

City of Rochester, Minnesota

Comprehensive Annual Financial Report For the Year Ended December 31, 2012



CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

DEPARTMENT OF FINANCE

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Members of the Government Finance Officers Association
of the United States and Canada

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CITY OF ROCHESTER, MINNESOTA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2012**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF ROCHESTER, MINNESOTA
INTRODUCTORY SECTION
DECEMBER 31, 2012

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ROCHESTER

Minnesota

FIRST CLASS CITY • FIRST CLASS SERVICE



FINANCE DEPARTMENT
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FAX (507) 328-2876

June 10, 2013

To the Honorable Mayor, Members of the Common Council, and the Citizens of the City of Rochester:

Minnesota statutes require all cities to issue an annual report on its financial position and activity prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Rochester for the fiscal year ended December 31, 2012.

This report consists of management's representations concerning the finances of the City of Rochester. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Rochester has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Rochester's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rochester's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Rochester's financial statements have been audited by Smith, Schafer and Associates, Ltd., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rochester for the fiscal year ended December 31, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rochester's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Rochester was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rochester's separately issued Single Audit Report.

CITY OF ROCHESTER, MINNESOTA

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Rochester's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The City of Rochester, incorporated on August 5, 1858, is located in the southeastern part of the State of Minnesota, which is considered to be one of the top growth areas in the state, and one of the top growth areas in the country. The City currently has a land area of nearly 54.75 square miles and serves a population of 109,400. The City of Rochester is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

The City of Rochester is governed under a charter adopted August 22, 1904. Policy-making and legislative authority are vested in a governing council consisting of the mayor, the council president and six council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's administrator and attorney. The City's administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members, the president and mayor all serve four-year staggered terms, with four of these positions elected every two years. Six of the council members are elected by ward. The mayor and council president are elected at large.

The City of Rochester provides a full range of services including police and fire protection; construction and maintenance of streets and infrastructure; recreational facilities, library and cultural events; water, sewer, electric, storm water management, public parking, mass transit and airport services.

The annual budget serves as the foundation for the City of Rochester's financial planning and control. All departments and agencies of the City of Rochester submit requests for appropriation to the city administrator in August of each year. The city administrator uses these requests as the starting point for developing a proposed budget. The city administrator then provides this proposed budget to the council for review prior to November. Work sessions are then held with the council covering each department budget. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than December 31, the close of the City of Rochester's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Any changes to the budget at the functional level (e.g. General Government, Public Safety, Public Works, etc.) must be by formal resolution of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 25-26 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 81.

CITY OF ROCHESTER, MINNESOTA

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Rochester operates.

Local economy. The third largest City in Minnesota, Rochester is located 78 miles southeast of Minneapolis and St. Paul. Rochester's strong economy is built around world-renowned health care, cutting-edge technology, agriculture and agribusiness. As home to the Mayo Clinic and IBM Rochester, the City has developed into an economic growth center and the cultural hub of southeastern Minnesota. Its many recreational and cultural activities draw people from southeastern Minnesota and northern Iowa. Add these benefits to a low crime rate and an exceptional school system and it is easy to see why Rochester continues to rank as one of the top places to live.

Recent indicators of Rochester's economic climate include:

- **Jobs.** Nonagricultural wage and salary employment for the Rochester MSA grew at a rate of 1.1 percent over the last year. The gain of 1,137 jobs brought the total employment figure up to 104,893 from the March 2012 level of 103,756. Goods Producing sector reported a loss in the last year while Service Providing sector reported an increase of 1,766 jobs.
- **Unemployment.** The Rochester MSA unemployment rate decreased by 0.5 percent from 2012 to end the first quarter of 2013 at 4.9 percent. The rates for January and February were 5.5 percent and 5.1 percent respectively. The Rochester average remains well below the state and U.S. averages of 5.8 and 7.6 percent respectively.
- **Home Sales.** First quarter 2013 sales of single family homes in Rochester were \$65,718,705. This represents increases of 18.3 percent over first quarter 2012, 56.5 percent over 2011, 56 percent over 2010, and 40.4 percent over 2009. The average home in Rochester sold for \$179,559 during the first quarter of 2013, and the median sale price was \$154,500. There were 366 units sold during the first quarter. The average time on the market was 152 days.
- **Building Activity.** Building activity continued its rebound during 2012 and on into the first quarter of 2013. Total Commercial and residential building permits issued during 2012 totaled \$329,039,136. This represents increases of 60 percent over 2011, 64.6 percent over 2010, 101 percent over 2009. First quarter of 2013 was down 62.5 percent from first quarter 2012 yet up 29.2 percent from first quarter 2011. First quarter 2012 was an unusually high quarter due to two projects by Mayo totaling over \$51 million in permit value.
- **City Sales Tax.** Net sales tax collections by the City during 2012 totaled \$9,943,197, up 4.6% from the 2011 amount of \$9,503,000 and 10.3% over 2010 amount of \$9,017,187.
- **City Hotel Motel Tax.** Hotel Motel Tax collections by the City during 2012 totaled \$3,861,171, up 7.8% over the 2011 collections of \$3,580,870 and 11.3% over the 2010 amount of \$3,470,108.

CITY OF ROCHESTER, MINNESOTA

Long-term financial planning. The Rochester council is directing City staff on numerous projects that will affect the growth of the City. A partial list includes:

- Public Works and Transit Operations Center. The City's transit system moved into this facility in July of 2012, joining the public works street maintenance sewer division that had occupied their portion since November of 2011. The final phase (phase 5) of the construction of this multi-departmental vehicle maintenance and storage campus was completed in November of 2012 with the \$8.8 million construction of the bus storage facility at this 20-acre site. Service personnel in this facility now maintain equipment for our street maintenance, sewer and storm water utilities and transit fleet, and will ultimately service, fire, police and other departmental vehicles in this state of the art \$43 million facility.
- Turn back of Highway 63. The State of Minnesota turned back maintenance and control of a segment of the highway 63 corridor within the City on June 1st of 2013. This segment is a major road in the heart of the City and links Rochester to Lake City to the north and Stewartville to the south. The agreement provides for the State to turn over \$26 million to the City over a 4-year period which will be put aside to assist in ongoing maintenance and repair of this added street system.
- Business Accelerator. Mayo Clinic and Rochester area business development officials announced the opening of the new Mayo Clinic Business Accelerator at the Minnesota BioBusiness Center on March 1, 2013. The space may be leased by existing companies, entrepreneurs, venture capitalists and professional service providers. The goal of the accelerator is to stimulate growth of health care-related businesses in Rochester. The accelerator is a Mayo Clinic initiative supported by Rochester Area Economic Development, Inc. (RAEDI) and the City of Rochester.
- Destination Medical Center (DMC). Mayo Clinic announced Destination Medical Center (DMC), a \$5 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future. The goal of DMC is to ensure that Minnesota and Mayo Clinic are a destination for medical care in the coming decades. This initiative is the culmination of a three-year study by Mayo Clinic to chart its future business strategy in an increasingly complex, competitive and global business environment. Special legislation was passed during the 2013 session securing State, City and County funding to help construct the significant public infrastructure needed to support this growth.
- Sales Tax Extension. The voters of Rochester approved the extension of its 1/2-cent sales tax as authorized by the 2011 State Legislature, but subject to this voter referendum. The law provides for \$158 million worth of council-identified projects including a new senior center/recreation center, infrastructure improvements to support development outlined in the Downtown Master Plan including \$20 million for the above-noted Destination Medical Center improvements, higher education improvements, economic development incentive funding in Rochester and \$5 million for economic development in surrounding communities.

CITY OF ROCHESTER, MINNESOTA

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rochester, Minnesota for its comprehensive annual financial report for the fiscal year ended December 31, 2011. This was the forty-second consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report could not be accomplished without the professional, efficient services of many dedicated people. We first express our appreciation to all members of the Finance department who assisted and contributed in preparing the report. We also thank the staff of Smith, Schafer and Associates, Ltd. for their assistance and review of the document. And finally, we acknowledge the Mayor and the members of the Common Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Dale R. Martinson
Director of Finance



Stevan E. Kvenvold
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



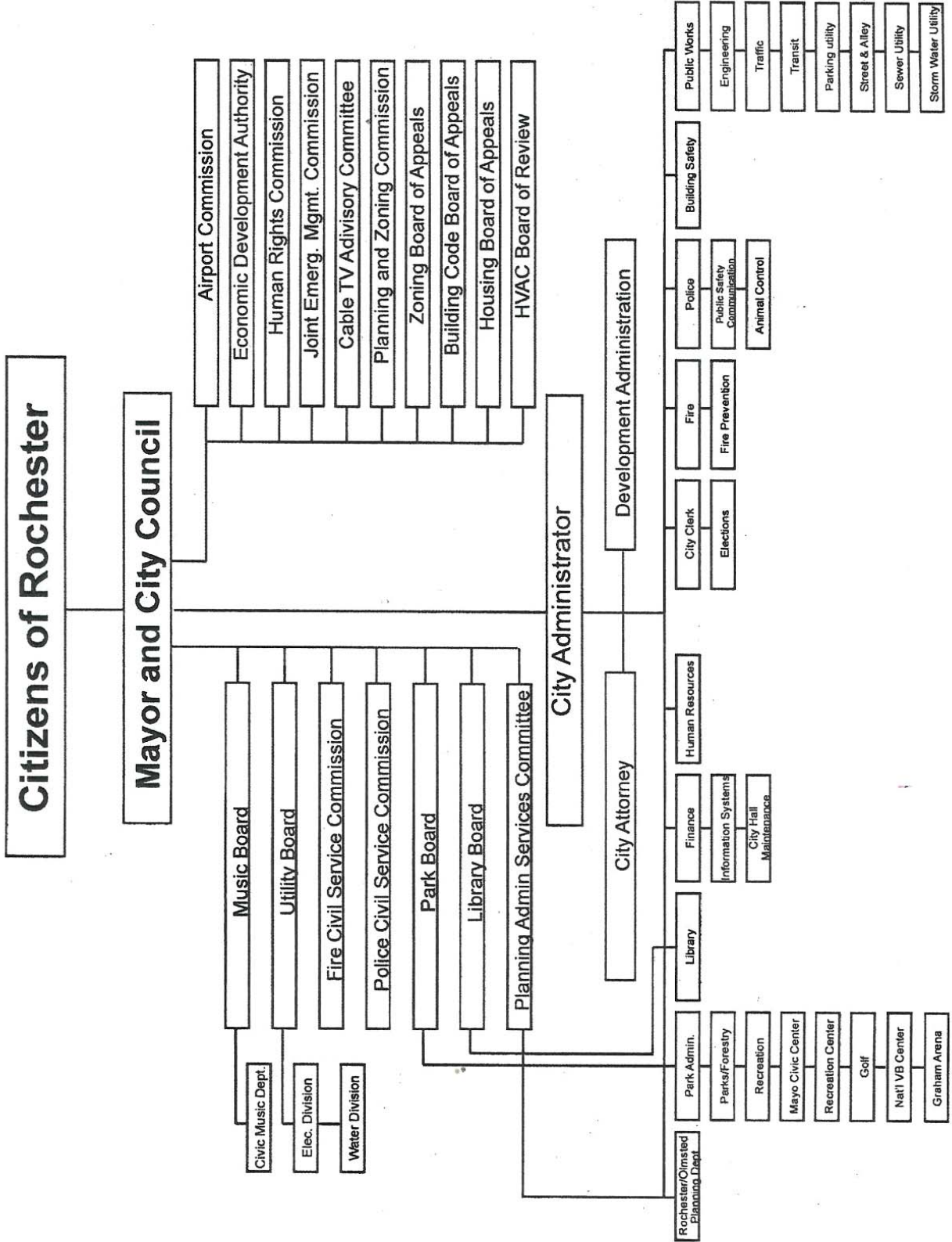
Christopher P. Moirice

President

Jeffrey R. Emer

Executive Director

**CITY OF ROCHESTER, MINNESOTA
ORGANIZATIONAL CHART**



**CITY OF ROCHESTER, MINNESOTA
LIST OF ELECTED AND APPOINTED OFFICIALS**

MAYOR - COUNCIL

	Initial Term <u>Commenced</u>	Current Term Expires <u>December 31</u>
Mayor, Ardell F. Brede	2003	2014
Council President, Vacant (Election May 2013)		
Councilmember First Ward, Ed Hruska	2007	2014
Councilmember Second Ward, Michael Wojcik	2009	2016
Councilmember Third Ward, Bruce Snyder	2006	2014
Councilmember Fourth Ward, Mark Bilderback	2009	2016
Councilmember Fifth Ward, Randy Staver (Interim President)	2010	2014
Councilmember Sixth Ward, Sandra Means	2003	2016

CITY ADMINISTRATOR

Stevan E. Kvenvold

DIRECTOR OF FINANCE – TREASURER

Dale R. Martinson

OTHER CITY OFFICIALS

City Attorney - Terry L. Adkins
City Clerk - Judy Kay Scherr
Director of Public Works - Richard W. Freese
Director of Building Safety - Randy S. Johnson
Chief of Police - Roger L. Peterson
Fire Chief - Greg K. Martin
Director of Human Resources - Linda K. Hillenbrand
Director Library Services - Audrey Betcher
Superintendent of Parks and Recreation - Ronald E. Bastian
General Manager - Music, Steven J. Schmidt
General Manager - Public Utilities, Larry J. Koshire
Superintendent of Water Reclamation Plant - Chester S. Welle

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2012

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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, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents, and the related notes to the financial statements.

