>(208,379)</u>		<u>(4,047,722)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(3,966,973)</u>	<u>(208,379)</u>		<u>(4,175,352)</u>
Cash Flows From Investing Activities:				
Investment income	96,638	75,593	462,808	635,039
Net (increase) decrease in investments	<u>371,700</u>	<u>87,300</u>	<u>(3,672,500)</u>	<u>(3,213,500)</u>
Net Cash Provided by (Used in) Investing Activities	<u>468,338</u>	<u>162,893</u>	<u>(3,209,692)</u>	<u>(2,578,461)</u>
Net Increase in Cash and Cash Equivalents	195,210	229,625	62,969	487,804
Cash and Cash Equivalents, Beginning of Year	<u>200,002</u>	<u>156,385</u>	<u>856,649</u>	<u>1,213,036</u>
Cash and Cash Equivalents, End of Year	<u>\$ 395,212</u>	<u>\$ 386,010</u>	<u>\$ 919,618</u>	<u>\$ 1,700,840</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2019

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Income	\$ 279,452	\$ 366,031	\$ 1,644,653	\$ 2,290,136
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation	3,240,431	296,219		3,536,650
(Increase) Decrease In:				
Accounts receivable			(9,097)	(9,097)
Due from other governmental units	1,487	168		1,655
Advances due from other funds			1,314,820	1,314,820
Deferred outflows from OPEB activity			(103,804)	(103,804)
Increase (Decrease) In:				
Accounts payable		(299,116)	56,563	(242,553)
Deposits payable			(887)	(887)
Unearned revenue			37,750	37,750
Due to other governmental units		(937)	(13,246)	(14,183)
Post employment benefit obligation			349,357	349,357
Deferred inflows from OPEB activity			297,279	297,279
Accrued claims			(387,896)	(387,896)
Net Cash Provided by Operating Activities	<u>\$ 3,521,370</u>	<u>\$ 362,365</u>	<u>\$ 3,185,492</u>	<u>\$ 7,069,227</u>
Non Cash Transactions:				
Increase in fair value of investments	\$ 62,300	\$ 50,100	\$ 243,900	\$ 356,300
Receipt of contributed property	339,039			339,039
Equipment purchases in accounts payable at year end	247,581			247,581

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