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 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Mayor and Members
of the City Council
City of Rochester, Minnesota
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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, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 17, and required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 financial statements as a whole. The introductory section, combining and individual nonmajor governmental fund financial statements and schedules, supplementary information, and statistical sections as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional

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

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2011, from which such partial information was derived.

We have previously audited the City's 2011 financial statements and our report, dated June 20, 2012, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2013, on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rochester, Minnesota's internal control over financial reporting and compliance.

Smith, Schafn and Associates, Ltd.

Rochester, Minnesota
June 10, 2013

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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, 2012, with comparative data for the fiscal year ended December 31, 2011. 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.

New Accounting Pronouncement. The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2012. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will notice a change in the terminology from "net assets" to "net position."

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$1,089,881,673 (*net position*). Of this amount, \$217,766,624 (*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 decreased by \$4,124,982.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$131,476,750, an increase of \$7,105,632 in comparison with the prior year. Approximately 20 percent of this total amount, or \$25,761,818, 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 \$26,524,173 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 increased total outstanding long term debt obligations by \$61,150,536 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Rochester is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 18-20 of this report.

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

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

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City of Rochester maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other fourteen 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 77-86 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 25-26) and the special revenue funds (pages 81-86) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 21-26 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 27-34 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-73 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 77-91 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$1,089,881,673 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (75 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		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 194,687,431	\$ 191,426,047	\$ 193,077,856	\$ 116,628,401	\$ 387,765,287	\$ 308,054,448
Capital assets	564,253,603	549,413,115	516,625,898	553,074,901	1,080,879,501	1,102,488,016
Total assets	<u>758,941,034</u>	<u>740,839,162</u>	<u>709,703,754</u>	<u>669,703,302</u>	<u>1,468,644,788</u>	<u>1,410,542,464</u>
Long-term liabilities						
outstanding	67,084,716	71,828,250	284,639,962	218,745,892	351,724,678	290,574,142
Other liabilities	9,785,162	11,091,404	17,253,275	14,870,263	27,038,437	25,961,667
Total liabilities	<u>76,869,878</u>	<u>82,919,654</u>	<u>301,893,237</u>	<u>233,616,155</u>	<u>378,763,115</u>	<u>316,535,809</u>
Net position:						
Net investment in						
capital assets	509,225,208	489,129,077	309,122,288	338,400,428	818,347,496	827,529,505
Restricted	51,203,900	54,664,399	2,563,653	3,204,362	53,767,553	57,868,761
Unrestricted	121,642,048	114,126,032	96,124,576	94,482,357	217,766,624	208,608,389
Total net position	<u>\$ 682,071,156</u>	<u>\$ 657,919,508</u>	<u>\$ 407,810,517</u>	<u>\$ 436,087,147</u>	<u>\$ 1,089,881,673</u>	<u>\$ 1,094,006,655</u>

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

An additional portion of the City of Rochester's net position (4.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$217,766,624) 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 business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the City of Rochester's net position by \$24,151,648. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions and transit capital grants). Additional net position growth resulted from increased program revenues such as building permit revenue as development improved as well as operational savings through the delayed hiring of budgeted positions.

Business-type activities. Business-type activities decreased the City of Rochester's net position by \$28,276,630. Most of this decrease is due to the electric utility impairment loss taken for the planned decommissioning of the Silver Lake Plant's coal-fired electrical generation. Prior to an impairment charge of \$35,536,828, these business-type activities increased net position by \$7,260,198. Operations in the City's parking, water and storm water utilities provided increases to net position while the electric and sewer utilities provided decreases in net position.

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

A condensed version of the Statement of Activities follows:

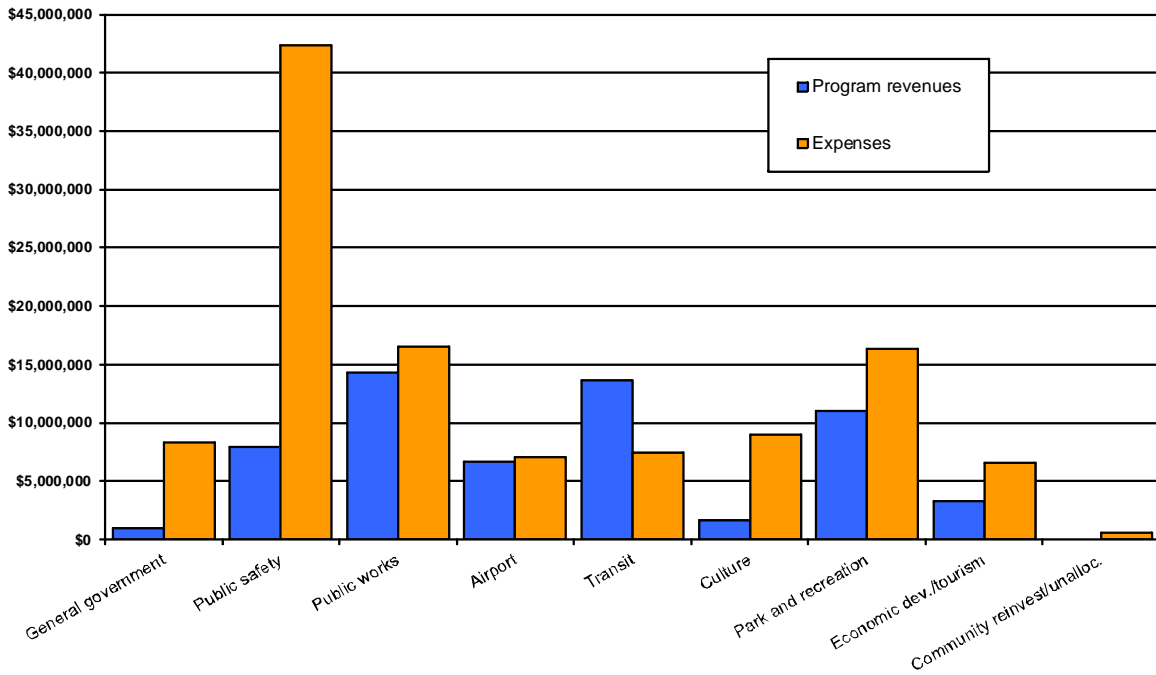
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program revenues:						
Charges for services	\$ 22,140,410	\$ 19,749,286	\$ 182,386,254	\$ 179,244,267	\$ 204,526,664	\$ 198,993,553
Operating grants and contributions	8,824,544	8,060,267			8,824,544	8,060,267
Capital grants and contributions	28,549,008	27,849,371	1,845,793	1,701,524	30,394,801	29,550,895
General revenues:						
Property taxes	47,786,839	43,323,671			47,786,839	43,323,671
Other taxes	18,133,095	16,715,805			18,133,095	16,715,805
Grants and contributions not restricted to specific programs	5,173,338	3,547,552	340,346	58,226	5,513,684	3,605,778
Other	2,291,883	4,956,745	1,100,800	1,508,644	3,392,683	6,465,389
Total revenues	<u>132,899,117</u>	<u>124,202,697</u>	<u>185,673,193</u>	<u>182,512,661</u>	<u>318,572,310</u>	<u>306,715,358</u>
Expenses:						
General government	8,347,314	8,007,217			8,347,314	8,007,217
Public safety	42,320,996	40,121,082			42,320,996	40,121,082
Public works	16,543,088	16,928,415			16,543,088	16,928,415
Airport	7,099,307	6,835,339			7,099,307	6,835,339
Transit	7,433,706	5,264,547			7,433,706	5,264,547
Culture	8,972,044	8,588,954			8,972,044	8,588,954
Park and recreation	16,373,665	16,444,476			16,373,665	16,444,476
Economic development/tourism	6,586,468	6,386,889			6,586,468	6,386,889
Community reinvestment/unallocated	537,748	558,095			537,748	558,095
Interest on long-term debt	2,544,147	2,653,978			2,544,147	2,653,978
Parking			4,144,820	4,058,355	4,144,820	4,058,355
Electric			130,435,312	129,515,554	130,435,312	129,515,554
Water			8,208,287	8,063,227	8,208,287	8,063,227
Sewer			23,967,214	22,097,030	23,967,214	22,097,030
Storm water			3,646,348	2,995,740	3,646,348	2,995,740
Total expenses	<u>116,758,483</u>	<u>111,788,992</u>	<u>170,401,981</u>	<u>166,729,906</u>	<u>287,160,464</u>	<u>278,518,898</u>
Increase in net position before transfers and special item	16,140,634	12,413,705	15,271,212	15,782,755	31,411,846	28,196,460
Special item - impairment loss			(35,536,828)		(35,536,828)	
Transfers	8,011,014	10,537,266	(8,011,014)	(10,537,266)		
Increase in net position	24,151,648	22,950,971	(28,276,630)	5,245,489	(4,124,982)	28,196,460
Net position, beginning of year	657,919,508	634,968,537	436,087,147	430,841,658	1,094,006,655	1,065,810,195
Net position, end of year	<u>\$ 682,071,156</u>	<u>\$ 657,919,508</u>	<u>\$ 407,810,517</u>	<u>\$ 436,087,147</u>	<u>\$ 1,089,881,673</u>	<u>\$ 1,094,006,655</u>

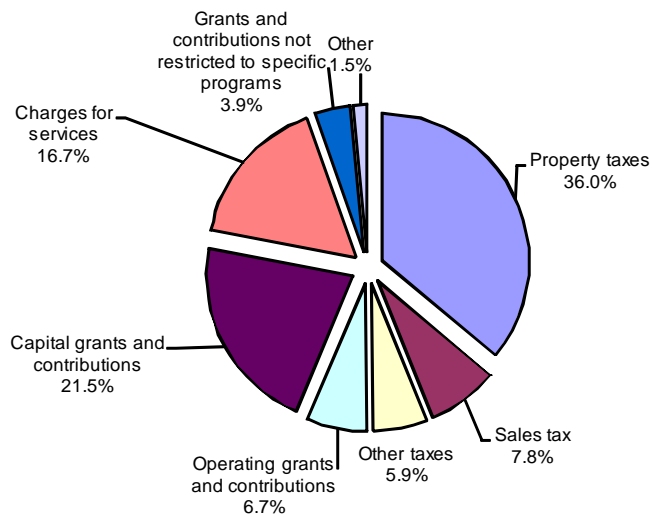
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



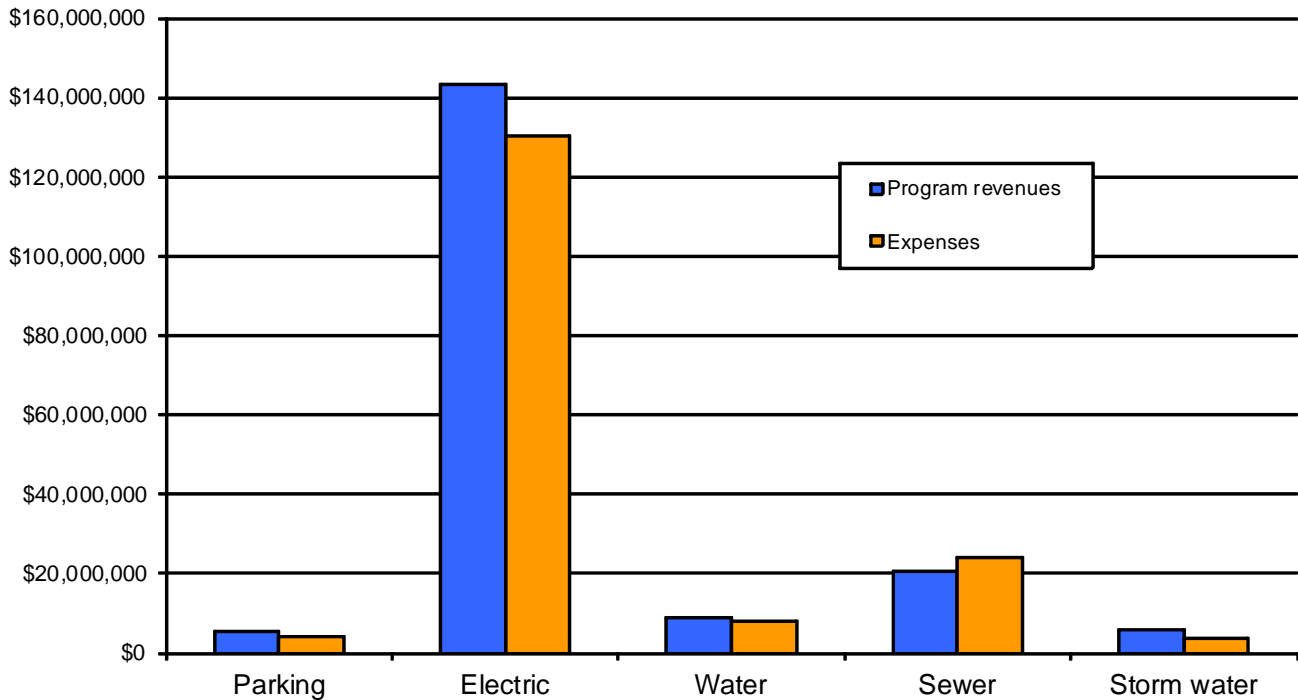
Revenues by Source - Governmental Activities



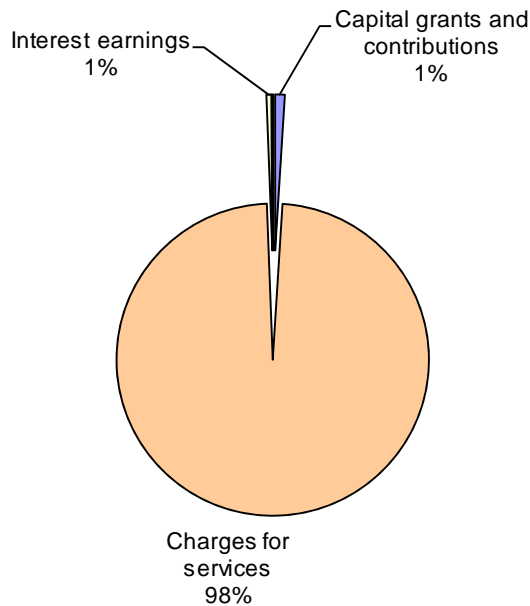
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

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 \$131,476,750, an increase of \$7,105,632 from the prior year. The general fund increased fund balance by nearly \$3.7 million, while the construction improvement fund also increased fund balance by nearly \$3.7 million. This was offset somewhat by a small decrease of \$246,216 in other governmental funds. The increase in the construction improvement fund was the result of accumulation of funding for approved projects and grant reimbursements on previous capital project expenditures.

Approximately 20 percent of the total fund balance, or \$25,761,818, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,135,627 is considered to be Nonspendable (prepaid or inventory), \$47,889,037 has been Restricted by grantors, donors, debt covenants, or regulation, \$49,821,928 has been Committed by Council action for CIP projects, and \$6,868,340 represents Assigned fund balance, the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

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

Governmental funds (continued).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$3,690,962 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$25,761,818 while total fund balance amounted to \$27,624,709. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 44 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 41.6 percent.

The library fund increased its fund balance by \$205,374 for the year after transferring \$94,997 to the capital projects fund for future equipment purchases. Much of this gain was the result of charges for services exceeding budgeted amounts and under spending of gift appropriations. Additionally, operational expenditures were held \$136,227 below the approved budget. The municipal recreation fund increased its fund balance by \$137,498 as a net gain in the Recreation Center and Park Operation budgets of \$254,000 more than offset losses in the Golf, Swimming Pools and Graham Arena operations. The airport fund decreased its total fund balance by \$1,704,136 for the year to \$1,514,238. This decline was the result of higher than expected operating expenditures, mainly in personnel costs and lower than expected landing fees revenues. A transfer out to capital project activities further drew down airport fund balance. The transit fund saw an increase in fund balance of \$33,028 due to increased State funding and increased ridership revenue. Minnesota Bio Science Center fund increased fund balance by \$206,722 due to positive net lease operations of the Bio Business Center.

Debt service fund balances increased by \$868,997 this year reflecting the accumulation of reserves held for payment of the Public Works and Transit Facility bonds.

The construction improvement fund increased fund balance by \$3,660,886 as state construction dollars were received in 2012 for the City's National Volleyball Center expansion which was completed in 2012, but incurred the majority of construction expenditures in the prior year.

Proprietary funds. The City of Rochester's *proprietary funds* statements found on pages 27-34 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 - \$14,931,947 Electric - \$46,610,706, Water - \$6,662,258, Sewer - \$19,976,913 and Storm water - \$4,225,933. With the exception of the Electric and Sewer Utility, all proprietary funds reported increases in total net position for the year.

The Sewer Utility reported a \$1.94 million reduction in net position for the year as revenues improved from prior year, but still fell short of plan due to lower than expected sewer flows. The Sewer Utility's rates were increased 7.5 percent effective January of 2012 based upon an update to the 2005 rate study which was completed at the end of 2009. The city council adopted a new six-year schedule of rate adjustments through 2015. In addition, the "plant investment fee" was increased from \$2,700 in 2011 to \$2,800 in 2012 and is scheduled to increase \$100 per year to \$3,000 by 2015. The schedule of rate increases was necessary as sewer flows were below plan. Housing starts were also down and continued water usage efficiency gains reduce sewer usage beyond our earlier expectations.

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

Proprietary funds (continued).

The Water Utility's rates were not increased during 2010 though the new conservation rates were implemented which had varied impacts on users depending upon use levels. The utility had no rate increase for 2011 or 2012.

The Electric Utility rates were held flat in 2011 and 2012 due to cost reduction measures implemented beginning in 2009 as the Board's sentiment reflected the local economy. No rate increase is anticipated in this utility for 2013; however, as the utility looks to 2014, some increase in line with inflation is expected for the impact of our share of costs for a new transmission line.

The Parking Enterprise growth in net position was largely due to increased parking revenues. Parking rates were increased in 2011 reflecting a seven-year rate plan adopted in 2008. The plan calls for rate increases every other year such that the second phase of increases was implemented in 2011 but no increase was implemented in 2012.

The Storm Water Utility rates were increased by 3% in 2011 following the rate structure approved by council for years 2008 through 2011. In addition, the customer charge was increased from \$2.50/parcel/month to \$3.00. Council reviewed this utility in 2011 and 2012 voted not to increase rates for 2012 or 2013, reflecting the general economy.

General Fund Budgetary Highlights

The City approved the 2012 general fund budget anticipating a "balanced budget" or slight decrease in fund balance.

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

- Increase in Sales Tax Revenues and offsetting increase in transfers out to the capital projects fund.
- Increase in intergovernmental revenue related to grants activity.
- Increase in license and permit revenue due to increased activity.
- Increase in the Public Safety expenditures due to drug enforcement administration.
- Increase in the City Attorney's and Finance Department budget to address unplanned expenditures for legal consultants and staffing changes.
- Reductions in unallocated contingency account to offset increases in city attorney, finance and other smaller unplanned costs.

At the close of the year, general fund total expenditures were \$4,549,319 below final budget while actual revenues were above final budget by \$507,654. Much of the lower expenses can be traced to greater engineering design charge-backs to project accounts, savings in public works, public safety and building safety budgets due to a delay in hiring of approved positions and remaining amounts in the contingency budget. Revenues exceeded budget expectations in the intergovernmental revenue due to grant activity, charges for services in the public works area, and miscellaneous reimbursements of insurance settlements. Those areas over budget were in city hall maintenance, due to higher than expected utility expenses and roof repair costs, City Clerk due to election activities, and Flood Control due to continuing water way repairs following erosion.

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

Capital Asset and Debt Administration

Capital assets. The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$1,080,879,501 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Rochester's reported investment in capital assets for the current fiscal year was \$21,608,515, or 2.0 percent. This decrease is a result of the one-time impairment charge taken by the City's electric utility due to the planned closure of their coal-fired energy plant. On the governmental side, the transit portion of the Public Works Operation Center construction was nearing phase five completion while significant street network additions also occurred. Within the business-type activities the most significant increases occurred with the expansion of underground mains and new transmission facilities in the electric utility but was more than offset by the impairment charge noted above.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 64,462,666	\$ 64,025,919	\$ 14,521,439	\$ 13,600,708	\$ 78,984,105	\$ 77,626,627
Buildings	104,781,570	103,175,663	256,165,225	263,537,240	360,946,795	366,712,903
Improvements other than buildings	30,047,015	29,640,905			30,047,015	29,640,905
Machinery and equipment	22,192,937	22,605,566	225,401,704	259,057,406	247,594,641	281,662,972
Infrastructure	254,721,355	249,485,985			254,721,355	249,485,985
Construction in progress	88,048,060	80,479,077	20,537,530	16,879,547	108,585,590	97,358,624
Total	<u>\$ 564,253,603</u>	<u>\$ 549,413,115</u>	<u>\$ 516,625,898</u>	<u>\$ 553,074,901</u>	<u>\$ 1,080,879,501</u>	<u>\$ 1,102,488,016</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 51-53 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$320,093,799 in bonds and notes outstanding. Of this amount, \$218,694,422 comprises debt backed by the full faith and credit of the government, \$97,741,178 represents bonds and notes secured solely by specified revenue sources, \$3,139,789 represents an energy loan payable through savings in costs from energy improvements, and \$518,410 represents a lease of equipment payable from revenues derived from the operation of the Electric Utility Enterprise Fund. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds, Notes Payable and Capital Lease

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 9,079,422	\$ 9,586,023	\$	\$	\$ 9,079,422	\$ 9,586,023
General obligation revenue bonds			121,530,000	124,405,000	121,530,000	124,405,000
General obligation revenue notes		3,707,000				3,707,000
General obligation equipment certificates of indebtedness	595,000	665,000			595,000	665,000
General obligation taxable Build America bonds	26,650,000	26,700,000			26,650,000	26,700,000
General obligation revenue crossover refunding bonds			60,840,000		60,840,000	
Revenue bonds	15,385,000	15,810,000	77,775,000	79,770,000	93,160,000	95,580,000
Notes payable	101,178	141,928	4,480,000	6,510,000	4,581,178	6,651,928
Energy loan payable	3,139,789	3,592,702			3,139,789	3,592,702
Capital Lease			518,410	12,505	518,410	12,505
Total	\$ 54,950,389	\$ 60,202,653	\$ 265,143,410	\$ 210,697,505	\$ 320,093,799	\$ 270,900,158

The City of Rochester's total bonds and notes payable increased by \$49,193,641 during the current fiscal year.

The sole debt issuance by the City during 2012 was a crossover refunding bond for the sewer utility in the amount of \$60,840,000. Present value savings of this transaction was approximately \$6.9 million.

On December of 2012, the sewer utility made an optional payment of \$800,000 on its variable rate sewer bond series 2007B.

Other principal reductions occurred as a result of scheduled debt service payments on existing debt. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 57.

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

Economic Factors and Next Year's Budgets and Rates

- Rochester's unemployment rate decreased to 4.9 percent by the end of March 2013, down from 5.6 percent one year ago. While still higher than Rochester's historical average, it remains below the state and U.S. averages of 5.8 and 7.6 percent respectively. Total employment over the last 12 months ending March of 2013 has shown an increase of 1.1% or approximately 1,137 jobs. All of this was in the service sector, as the good producing sector, primarily manufacturing, actually decreased jobs by for the year.

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

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

- Building activity continued its rebound during 2012 and on into the first quarter of 2013. Total Commercial and residential building permits issued during 2012 totaled \$329,039,136. This represents increases of 60 percent over 2011, 64.6 percent over 2010, 101 percent over 2009. First quarter of 2013 was down 62.5 percent from first quarter 2012 yet up 29.2 percent from first quarter 2011. First quarter 2012 was an unusually high quarter due to two projects by Mayo totaling over \$51 million in permit valuation.
- Destination Medical Center (DMC). Mayo Clinic announced Destination Medical Center (DMC), a \$5 billion economic development initiative to secure Minnesota's status as a global medical destination center now and in the future. This initiative is the culmination of a three-year study by Mayo Clinic to chart its future business strategy in an increasingly complex, competitive and global business environment. Special legislation was passed during the 2013 session securing State, City and County funding to help construct the significant public infrastructure needed to support this growth.
- The establishment of a University of Minnesota presence in the downtown is providing impetus for new development activity and service demands in this area. Current activity is focused on land assembly to accommodate their expansion plans.
- The voters of Rochester approved the extension of its 1/2-cent sales tax as authorized by 2011 State Legislature, but subject to this voter referendum. The law provides for \$158 million worth of council-identified projects including a new senior center/recreation center, infrastructure improvements to support development outlined in the Downtown Master Plan including \$20 million for the above-noted Destination Medical Center improvements, higher education improvements, economic development incentive funding in Rochester and \$5 million for economic development in surrounding communities.
- Interest rates have remained at historical lows in 2010, 2011, and 2012 making earnings of the City's investment portfolio fall significantly from prior levels.

All of these factors were considered in preparing the City of Rochester's budget for the 2013 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources. The City's tax levy was increased for pay 2013 in expectation that state aid will remain flat while the City continues its growth trends and resulting demands for service.

Requests for Information

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

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2012
With Comparative Totals as of December 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Cash and cash equivalents	\$ 11,168,768	\$ 10,036,684	\$ 21,205,452	\$ 26,234,332
Investments	148,381,795	79,823,173	228,204,968	218,592,107
Land held for resale	1,645,000		1,645,000	1,400,000
Receivables (net of allowance for uncollectibles)	20,568,718	7,569,237	28,137,955	32,966,857
Internal balances	(2,475,810)	2,475,810		
Due from other governmental units	13,811,674	95,839	13,907,513	7,276,587
Accrued utility revenues		4,787,308	4,787,308	4,867,158
Cash and investments with escrow agent		73,286,008	73,286,008	
Restricted and reserved cash and investments	37,364	6,083,387	6,120,751	7,402,023
Inventory	1,096,469	8,065,539	9,162,008	7,888,050
Prepaid items	39,160	126,925	166,085	93,368
Deferred charges and other assets	414,293	727,946	1,142,239	1,333,966
Capital assets:				
Nondepreciable	152,510,726	35,058,969	187,569,695	174,985,251
Depreciable, net	411,742,877	481,566,929	893,309,806	927,502,765
Total Assets	<u>758,941,034</u>	<u>709,703,754</u>	<u>1,468,644,788</u>	<u>1,410,542,464</u>
LIABILITIES				
Accounts and contracts payable	2,746,682	10,253,244	12,999,926	14,047,278
Deposits payable	988,837	811,935	1,800,772	1,891,947
Accrued interest payable	993,302	3,830,248	4,823,550	3,093,691
Accrued compensation and payroll taxes	2,633,157	996,272	3,629,429	3,169,671
Accrued claims	1,923,438	27,000	1,950,438	1,858,739
Due to other governmental units	499,746	554,786	1,054,532	993,604
Unearned revenue		779,790	779,790	906,737
Noncurrent liabilities:				
Due within one year	7,713,068	10,437,676	18,150,744	15,112,993
Due in more than one year	59,371,648	274,202,286	333,573,934	275,461,149
Total Liabilities	<u>76,869,878</u>	<u>301,893,237</u>	<u>378,763,115</u>	<u>316,535,809</u>
NET POSITION				
Net investment in capital assets	509,225,208	309,122,288	818,347,496	827,529,505
Restricted for:				
Airport	1,514,238		1,514,238	3,218,374
CDBG loans	3,314,863		3,314,863	3,682,891
Economic development loan	279,856		279,856	254,856
Civic music endowment	37,364		37,364	34,461
Park and recreation	98,992		98,992	98,656
Debt service	1,496,488	2,563,653	4,060,141	3,831,853
Childrens playgrounds	669,104		669,104	662,803
Flood control	22,411,486		22,411,486	22,901,086
Tax increment financing	2,819,224		2,819,224	1,680,321
Sales tax authorized projects	18,562,285		18,562,285	21,503,460
Unrestricted	121,642,048	96,124,576	217,766,624	208,608,389
Total Net Position	<u>\$ 682,071,156</u>	<u>\$ 407,810,517</u>	<u>\$ 1,089,881,673</u>	<u>\$ 1,094,006,655</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 8,347,314	\$ 555,338	\$ 25,769	\$ 397,336
Public safety	42,320,996	5,671,791	2,161,437	75,401
Public works	16,543,088	395,433	559,281	13,403,346
Airport	7,099,307	3,778,968	223,929	2,655,436
Transit	7,433,706	2,086,011	4,217,428	7,338,267
Culture	8,972,044	296,401	1,350,519	
Park and recreation	16,373,665	6,707,922	217,469	4,140,868
Economic development/tourism	6,586,468	2,648,546	68,712	538,354
Community reinvestment/unallocated	537,748			
Interest on long-term debt	2,544,147			
Total governmental activities	<u>116,758,483</u>	<u>22,140,410</u>	<u>8,824,544</u>	<u>28,549,008</u>
Business-Type activities:				
Parking	4,144,820	5,566,720		
Electric utility	130,435,312	142,602,756		585,129
Water utility	8,208,287	8,619,876		481,259
Sewer utility	23,967,214	20,461,638		42,289
Storm water utility	3,646,348	5,135,264		737,116
Total business-type activities	<u>170,401,981</u>	<u>182,386,254</u>		<u>1,845,793</u>
Total	<u>\$ 287,160,464</u>	<u>\$ 204,526,664</u>	<u>\$ 8,824,544</u>	<u>\$ 30,394,801</u>
General revenues:				
General property taxes				
Tax increments collection				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Interest earnings				
Gain on disposition of property				
Net increase (decrease) in the fair value of investments				
Miscellaneous				
Special item - Impairment loss (Note 6)				
Transfers				
Total general revenues, transfers and special item				
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	Totals	
		2012	2011
\$ (7,368,871)		\$ (7,368,871)	\$ (7,155,269)
(34,412,367)		(34,412,367)	(33,536,753)
(2,185,028)		(2,185,028)	2,592,516
(440,974)		(440,974)	31,003
6,208,000		6,208,000	4,068,724
(7,325,124)		(7,325,124)	(6,764,764)
(5,307,406)		(5,307,406)	(8,721,374)
(3,330,856)		(3,330,856)	(3,432,079)
(537,748)		(537,748)	(558,095)
(2,544,147)		(2,544,147)	(2,653,978)
<u>(57,244,521)</u>		<u>(57,244,521)</u>	<u>(56,130,069)</u>
	\$ 1,421,900	1,421,900	1,088,004
	12,752,573	12,752,573	12,897,364
	892,848	892,848	632,419
	(3,463,287)	(3,463,287)	(2,669,767)
	<u>2,226,032</u>	<u>2,226,032</u>	<u>2,267,865</u>
	13,830,066	13,830,066	14,215,885
<u>(57,244,521)</u>	<u>13,830,066</u>	<u>(43,414,455)</u>	<u>(41,914,184)</u>
47,786,839		47,786,839	43,323,671
2,546,157		2,546,157	1,952,314
10,300,777		10,300,777	9,840,169
5,286,161		5,286,161	4,923,322
5,173,338	340,346	5,513,684	3,605,778
2,081,801	938,274	3,020,075	5,474,687
283,656		283,656	51,813
(324,140)	112,057	(212,083)	(991,564)
250,566	50,469	301,035	1,930,454
	(35,536,828)	(35,536,828)	
8,011,014	(8,011,014)		
<u>81,396,169</u>	<u>(42,106,696)</u>	<u>39,289,473</u>	<u>70,110,644</u>
24,151,648	(28,276,630)	(4,124,982)	28,196,460
<u>657,919,508</u>	<u>436,087,147</u>	<u>1,094,006,655</u>	<u>1,065,810,195</u>
<u>\$ 682,071,156</u>	<u>\$ 407,810,517</u>	<u>\$ 1,089,881,673</u>	<u>\$ 1,094,006,655</u>

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2012

**CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2012

With Comparative Totals as of December 31, 2011

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2012	2011
ASSETS					
Cash and cash equivalents	\$ 1,101,875	\$ 5,690,674	\$ 1,792,558	\$ 8,585,107	\$ 13,240,377
Investments	25,484,117	76,435,022	7,380,156	109,299,295	106,912,987
Land held for resale		1,645,000		1,645,000	1,400,000
Accrued interest receivable	160,150	174,740	17,851	352,741	587,236
Accounts receivable (net of allowance for uncollectibles)	525,094	334,533	1,405,079	2,264,706	2,327,436
Loans receivable		1,712,928	3,314,863	5,027,791	5,887,375
Taxes receivable delinquent	540,437	59,731	204,105	804,273	950,182
Special assessments receivable:					
Deferred		11,566,765		11,566,765	13,893,054
Delinquent	1,917	402,727	5,631	410,275	220,017
Utility connection charges receivable:					
Deferred		46,176		46,176	76,469
Due from other funds	854,380	2,224,139	1,340	3,079,859	1,237,576
Due from other governmental units	3,500,443	8,606,120	1,700,436	13,806,999	7,240,717
Prepaid items	38,144		1,016	39,160	13,319
Restricted cash and investments	37,364			37,364	34,461
Inventory	1,025,028		71,439	1,096,467	233,522
TOTAL ASSETS	\$ 33,268,949	\$ 108,898,555	\$ 15,894,474	\$ 158,061,978	\$ 154,254,728
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 773,383	\$ 627,512	\$ 1,276,626	\$ 2,677,521	\$ 4,312,388
Deposits payable	498,219	4,300	401,142	903,661	1,020,427
Accrued compensation and payroll taxes	2,140,920		481,970	2,622,890	2,333,306
Due to other funds	1,531,118	90,615	217,117	1,838,850	657,007
Due to other governmental units	158,246	195,702	134,750	488,698	393,712
Deferred revenue	542,354	13,986,655	3,524,599	18,053,608	21,166,770
Total Liabilities	5,644,240	14,904,784	6,036,204	26,585,228	29,883,610
Fund Balance:					
Nonspendable	1,063,172		72,455	1,135,627	246,841
Restricted	37,364	44,171,843	3,679,830	47,889,037	50,981,508
Committed		49,821,928		49,821,928	43,894,506
Assigned	762,355		6,105,985	6,868,340	6,120,312
Unassigned	25,761,818			25,761,818	23,127,951
Total Fund Balance	27,624,709	93,993,771	9,858,270	131,476,750	124,371,118
TOTAL LIABILITIES AND FUND BALANCE	\$ 33,268,949	\$ 108,898,555	\$ 15,894,474	\$ 158,061,978	\$ 154,254,728

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, 2012

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

Total governmental fund balances (page 21)		\$ 131,476,750
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 795,052,465	
Less: Accumulated depreciation	<u>(241,060,677)</u>	553,991,788
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 1,214,548	
Deferred special assessments and utility connection agreements	11,612,941	
Deferred charges	414,293	
Loans receivable	<u>5,226,888</u>	18,468,670
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		42,661,590
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	\$ (53,980,389)	
Compensated absences	(9,486,768)	
Accrued interest	(982,479)	
Unamortized bond premium	<u>(78,006)</u>	<u>(64,527,642)</u>
Net position of governmental activities (page 18)		<u><u>\$ 682,071,156</u></u>

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2012	2011
REVENUES					
General property taxes	\$ 32,127,088	\$ 3,063,762	\$ 12,326,817	\$ 47,517,667	\$ 43,271,181
Tax increments collection		1,547,222	998,456	2,545,678	1,951,402
Sales tax	7,981,357		2,319,419	10,300,776	9,840,169
Special assessments		3,372,669		3,372,669	1,920,163
Utility connection and availability		1,225,703		1,225,703	609,934
Nonproperty taxes	4,442,330		843,831	5,286,161	4,923,322
Licenses and permits	3,066,039			3,066,039	2,420,015
Fines and forfeits	571,770			571,770	547,800
Intergovernmental revenues	7,426,147	21,871,138	6,242,924	35,540,209	31,480,025
Charges for services	3,121,527	399,239	10,388,627	13,909,393	12,585,871
Interest earnings	267,218	1,208,395	154,486	1,630,099	3,208,257
Net decrease in the fair value of investments	(51,840)	(166,700)	(21,800)	(240,340)	(614,664)
Miscellaneous revenues	453,678	2,210,831	3,763,387	6,427,896	6,925,433
Total Revenues	59,405,314	34,732,259	37,016,147	131,153,720	119,068,908
EXPENDITURES					
Current:					
General government	7,764,505			7,764,505	7,189,932
Public safety	38,115,408		20,822	38,136,230	37,120,837
Public works	8,823,486			8,823,486	9,800,681
Airport operations			3,485,498	3,485,498	3,192,782
Transit			6,544,287	6,544,287	4,427,520
Culture	1,222,912		6,192,562	7,415,474	7,278,575
Park and recreation			12,651,545	12,651,545	12,495,382
Economic development/tourism	1,985,219		1,649,972	3,635,191	3,316,165
Community reinvestment and unallocated	537,745			537,745	558,095
Debt service			7,687,804	7,687,804	3,850,525
Capital outlay		36,982,468		36,982,468	45,390,342
Total Expenditures	58,449,275	36,982,468	38,232,490	133,664,233	134,620,836
Excess (deficiency) of revenues over (under) expenditures	956,039	(2,250,209)	(1,216,343)	(2,510,513)	(15,551,928)
OTHER FINANCING SOURCES (USES)					
Transfers in	11,385,946	13,768,189	3,359,610	28,513,745	15,644,800
Transfers out	(8,651,023)	(7,857,094)	(2,389,483)	(18,897,600)	(4,148,389)
Total other financing sources (uses)	2,734,923	5,911,095	970,127	9,616,145	11,496,411
Net change in fund balances	3,690,962	3,660,886	(246,216)	7,105,632	(4,055,517)
Fund Balance - beginning	23,933,747	90,332,885	10,104,486	124,371,118	128,426,635
Fund Balance - ending	\$ 27,624,709	\$ 93,993,771	\$ 9,858,270	\$ 131,476,750	\$ 124,371,118

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, 2012

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

Net change in fund balances - total governmental funds (page 23)		\$ 7,105,632
<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	\$ 32,087,289	
Depreciation expense	<u>(16,968,277)</u>	15,119,012
<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>		
		493,059
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
		(829,206)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2012	\$ 18,053,608	
Deferred revenue, December 31, 2011	<u>(21,166,770)</u>	(3,113,162)
<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, 2012	\$ (9,486,768)	
Compensated absences, December 31, 2011	<u>9,435,807</u>	(50,961)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 5,132,264	
Amortization of bond premium and issuance costs	(18,030)	
Change in accrued interest	<u>(57,403)</u>	5,056,831
<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>370,443</u>
Change in net position of governmental activities (pages 19 and 20)		<u>\$ 24,151,648</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 32,102,716	\$ 32,102,716	\$ 32,127,088	\$ 24,372	\$ 31,386,427
Sales tax	3,511,132	7,981,357	7,981,357		
Nonproperty taxes	4,903,600	5,046,685	4,442,330	(604,355)	4,923,322
Licenses and permits	2,520,715	2,670,715	3,066,039	395,324	2,420,015
Fines and forfeits	517,000	566,498	571,770	5,272	547,800
Intergovernmental	6,755,929	7,084,863	7,426,147	341,284	5,282,063
Charges for services	2,670,343	2,825,676	3,121,527	295,851	2,887,660
Interest earnings	401,545	401,578	267,218	(134,360)	347,527
Net decrease in the fair value of investments			(51,840)	(51,840)	(128,364)
Miscellaneous	204,262	217,572	453,678	236,106	518,532
Total Revenues	<u>53,587,242</u>	<u>58,897,660</u>	<u>59,405,314</u>	<u>507,654</u>	<u>48,184,982</u>
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	678,329	874,827	742,534	132,293	691,515
City Administrator	620,142	620,142	614,049	6,093	599,394
Development District Administration	159,343	159,343	153,885	5,458	151,205
City Clerk	375,776	375,776	379,433	(3,657)	344,212
Elections and Voter Registration	151,758	151,758	152,035	(277)	21,950
Finance Department	1,354,835	1,415,512	1,258,806	156,706	1,225,034
Information Systems	1,355,034	1,358,034	1,263,029	95,005	1,224,388
City Attorney	1,329,076	1,424,875	1,400,790	24,085	1,374,802
Human Resources	1,188,094	1,203,094	1,202,199	895	1,036,060
Planning and Zoning	15,350	33,950	7,347	26,603	12,098
City Hall Maintenance	543,324	544,642	590,398	(45,756)	509,274
Total General Government	<u>7,771,061</u>	<u>8,161,953</u>	<u>7,764,505</u>	<u>397,448</u>	<u>7,189,932</u>
Public Safety:					
Police Department	21,227,382	21,396,309	20,913,447	482,862	20,153,491
Fire Department	13,583,319	13,785,882	13,358,742	427,140	13,121,427
Fire Hazmat Response Team	22,500	122,630	121,639	991	74,004
Building Safety	2,906,751	2,913,265	2,686,490	226,775	2,624,777
Animal Control	327,844	332,450	295,958	36,492	318,666
Drug Enforcement Administration		182,906	35,647	147,259	61,415
Flood Control	513,417	513,417	528,257	(14,840)	575,550
Emergency Mgmt/Safety Council	218,556	233,556	175,228	58,328	160,019
Total Public Safety	<u>38,799,769</u>	<u>39,480,415</u>	<u>38,115,408</u>	<u>1,365,007</u>	<u>37,089,349</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,576,900	\$ 2,585,782	\$ 2,142,557	\$ 443,225	\$ 2,011,682
PWTOC Building/Site Operations	131,577	131,577	26,344	105,233	39,484
Traffic Engineer	1,132,762	1,140,178	1,087,597	52,581	1,135,579
Street and Alley	5,424,327	5,434,964	4,333,301	1,101,663	5,330,278
City Lighting	1,300,110	1,300,110	1,233,687	66,423	1,283,658
Total Public Works	<u>10,565,676</u>	<u>10,592,611</u>	<u>8,823,486</u>	<u>1,769,125</u>	<u>9,800,681</u>
Culture:					
Art Center/Theatre	360,120	360,120	360,483	(363)	293,141
Music Department	890,458	1,091,541	862,429	229,112	948,961
Total Culture	<u>1,250,578</u>	<u>1,451,661</u>	<u>1,222,912</u>	<u>228,749</u>	<u>1,242,102</u>
Economic Development/Tourism	1,838,500	2,043,585	1,985,219	58,366	1,861,825
Community Reinvestment and Unallocated	1,522,965	1,268,369	537,745	730,624	558,095
Total Expenditures	<u>61,748,549</u>	<u>62,998,594</u>	<u>58,449,275</u>	<u>4,549,319</u>	<u>57,741,984</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,161,307)</u>	<u>(4,100,934)</u>	<u>956,039</u>	<u>5,056,973</u>	<u>(9,557,002)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	11,102,742	11,431,242	11,385,946	(45,296)	11,355,147
Transfers out	<u>(3,674,125)</u>	<u>(8,294,350)</u>	<u>(8,651,023)</u>	<u>(356,673)</u>	<u>(703,856)</u>
Total other financing sources (uses)	<u>7,428,617</u>	<u>3,136,892</u>	<u>2,734,923</u>	<u>(401,969)</u>	<u>10,651,291</u>
Net change in fund balances	<u>(732,690)</u>	<u>(964,042)</u>	<u>3,690,962</u>	<u>4,655,004</u>	<u>1,094,289</u>
Fund Balance - beginning	<u>23,933,747</u>	<u>23,933,747</u>	<u>23,933,747</u>		<u>22,839,458</u>
Fund Balance - ending	<u>\$23,201,057</u>	<u>\$22,969,705</u>	<u>\$27,624,709</u>	<u>\$ 4,655,004</u>	<u>\$23,933,747</u>

**CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION**
December 31, 2012
With Comparative Totals as of December 31, 2011

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 895,556	\$ 6,344,057	\$ 1,167,431
Investments	10,559,466	36,852,616	6,791,691
Accrued interest receivable	32,728	4,305	
Accounts receivable	210,227	6,781,055	469,937
Accrued utility revenues		4,641,826	145,482
Taxes receivable delinquent			
Inventory, material, supplies and fuel		7,922,717	134,838
Due from other funds			
Due from other governmental units			
Prepaid items		126,925	
Cash and investments with escrow agent			
Restricted and reserved cash	3,519,734	2,563,653	
Total Current Assets	15,217,711	65,237,154	8,709,379
Noncurrent Assets:			
Capital assets:			
Nondepreciable	8,299,981	11,804,111	3,589,931
Depreciable	36,859,508	314,356,330	120,553,030
Less: Accumulated depreciation	(19,240,222)	(170,198,812)	(36,978,101)
Net capital assets	25,919,267	155,961,629	87,164,860
Deferred charges and other assets		533,673	
Total Noncurrent Assets	25,919,267	156,495,302	87,164,860
Total Assets	41,136,978	221,732,456	95,874,239
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	81,167	8,802,752	344,246
Deposits payable	36,712	534,228	5,385
Accrued interest payable		296,357	
Accrued compensation and payroll taxes	14,956	700,495	89,158
Accrued compensated absences	44,531	1,421,531	172,747
Due to other funds	271	2,280,502	1,082,765
Due to other governmental units	50,679	486,807	11,103
Accrued claims			
Unearned revenue		475	150,360
Bonds and capital lease payable		4,503,032	
Total Current Liabilities	228,316	19,026,179	1,855,764
Noncurrent Liabilities:			
Bonds payable		76,627,228	
Unamortized bond premium		1,931,770	
Bonds payable, net		78,558,998	
Obligation under capital lease		260,378	
Accrued compensated absences	57,448	1,417,366	191,357
Accrued claims		27,000	
Post employment benefit obligation			
Unearned lease revenues		628,955	
Total Noncurrent Liabilities	57,448	80,892,697	191,357
Total Liabilities	285,764	99,918,876	2,047,121
NET POSITION			
Net investment in capital assets	25,919,267	72,639,221	87,164,860
Restricted for debt service		2,563,653	
Unrestricted	14,931,947	46,610,706	6,662,258
Total Net Position	\$ 40,851,214	\$ 121,813,580	\$ 93,827,118

Amounts reported by business-type activities in the statement of net position (page 18) are different because:

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

Net position of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2012	2011
		2012	2011		
\$ 1,348,778	\$ 280,862	\$ 10,036,684	\$ 9,855,651	\$ 2,583,660	\$ 3,138,304
21,204,200	4,415,200	79,823,173	73,683,620	39,082,500	37,995,500
49,291	10,263	96,587	133,229	90,851	138,031
11,431		7,472,650	8,741,397		9,139
		4,787,308	4,867,158		
				5,137	3,292
5,187	2,797	8,065,539	7,654,527		
1,869,081	432,432	2,301,513	2,078,569		
79,846	15,993	95,839	32,228	4,675	3,642
		126,925	80,048		
73,286,008		73,286,008			
		6,083,387	7,367,562		
<u>97,853,822</u>	<u>5,157,547</u>	<u>192,175,613</u>	<u>114,493,989</u>	<u>41,766,823</u>	<u>41,287,908</u>
6,534,307	4,830,639	35,058,969	30,480,255	76,196	198,471
313,531,158	55,125,084	840,425,110	823,246,749	28,400,308	27,709,403
(124,568,659)	(7,872,387)	(358,858,181)	(300,652,103)	(18,214,689)	(17,818,494)
195,496,806	52,083,336	516,625,898	553,074,901	10,261,815	10,089,380
169,335	24,938	727,946	898,265		
195,666,141	52,108,274	517,353,844	553,973,166	10,261,815	10,089,380
293,519,963	57,265,821	709,529,457	668,467,155	52,028,638	51,377,288
173,801	851,278	10,253,244	9,706,147	69,163	28,743
235,610		811,935	774,748	85,177	96,773
3,533,891		3,830,248	2,042,080	11,583	12,490
166,122	25,541	996,272	826,593	10,267	9,772
229,602	31,233	1,899,644	1,880,617		
148,197	30,787	3,542,522	2,659,138		
5,827	370	554,786	578,958	11,048	20,933
				1,188,623	1,200,145
		150,835	241,362		
4,035,000		8,538,032	6,104,714	120,000	120,000
<u>8,528,050</u>	<u>939,209</u>	<u>30,577,518</u>	<u>24,814,357</u>	<u>1,495,861</u>	<u>1,488,856</u>
178,335,000		254,962,228	203,069,629	850,000	970,000
15,097,210		17,028,980	5,815,555		
193,432,210		271,991,208	208,885,184	850,000	970,000
		260,378	7,792		
267,186	17,343	1,950,700	1,867,585		
		27,000	35,000	734,815	623,594
				2,569,553	2,108,405
		628,955	665,375		
193,699,396	17,343	274,858,241	211,460,936	4,154,368	3,701,999
202,227,446	956,552	305,435,759	236,275,293	5,650,229	5,190,855
71,315,604	52,083,336	309,122,288	338,400,428	9,291,815	8,999,380
		2,563,653	3,204,362		
19,976,913	4,225,933	92,407,757	90,587,072	37,086,594	37,187,053
<u>\$ 91,292,517</u>	<u>\$ 56,309,269</u>	<u>404,093,698</u>	<u>432,191,862</u>	<u>\$ 46,378,409</u>	<u>\$ 46,186,433</u>
		3,716,819	3,895,285		
		<u>\$ 407,810,517</u>	<u>\$ 436,087,147</u>		

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 5,566,720	\$	\$
Sales and charges for services, pledged as security for revenue bonds		135,725,014	7,890,123
Miscellaneous		6,877,742	729,753
Total Operating Revenues	<u>5,566,720</u>	<u>142,602,756</u>	<u>8,619,876</u>
Operating Expenses:			
Purchased power		88,282,512	
Maintenance and operations	2,790,783	26,974,077	5,584,793
Depreciation	1,348,267	10,924,136	2,608,689
Total Operating Expenses	<u>4,139,050</u>	<u>126,180,725</u>	<u>8,193,482</u>
Operating Income (Loss)	<u>1,427,670</u>	<u>16,422,031</u>	<u>426,394</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	762		
Interest earnings	161,631	354,683	96,669
Net increase (decrease) in the fair value of investments	(26,900)		
Interest and fiscal charges		(3,763,285)	(11)
Gain (loss) on disposal of property			
Other income (expense)	9,393	(374,579)	(46,296)
Total Nonoperating Revenues (Expenses)	<u>144,886</u>	<u>(3,783,181)</u>	<u>50,362</u>
Income (Loss) Before Transfers, Capital Contributions and Special Item	1,572,556	12,638,850	476,756
Capital contributions		585,129	904,652
Transfers in			
Transfers out	(791,265)	(8,305,490)	(373,963)
Income (Loss) Before Special Item	<u>781,291</u>	<u>4,918,489</u>	<u>1,007,445</u>
Special Item - Impairment Loss (Note 6)		(35,536,828)	
Change in net position	781,291	(30,618,339)	1,007,445
Net Position - Beginning of Year	<u>40,069,923</u>	<u>152,431,919</u>	<u>92,819,673</u>
Net Position - End of Year	<u>\$ 40,851,214</u>	<u>\$ 121,813,580</u>	<u>\$ 93,827,118</u>

Amounts reported by business-type activities in the statement of activities (page 19) 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	Totals		2012	2011
		2012	2011		
\$	\$ 4,944,054	\$ 10,510,774	\$ 10,049,701	\$ 17,847,826	\$ 16,454,590
20,390,232		164,005,369	161,499,515		
71,406	191,210	7,870,111	7,695,051		
<u>20,461,638</u>	<u>5,135,264</u>	<u>182,386,254</u>	<u>179,244,267</u>	<u>17,847,826</u>	<u>16,454,590</u>
		88,282,512	87,915,718		
8,439,884	2,606,158	46,395,695	45,415,711	16,529,590	13,671,313
9,262,216	1,035,306	25,178,614	24,216,392	2,222,833	2,230,249
<u>17,702,100</u>	<u>3,641,464</u>	<u>159,856,821</u>	<u>157,547,821</u>	<u>18,752,423</u>	<u>15,901,562</u>
2,759,538	1,493,800	22,529,433	21,696,446	(904,597)	553,028
				416,331	155,860
9,219	330,365	340,346	58,226	2,581	100,650
277,095	48,196	938,274	1,496,480	451,703	769,951
141,957	(3,000)	112,057	(175,200)	(83,800)	(201,700)
(6,228,819)		(9,992,115)	(9,053,501)	(27,981)	(30,158)
	(149,370)	(149,370)		283,656	51,813
229,631	7,111	(174,740)	(159,807)		100
<u>(5,570,917)</u>	<u>233,302</u>	<u>(8,925,548)</u>	<u>(7,833,802)</u>	<u>1,042,490</u>	<u>846,516</u>
(2,811,379)	1,727,102	13,603,885	13,862,644	137,893	1,399,544
787,173	1,228,053	3,505,007	2,616,854		71,317
1,663,793	277,852	1,941,645	665,838	128,800	35,928
<u>(1,577,007)</u>	<u>(564,148)</u>	<u>(11,611,873)</u>	<u>(12,118,434)</u>	<u>(74,717)</u>	<u>(79,743)</u>
(1,937,420)	2,668,859	7,438,664	5,026,902	191,976	1,427,046
		(35,536,828)			
(1,937,420)	2,668,859	(28,098,164)	5,026,902	191,976	1,427,046
93,229,937	53,640,410			46,186,433	44,759,387
<u>\$ 91,292,517</u>	<u>\$ 56,309,269</u>			<u>\$ 46,378,409</u>	<u>\$ 46,186,433</u>
		(178,466)	218,587		
		<u>\$ (28,276,630)</u>	<u>\$ 5,245,489</u>		

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 5,492,158	\$ 138,969,312	\$ 8,222,350
Cash received from other City funds	45,871	5,409,779	244,504
Cash received from employees			
Cash paid to employees	(361,459)	(18,044,581)	(1,920,788)
Cash paid to suppliers	(2,393,394)	(98,551,728)	(3,592,268)
Other income	9,393		
Net Cash Provided By Operating Activities	<u>2,792,569</u>	<u>27,782,782</u>	<u>2,953,798</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	762		
Transfers in			
Transfers out	(791,265)	(8,303,458)	(378,764)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(790,503)</u>	<u>(8,303,458)</u>	<u>(378,764)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Principal payments on bonds		(4,025,000)	
Interest and fiscal charges		(3,224,077)	
Acquisition of capital assets	(1,003,657)	(12,131,204)	(1,248,824)
Net Cash Used In Capital and Related Financing Activities	<u>(1,003,657)</u>	<u>(19,380,281)</u>	<u>(1,248,824)</u>
Cash Flows From Investing Activities:			
Investment income	175,300	636,089	96,657
Net (increase) decrease in investments	(1,615,404)	(418,367)	(1,191,039)
Net Cash Provided By (Used In) Invested Activities	<u>(1,440,104)</u>	<u>217,722</u>	<u>(1,094,382)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(441,695)	316,765	231,828
Cash and Cash Equivalents, Beginning of Year	4,856,985	8,590,945	935,603
Cash and Cash Equivalents, End of Year	<u>\$ 4,415,290</u>	<u>\$ 8,907,710</u>	<u>\$ 1,167,431</u>
Classified As:			
Cash and Cash Equivalents	\$ 895,556	\$ 6,344,057	\$ 1,167,431
Restricted and Reserved Cash	3,519,734	2,563,653	
Total Cash and Cash Equivalents, End of Year	<u>\$ 4,415,290</u>	<u>\$ 8,907,710</u>	<u>\$ 1,167,431</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2012	2011
		2012	2011		
\$ 19,906,676	\$ 4,868,538	\$ 177,459,034	\$ 171,695,572	\$ 16,106,469	\$ 14,934,472
88,426	204,934	5,993,514	5,840,680	1,749,599	1,539,740
(3,030,583)	(489,112)	(23,846,523)	(23,169,542)		
(5,379,762)	(2,069,848)	(111,987,000)	(109,422,890)	(15,942,354)	(13,045,972)
229,631	7,111	246,135	227,030		
<u>11,814,388</u>	<u>2,521,623</u>	<u>47,865,160</u>	<u>45,170,850</u>	<u>1,913,714</u>	<u>3,428,240</u>
				411,488	153,383
9,219	330,365	340,346	58,226	2,581	100,650
1,663,793	277,852	1,941,645	665,838	128,800	35,928
<u>(1,577,007)</u>	<u>(564,148)</u>	<u>(11,614,642)</u>	<u>(12,183,119)</u>	<u>(74,717)</u>	<u>(79,743)</u>
96,005	44,069	(9,332,651)	(11,459,055)	468,152	210,218
				332,612	54,204
(2,875,000)		(6,900,000)	(7,429,362)	(75,000)	(75,000)
(5,343,254)		(8,567,331)	(9,287,656)	(73,888)	(48,737)
<u>(4,593,674)</u>	<u>(312,469)</u>	<u>(19,289,828)</u>	<u>(17,039,444)</u>	<u>(2,448,317)</u>	<u>(2,158,273)</u>
<u>(12,811,928)</u>	<u>(312,469)</u>	<u>(34,757,159)</u>	<u>(33,756,462)</u>	<u>(2,264,593)</u>	<u>(2,227,806)</u>
146,844	45,977	1,100,867	1,538,637	498,883	822,020
<u>(559,957)</u>	<u>(2,194,592)</u>	<u>(5,979,359)</u>	<u>(3,916,052)</u>	<u>(1,170,800)</u>	<u>(1,860,300)</u>
<u>(413,113)</u>	<u>(2,148,615)</u>	<u>(4,878,492)</u>	<u>(2,377,415)</u>	<u>(671,917)</u>	<u>(1,038,280)</u>
(1,314,648)	104,608	(1,103,142)	(2,422,082)	(554,644)	372,372
2,663,426	176,254	17,223,213	19,645,295	3,138,304	2,765,932
<u>\$ 1,348,778</u>	<u>\$ 280,862</u>	<u>\$ 16,120,071</u>	<u>\$ 17,223,213</u>	<u>\$ 2,583,660</u>	<u>\$ 3,138,304</u>
\$ 1,348,778	\$ 280,862	\$ 10,036,684	\$ 9,855,651	\$ 2,583,660	\$ 3,138,304
		6,083,387	7,367,562		
<u>\$ 1,348,778</u>	<u>\$ 280,862</u>	<u>\$ 16,120,071</u>	<u>\$ 17,223,213</u>	<u>\$ 2,583,660</u>	<u>\$ 3,138,304</u>

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

For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

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

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 1,427,670	\$ 16,422,031	\$ 426,394
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	1,348,267	10,924,136	2,608,689
Other income (expense)	9,393	(904)	
Other		(242,703)	(34,227)
(Increase) Decrease In:			
Accounts receivable	(62,056)	1,178,339	(63,502)
Accrued utility revenues		75,277	4,573
Inventory		(425,077)	3,297
Due from other funds			
Due from other governmental units	28,871		
Prepaid items		(46,877)	
Other assets		5,133	
Increase (Decrease) In:			
Accounts and contracts payable, operations	60,303	(265,501)	75,333
Deposits payable	4,494	16,929	(1,235)
Accrued expenses and other liabilities	13,757	173,172	23,465
Unearned revenues		(35,945)	(91,002)
Accrued claims		(8,000)	
Due to other funds			
Due to other governmental units	(38,130)	12,772	2,013
Net Cash Provided By Operating Activities	\$ 2,792,569	\$ 27,782,782	\$ 2,953,798
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ (26,900)	\$	\$
Receipt of contributed property		585,129	904,652
Equipment purchases in accounts payable at year end		746,314	1,205,026
Silver Lake Plant capital asset impairment		35,536,828	
Bond proceeds deposited with fiscal agent			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2012	2011
		2012	2011		
\$ 2,759,538	\$ 1,493,800	\$ 22,529,433	\$ 21,696,446	\$ (904,597)	\$ 553,028
9,262,216	1,035,306	25,178,614	24,216,392	2,222,833	2,230,249
229,631	7,111	245,231	225,563		
		(276,930)	(75,862)		
60,957	11,056	1,124,794	(1,314,299)	9,139	20,351
		79,850	(984,057)		
13,565	(2,797)	(411,012)	443,485		
(202,186)	(20,757)	(222,943)	(260,668)		
(76,489)	(15,993)	(63,611)	54,753	(897)	(729)
		(46,877)	9,653		
76,440	8,636	90,209	172,918		
(111,168)	28,663	(212,370)	1,190,685	47,375	(45,242)
17,000		37,188	35,428	(11,596)	(16,531)
51,512	9,916	271,822	(120,884)	461,643	445,500
(245,775)	(33,574)	(406,296)	(167,042)		
		(8,000)	(5,000)	99,699	236,153
(20,043)	273	(19,770)	9,446		
(810)	(17)	(24,172)	43,893	(9,885)	5,461
<u>\$ 11,814,388</u>	<u>\$ 2,521,623</u>	<u>\$ 47,865,160</u>	<u>\$ 45,170,850</u>	<u>\$ 1,913,714</u>	<u>\$ 3,428,240</u>
\$ 141,957	\$ (3,000)	\$ 112,057	\$ (175,200)	\$ (83,800)	\$ (201,700)
787,173	1,228,053	3,505,007	2,616,854		71,317
		1,951,340		17,743	24,698
		35,536,828			
73,087,001		73,087,001			

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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. As of December 31, 2012, the City had one blended component unit, the Economic Development Authority (EDA) which was created to account for development allowable only under specific State statutes. The board of directors of the EDA is comprised of City Council members and the EDA directly provides all of its services to the City. There were no activities in the EDA in 2012 other than the accumulation of resources and debt service on outstanding bonds issued by the EDA which is reported in the Economic Development Authority Bond nonmajor debt service fund in the Governmental Fund Financial Statements.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. As of December 31, 2012, there were no entities that met the requirements to be considered a discretely presented component unit of the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and investments

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

1. Deposits and investments (continued)

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

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

2. Cash and investments with escrow agent

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

3. Receivables and payables

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

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

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Receivables and payables (continued)

deferred revenue 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 revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

4. Inventory

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

5. Capital assets

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

5. Capital assets (continued)

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

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

6. Utility connection charges

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

7. Compensated absences benefits

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

7. Compensated absences benefits (continued)

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

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

8. Long-term obligations

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

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

9. Fund equity

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

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

Restricted Net 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 “invested in capital assets, net of related debt” or “restricted net position.”

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

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

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

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: Summary of Significant Accounting Policies (continued)

E. Comparative Data

The financial statements include certain prior year comparative financial information in total. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2011 from which the summarized information was derived.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information (continued)

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

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

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

NOTE 3: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Deposits

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

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

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

The City's deposits in banks at December 31, 2012 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, 2012

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy

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

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

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

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

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

Interest Rate Risk

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

- purchasing a combination of shorter term and longer term investments

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

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

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

<u>Investment Type</u>	<u>December 31, 2012 Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Commercial Paper	\$ 27,984,990	0.40 - 0.65	A-1+	P1
Municipal Bond	2,006,580	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	16,291,930	0.05 - 3.47	AA+	Aaa
Federal Home Loan Bank	110,585,565	0.19 - 4.67	AA+	Aaa
Federal Home Loan Mortgage Corporation	63,100,085	0.05 - 4.67	AA+	Aaa
Federal National Mortgage Association	68,207,285	0.02 - 4.50	AA+	Aaa
Treasury Note	<u>15,632,746</u>	0.50 - 1.25	AA+	Aaa
Sub-total Investments	303,809,181			
Cash and Deposits	<u>25,007,998</u>			
Total	<u>\$ 328,817,179</u>			

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

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	\$ 16,291,930
Federal Home Loan Bank	Federal Agency Securities	110,585,565
Federal Home Loan Mortgage Corporation	Federal Agency Securities	63,100,085
Federal National Mortgage Association	Federal Agency Securities	68,207,285
Treasury Note	United States Treasury Securities	15,632,746

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, 2012 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	\$ 21,205,452
Investments	228,204,968
Cash and investments with escrow agent	73,286,008
Restricted and reserved cash and investments	<u>6,120,751</u>
Total	<u>\$ 328,817,179</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

B. Land Held for Resale

In 2009, 2011 and 2012 the City acquired three parcels of land from private parties for a total purchase price of \$1,645,000. The City intends to resell these properties in connection with the expansion of the University of Minnesota Rochester Campus and for private development. Land held for resale totaling \$1,645,000, is reported in the Construction Improvement Fund. The City's estimate of net realizable value is in excess of the amount recorded at December 31, 2012.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2012 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 20,754	\$2,811,703	\$ 566,233	\$ 101,753	\$ 3,500,443
Special Revenue	559,451	935,972	131,363	61,020	1,687,806
Capital Project	6,797,572	1,019,119	789,429		8,606,120
Debt Service			12,630		12,630
Enterprise		15,631	80,207		95,839
Internal Service	1,349		3,326		4,675
Totals	<u>\$7,379,126</u>	<u>\$4,782,425</u>	<u>\$1,583,188</u>	<u>\$ 162,773</u>	<u>\$13,907,513</u>

Amounts due to other governmental units as of December 31, 2012 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 18,902	\$ 136,530	\$ 2,814	\$ 158,246
Special Revenue	1,499	27,814	96,586	8,851	134,750
Capital Project		7,842	187,860		195,702
Enterprise		501,944	52,842		554,786
Internal Service		11,048			11,048
Totals	<u>\$ 1,499</u>	<u>\$ 567,550</u>	<u>\$ 473,818</u>	<u>\$ 11,665</u>	<u>\$ 1,054,532</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

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

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

Restricted Cash -

General Fund

Civic Music Endowment:		
Rochester Area Foundation Endowment	\$	37,364

Enterprise Funds

Electric Fund:		
Debt Service Reserve Accounts		2,563,653

Reserved Cash -

Enterprise Funds:

Parking Fund:		
Bioscience Building Debt Service Reserve		3,519,734

Cash and Investments with Escrow Agent -

Enterprise Funds

Sewer Fund:		
Waste Water Debt Service and Refunding Account		<u>73,286,008</u>

Total		<u>\$ 79,406,759</u>
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The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements and the sewer utility issued revenue bonds in 2004 to fund the construction of sewer utility improvements. Provisions of these revenue bonds require that the electric and sewer utilities fund debt service accounts in an amount equal to the following year's bond principal and interest payments at least by the date the debt payments are due each year. In addition to the debt service account, provisions of the electric utility revenue bonds require that a portion of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if necessary.

The sewer utility issued \$60,840,000 of GO Waste Water Revenue Crossover Refunding Bonds in May 2012 to refund the GO Waste Water Revenue Bonds issued in 2004 to fund the waste water treatment plant expansion. Debt service is to be paid from sewer rate revenue by the sewer fund. Bond proceeds of \$73.1 million were deposited into an irrevocable trust with an escrow agent for payment of the first three years of interest on the crossover refunding bond and the redemption of principal of the Series 2004A bond.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 64,025,919	\$ 1,198,147	\$ 761,400	\$ 64,462,666
Construction in progress	80,479,077	30,913,870	23,344,887	88,048,060
Total capital assets, not being depreciated	<u>144,504,996</u>	<u>32,112,017</u>	<u>24,106,287</u>	<u>152,510,726</u>
Capital assets, being depreciated:				
Buildings	167,304,906	6,017,462		173,322,368
Improvements other than buildings	46,015,763	2,016,855		48,032,618
Infrastructure	366,516,512	13,140,458		379,656,970
Machinery and equipment	69,520,115	5,215,978	4,729,806	70,006,287
Total capital assets, being depreciated	<u>649,357,296</u>	<u>26,390,753</u>	<u>4,729,806</u>	<u>671,018,243</u>
Less accumulated depreciation for:				
Buildings	64,129,243	4,411,555		68,540,798
Improvements other than buildings	16,374,858	1,610,745		17,985,603
Infrastructure	117,030,527	7,905,088		124,935,615
Machinery and equipment	46,914,549	5,263,722	4,364,921	47,813,350
Total accumulated depreciation	<u>244,449,177</u>	<u>19,191,110</u>	<u>4,364,921</u>	<u>259,275,366</u>
Total capital assets, being depreciated, net	<u>404,908,119</u>	<u>7,199,643</u>	<u>364,885</u>	<u>411,742,877</u>
Governmental activities capital assets, net	<u>\$ 549,413,115</u>	<u>\$ 39,311,660</u>	<u>\$ 24,471,172</u>	<u>\$ 564,253,603</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2012 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 13,600,708	\$ 1,070,101	\$ 149,370	\$ 14,521,439
Construction in progress	16,879,547	13,728,547	10,070,564	20,537,530
Total capital assets, not being depreciated	<u>30,480,255</u>	<u>14,798,648</u>	<u>10,219,934</u>	<u>35,058,969</u>
Capital assets, being depreciated:				
Buildings and improvements	401,141,254	8,484,058		409,625,312
Machinery and equipment	422,105,495	11,571,273	2,876,970	430,799,798
Total capital assets, being depreciated	<u>823,246,749</u>	<u>20,055,331</u>	<u>2,876,970</u>	<u>840,425,110</u>
Less accumulated depreciation for:				
Buildings and improvements	136,418,080	17,042,007		153,460,087
Machinery and equipment	164,234,023	43,673,435	2,509,364	205,398,094
Total accumulated depreciation	<u>300,652,103</u>	<u>60,715,442</u>	<u>2,509,364</u>	<u>358,858,181</u>
Total capital assets, being depreciated, net	<u>522,594,646</u>	<u>(40,660,111)</u>	<u>367,606</u>	<u>481,566,929</u>
Business-type activities capital assets, net	<u>\$ 553,074,901</u>	<u>\$ (25,861,463)</u>	<u>\$ 10,587,540</u>	<u>\$ 516,625,898</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2012 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 609,260
Public safety	2,923,174
Public works	5,580,898
Airport operations	2,104,302
Transit	882,564
Culture	1,230,889
Park and recreation	3,044,768
Economic development/tourism	592,422
Subtotal	<u>16,968,277</u>
Internal Service Funds:	
Equipment revolving	2,081,156
Information technology	<u>141,677</u>

Total depreciation expense - governmental activities	<u><u>\$19,191,110</u></u>
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Business-Type Activities:

Parking	\$ 1,348,267
Electric utility	10,924,136
Water utility	2,608,689
Sewer utility	9,262,216
Storm water utility	<u>1,035,306</u>

Subtotal depreciation expense - business type activities	25,178,614
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Impairment loss - (Note 6)

Electric utility	<u>35,536,828</u>
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Total depreciation expense and impairment loss - business type activities	<u><u>\$60,715,442</u></u>
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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 854,380	\$ 1,531,118
Construction improvement	2,224,139	90,615
Subtotal	3,078,519	1,621,733
Non-Major Governmental Funds:		
Special Revenue -		
Library		7,359
Municipal recreation system	377	110,819
Edward Byrne Memorial JAG		13,091
Airport operations	963	23,544
Transit		36,404
Community development projects		25,900
Subtotal	1,340	217,117
Total Governmental Funds	3,079,859	1,838,850
Proprietary Funds:		
Enterprise -		
Parking		271
Electric utility		2,280,502
Water utility		1,082,765
Sewer utility	1,869,081	148,197
Storm water utility	432,432	30,787
Total Proprietary Funds	2,301,513	3,542,522
Total All Funds	\$ 5,381,372	\$ 5,381,372

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Transfers during the year ended December 31, 2012 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 11,385,946	\$ 8,651,023
Capital Project	13,768,189	7,857,094
Other Governmental Funds		
Library		94,997
Municipal Recreation System	80,535	366,277
Airport Operations		1,050,394
Minnesota Bio Science Center		845,592
Community Development Projects Fund		32,223
Airport Hangar Construction Notes	40,748	
Transportation Sales Tax Notes	1,505,517	
Facility Energy Improvements Loan	566,969	
Economic Development Authority Bond	1,165,841	
Subtotal Other Governmental Funds	<u>3,359,610</u>	<u>2,389,483</u>
Subtotal Governmental Funds	28,513,745	18,897,600
Enterprise	1,941,645	11,611,873
Internal Service	128,800	74,717
Totals	<u>\$ 30,584,190</u>	<u>\$ 30,584,190</u>

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

Other significant transfers include Sanitary Sewer Fund transfer of \$269,546, Airport Fund transfer of \$961,000 and Storm Water Fund transfer of \$144,727 to the Construction Improvement Capital Project Fund for capital construction.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

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

Governmental Funds:	
Transfer in	\$ 28,513,745
Transfers out	(18,897,600)
Internal Service Funds:	
Transfer in	128,800
Transfers out	(74,717)
Capital assets transferred from Govt- Activities to Business-type activities	<u>(1,659,214)</u>
Government-wide Statement of Activities - Transfers in/out	<u>\$ 8,011,014</u>

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, 2012 totaled \$292,413.

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

Years ending December 31:	
2013	\$ 44,039
2014	45,052
2015	46,088
2016	47,148
2017	48,233

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2012, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/12
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 1,264,422
District 36, Series 2009A	8,035,000	2.6-6.0%	2033	7,815,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	77,160,000
Revenue Bonds, Series 2007A	30,455,000	4.0-5.0%	2026	28,370,000
Variable Rate Revenue Bonds, Series 2007B	19,500,000	Variable	2026	16,000,000
Revenue Crossover Refunding Bonds, Series 2012A	60,840,000	4.0-5.0%	2026	60,840,000
GO Taxable Build America Bonds:				
Direct Pay, Series 2010A - Public Works	26,275,000	1.0-5.15%	2036	26,275,000
Direct Pay, Series 2010A - Equipment	425,000	0.85-3.70%	2020	375,000
GO Equipment Certificates of Indebtedness, Series 2009B				
	815,000	2.5-3.5%	2019	595,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2002	11,275,000	3.0-4.5%	2017	4,595,000
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	73,180,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	9,175,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	6,210,000
Revenue Notes:				
Electric Utility				
Note, Series 2005	5,765,000	3.98%	2014	1,675,000
Note, Series 2009A	6,790,000	Variable	2014	2,805,000
Notes Payable:				
Airport Hangar - 2006	263,944	0%	2016	101,178
Energy Loan Payable	5,715,795	4.10%	2018	3,139,789
Capital Leases	886,219	7.769%	2014	518,410
Compensated Absences				13,337,112
Post Employment Benefit Obligation				2,569,553
Less: Unamortized premium				17,106,986
Deferred Refunding Balance				(1,382,772)
Total Long-term Debt				<u>\$ 351,724,678</u>

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

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

General Obligation Revenue Bonds

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

Revenue Bonds and Notes – Electric Utility

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

Revenue Lease Bonds – Economic Development Authority

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

General Obligation Sales Tax Revenue Notes

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Equipment Certificates of Indebtedness

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

General Obligation Taxable Build America Bonds

In 2010, the City issued \$26,700,000 of General Obligation Taxable Build America Bonds, Series 2010A. Of the issue, \$26,275,000 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.

Notes Payable

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

Energy Loan Payable

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

Capital Leases

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

Bond Indentures

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds and Notes:					
Taxable Tax Increment Bonds					
District 7, Series 1997	\$ 1,551,023	\$	\$ 286,601	\$ 1,264,422	\$
District 36, Series 2009A	8,035,000		220,000	7,815,000	225,000
GO Sales Tax Revenue Note of 2001	1,480,000		1,480,000		
GO Sales Tax Revenue Note of 2008	2,227,000		2,227,000		
GO Equipment Certificates of Indebtedness, Series 2009B	665,000		70,000	595,000	(1) 75,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	26,275,000			26,275,000	825,000
Direct Pay, Series 2010A - Equipment	425,000		50,000	375,000	(1) 45,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	9,430,000		255,000	9,175,000	265,000
REDA Lease Revenue Bonds, Series 2008	6,380,000		170,000	6,210,000	180,000
Notes Payable:					
Airport Hangar 2001	14,354		14,354		
Airport Hangar 2006	127,574		26,396	101,178	26,394
Municipal Loan Payable:					
Energy Loan	3,592,702		452,913	3,139,789	471,674
Less: Unamortized Premium on Bonds	81,385		3,379	78,006	
Other Liabilities:					
Compensated Absences	9,435,807	5,623,548	5,572,587	9,486,768	5,600,000
Post-Employment Benefit Obligation	2,108,405	660,687	199,539	2,569,553	(1)
Governmental Activities Long-term Liabilities	<u>71,828,250</u>	<u>6,284,235</u>	<u>11,027,769</u>	<u>67,084,716</u>	<u>7,713,068</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Bonds, Series 2004A	78,515,000		1,355,000	77,160,000	2,560,000
Revenue Bonds, Series 2007A	29,090,000		720,000	28,370,000	1,475,000
Variable Rate Demand Revenue Bonds, Series 2007B	16,800,000		800,000	16,000,000	
Revenue Crossover Refunding Series 04A Bonds, Series 2012A		60,840,000		60,840,000	
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2002	5,400,000		805,000	4,595,000	840,000
Series 2007	74,370,000		1,190,000	73,180,000	1,235,000
Revenue Note:					
Electric Utility Note of 2005	2,390,000		715,000	1,675,000	795,000
Electric Utility Note of 2009A	4,120,000		1,315,000	2,805,000	1,375,000
Less: Unamortized Premium	5,815,555	12,247,001	1,033,576	17,028,980	
Deferred Refunding Balance	(1,515,371)		(132,599)	(1,382,772)	
Other Liabilities:					
Obligation Under Capital Lease	12,505	505,905		518,410	258,032
Compensated Absences	3,748,203	1,806,546	1,704,405	3,850,344	1,899,644
Business-type Activities Long-term Liabilities	<u>218,745,892</u>	<u>75,399,452</u>	<u>9,505,382</u>	<u>284,639,962</u>	<u>10,437,676</u>
Total	<u>\$ 290,574,142</u>	<u>\$ 81,683,687</u>	<u>\$ 20,533,151</u>	<u>\$ 351,724,678</u>	<u>\$ 18,150,744</u>

(1) Debt recorded in the internal service funds.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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

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

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,172,659. This difference, reported in the financial statements as a reduction from revenue bonds payable, is being amortized and charged to operations over the bond term using the interest method. The City completed the advance refunding to reduce its total debt service payments over the next 23 years by \$3.1 million and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$2.0 million.

In 2012, the Sewer Utility issued \$60.84 million in Crossover Refunding Revenue Bonds, Series 2012A, to be used for a crossover refunding of the outstanding Series 2004A bonds, which were issued to fund the treatment plant expansion. The net proceeds of \$73.1 million (after payment of issuance costs) were used to purchase securities of the U.S. Government. Those securities were deposited into an irrevocable trust with an escrow agent to provide for three years of interest payments on the Series 2012A Bonds and the 2016-2026 maturities of the Series 2004A Bonds until the call date of the refunded issue at which time the bonds will be called and paid by the escrow agent. Until the call date, both the refunded and refunding bonds will be reported in the financial statements.

The City completed the crossover advance refunding to reduce its total debt service payments over the next 14 years by \$8.2 million. The economic gain, reflected as the difference between the present value of the refunded debt requirements and the refunding debt requirements, will be \$6.9 million.

Bond Issue	Amount	Average Interest	Proceeds	Bonds to be Called			
				Bond Issue	Average Interest	Call Date	Balance to be Called
G.O. Revenue Refunding, 2012A	\$60,840,000	4.5%	\$73,087,001	G.O. Revenue 2004A	4%	2/1/2012	\$66,045,000

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2012, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Bonds*		Revenue Bonds and Notes		Energy Loan Payable		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2013	\$ 1,170,000	\$ 1,504,577	\$ 445,000	\$ 713,250	\$ 471,674	\$ 123,946	\$ 26,394	\$
2014	1,195,000	1,485,032	470,000	691,728	491,210	104,409	26,394	
2015	1,220,000	1,459,690	485,000	669,266	511,556	84,062	26,394	
2016	1,230,000	1,428,844	510,000	645,864	532,745	62,874	21,996	
2017	1,265,000	1,393,252	535,000	621,286	554,812	40,808		
2018-2022	6,475,000	6,269,020	3,075,000	2,695,062	577,792	17,827		
2023-2027	7,240,000	4,832,618	3,875,000	1,881,498				
2028-2032	8,805,000	2,870,669	4,875,000	856,017				
2033-2036	6,460,000	633,953	1,115,000	26,226				
Totals	\$ 35,060,000	\$ 21,877,655	\$ 15,385,000	\$ 8,800,197	\$3,139,789	\$ 433,926	\$ 101,178	\$
	General Obligation Revenue Bonds				Capital Lease Obligations			
	Principal	Interest			Principal	Interest		
<u>Business-Type Activities</u>								
2013	\$ 4,035,000	\$ 8,580,425	\$ 4,245,000	\$ 3,730,468	\$ 257,589	\$ 12,988		
2014	5,445,000	7,745,185	4,470,000	3,565,416	260,821	6,996		
2015	72,470,000	5,815,185	3,220,000	3,385,788				
2016	6,250,000	3,848,685	3,375,000	3,231,650				
2017	6,495,000	3,531,810	3,540,000	3,068,900				
2018-2022	37,275,000	12,632,725	20,285,000	12,752,214				
2023-2027	50,400,000	3,260,221	25,120,000	7,922,215				
2028-2030			18,000,000	1,829,250				
Totals	\$ 182,370,000	\$ 45,414,236	\$ 82,255,000	\$39,485,901	\$ 518,410	\$ 19,984		

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

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, 2012, the City had not utilized \$211,684,030 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 \$2,044,006,000 and the balance outstanding at December 31, 2012 totals \$1,935,682,091.

I. Other Post-Employment Benefits

The City provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of January 1, 2012 there were approximately 52 retirees participating in the City's group health plan.

The City pays for health insurance coverage for disabled police and fire fighters and their dependents (if the dependents were covered at the time of the disability) until the disabled employee reaches age 65, as required by state statute. As of January 1, 2012 there were 8 disabled police and fire fighters receiving the benefit.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

The following table shows the components of the City's annual OPEB cost for 2012, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 652,012
Interest on net OPEB obligations	94,878
Adjustment to ARC	<u>(86,203)</u>
Annual OPEB Cost	660,687
Contributions during the year	<u>(199,539)</u>
Increase in net OPEB obligation	461,148
Net OPEB beginning of year	<u>2,108,405</u>
Net OPEB end of year	<u><u>\$ 2,569,553</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 779,499	\$ 1,151,773	\$ 276,214	35.43%	\$ 1,655,058
December 31, 2011	634,314	1,655,058	180,967	28.53%	2,108,405
December 31, 2012	660,687	2,108,405	199,539	30.20%	2,569,553

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010		\$ 7,373,661	\$ 7,373,661	0.00%	\$ 53,676,202	13.74%
1/1/2011		5,016,305	5,016,305	0.00%	56,091,631	8.94%
1/1/2012		5,461,629	5,461,629	0.00%	58,195,067	9.39%

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: Detailed Notes on All Funds (continued)

I. Other Post-Employment Benefits (continued)

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

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

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using underlying long-term inflation assumption of 3% and a 3.75% annual increase in covered payroll. The annual healthcare cost trend rate is 9.0% initially, reduced incrementally to an ultimate rate of 5% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period beginning in 2007.

J. Governmental Fund Balance Classifications

The City's governmental fund balances as of December 31, 2012 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 38,144	\$	\$ 1,016	\$ 39,160
Inventory	1,025,028		71,439	1,096,467
Total Nonspendable	<u>1,063,172</u>		<u>72,455</u>	<u>1,135,627</u>
<u>Restricted for:</u>				
Civic music endowment	37,364			37,364
Flood control		22,411,486		22,411,486
Economic development loans		279,856		279,856
Park and recreation		98,992		98,992
Tax increment financing		2,819,224		2,819,224
Sales tax authorized projects		18,562,285		18,562,285
Airport operations			1,514,238	1,514,238
Children's playgrounds			669,104	669,104
Debt service			1,496,488	1,496,488
Total Restricted	<u>37,364</u>	<u>44,171,843</u>	<u>3,679,830</u>	<u>47,889,037</u>
<u>Committed to:</u>				
Capital improvement projects		49,821,928		49,821,928
Total Committed		<u>49,821,928</u>		<u>49,821,928</u>
<u>Assigned to:</u>				
Subsequent year budgets	231,225			231,225
Encumbrances	531,130			531,130
Library operations			2,186,594	2,186,594
Parks and recreation			2,327,913	2,327,913
Transit			792,494	792,494
Minnesota Bio Science Center			798,984	798,984
Total Assigned	<u>762,355</u>		<u>6,105,985</u>	<u>6,868,340</u>
<u>Unassigned</u>	<u>25,761,818</u>			<u>25,761,818</u>
Total Fund Balances	<u>\$ 27,624,709</u>	<u>\$ 93,993,771</u>	<u>\$ 9,858,270</u>	<u>\$ 131,476,750</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 3: Detailed Notes on All Funds (continued)

K. Restricted Net Position

	Restricted Net Position Imposed By			
	Grantors	Donors	Debt Service	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 37,364	\$	\$
Construction Improvement Fund:				
Flood Control	22,411,486			
Economic Development Loans	279,856			
Park and Recreation		98,992		
Tax Increment Financing				2,819,224
Sales Tax Authorized Projects				18,562,285
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	669,104			
CDBG Loans	3,314,863			
Airport Operations				1,514,238
Debt Service Funds:				
Debt Service			1,496,488	
Total Governmental Activities	<u>26,675,309</u>	<u>136,356</u>	<u>1,496,488</u>	<u>22,895,747</u>
<u>Business-Type Activity Funds:</u>				
Electric Utility Fund:				
Debt Reserve			2,563,653	
Total Business-Type Activities			<u>2,563,653</u>	
Total Restricted Net Position	<u>\$26,675,309</u>	<u>\$ 136,356</u>	<u>\$4,060,141</u>	<u>\$ 22,895,747</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

NOTE 4: Other Information

A. Risk Management

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

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$275,000 per group health claim (with a variable annual aggregate) and \$920,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$1,923,438 reported in the Fund at December 31, 2012 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, 2012 and 2011 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2012	\$ 1,823,739	\$ 13,629,346	\$ (13,529,647)	\$ 1,923,438
2011	1,587,586	10,798,056	(10,561,903)	1,823,739

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: Other Information (continued)

B. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("RPU") has entered into two agreements with the Minnesota Municipal Power Agency (MMPA) to sell a maximum of 100 megawatts of power annually from its Silver Lake Plant to MMPA. Under the terms of the agreements, 100 megawatts of power is sold at fixed rates for providing the availability of generating capacity. The Utility is reimbursed for the fuel-related costs of generating power for one quarter of the energy production. The remaining three quarters of the energy produced is sold into the Midwest Independent System Operator (MISO) market at market-based rates under a margin-sharing arrangement. The Utility has an additional agreement with MMPA to market energy from its Cascade Creek combustion turbines (approximately 82 megawatts) into the MISO market, also under a margin-sharing arrangement. These agreements expire October 31, 2015.

Power Generation Agreement:

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: Other Information (continued)

B. Commitments (continued)

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments. As of December 31, 2012, the City's commitments with contractors and vendors were as follows:

	Remaining Commitment
Construction Projects	
Major Street Projects	\$ 384,401
Sewer and Water Projects	1,880,077
Sidewalk Projects	1,711,714
Bridge Projects	243,715
Storm Water / Storm Sewer Projects	511,684
Flood Control	47,822
Water Reclamation Projects	38,931
Parking Ramp Rehabilitation	65,782
Airport Projects	184,200
Civic Center Expansion & Improvements	28,468
Parks Projects - Various	35,594
Building Demolition	609
Public Works/Transit Operation Center	440,706
Total Construction Projects	\$ 5,573,703
Equipment Purchase Commitments	
Police Identity Management & Video Management	\$ 264,874
Police LEC VIPER/Power 911 System	68,738
Police New World Software	30,768
Point-of-Sale Registers/Software System	13,208
PEG Access Improvements	1,763
City Wide-Area Network	22,059
Bus Shelters & Radios	33,714
Total Equipment Purchase Commitments	\$ 435,124

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: Other Information (continued)

C. Contingent Liabilities

General Litigation:

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

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Neighborhood Stabilization Program, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2012, 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.

EPA Regulatory Matters:

In November 2010, the City of Rochester/Rochester Public Utilities received a request for information from the U.S. Environmental Protection Agency (EPA) regarding the four units at the Silver Lake Power Plant. The information request was made under the provisions of Section 114 of the Clean Air Act. In previous cases involving other utilities, the information requests have been followed by EPA allegations of Clean Air Act violations which, in turn, have resulted in litigation or settlements resolving those allegations. The EPA has indicated that this request would result either in a settlement or in litigation between Rochester and the EPA. Currently, the parties continue to discuss a possible settlement of this matter however the timing and amount of potential settlement costs are unknown at this time. Management believes any likely resolution would not have a material adverse effect on the Utilities' financial statements.

D. Deferred Compensation

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

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

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

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

A. Plan Description

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

A. Plan Description (continued)

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

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

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25% respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City of Rochester was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$3,018,670, \$2,971,723, and \$2,781,258, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$2,676,251, \$2,653,432, and \$2,431,488, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5: New Accounting Pronouncements

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27*, will be effective for the City beginning with its year ending December 31, 2015. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures for defined benefit pension plans.

NOTE 6: Special Item

In August 2012, the Rochester Public Utilities Board passed a resolution directing Utility staff to develop, implement and execute a plan to decommission the Silver Lake Plant for purposes of electrical generation by December, 31, 2015 or sooner. That resolution was further clarified to state that portions of the Silver Lake Plant would remain operating to produce steam for sale to the Mayo Clinic using only natural gas as a fuel source. It has been determined that steam boilers for Silver Lake Plant Units 2 and 3 will remain in operation for that purpose. The decommissioning decision was driven by wholesale market factors and also current and upcoming regulations issued by the U.S. Environmental Protection Agency that impact coal-fired generating facilities. Additionally two new transmission lines are projected to be in service by the end of 2015 which will address reliability concerns of having less generation within the electric Utility's service area. An impairment loss of \$35,536,828 has been reported as a special item in 2012 which represents the estimated undepreciated book value of impaired capital assets at the anticipated decommissioning date of December 31, 2015.

CITY OF ROCHESTER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010	\$	\$ 7,373,661	\$ 7,373,661	0.00%	\$ 53,676,202	13.74%
1/1/2011		5,016,305	5,016,305	0.00%	56,091,631	8.94%
1/1/2012		5,461,629	5,461,629	0.00%	58,195,067	9.39%

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2012

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2012

SPECIAL REVENUE FUNDS

Library Fund:

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

Municipal Recreation System Fund:

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

Edward Byrne Memorial JAG Fund:

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

Airport Operations Fund:

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

The F.E. Williams Estate Fund:

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

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

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

Community Development Projects Fund:

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

DEBT SERVICE FUNDS

Tax Increment Bonds Fund:

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

Airport Hangar Construction Notes Fund:

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

Transportation Sales Tax Note of 2001 and 2008 Fund:

This fund is used to account for the accumulation of resources (sales tax revenue) for payment of the 2001 and 2008 general obligation sales tax revenue notes.

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2012

DEBT SERVICE FUNDS (continued)

Facility Energy Improvements Loan Fund:

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

Economic Development Authority Bond Fund:

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

Public Works and Transit Operation Center Bond Fund:

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

CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
ASSETS								
Cash and cash equivalents	\$ 147,296		\$	\$ 79,563	\$ 39,944	\$	\$ 41,897	\$
Investments	2,299,900	2,543,556		1,250,600	627,700		658,400	
Accrued interest receivable	5,346	6,606		2,908	1,460		1,531	
Accounts receivable (net of allowance for uncollectibles)	18,844	423,105		724,553		141,104	97,473	
Loans receivable								3,314,863
Taxes receivable delinquent	87,818	94,889		222		2,921		
Special assessments receivable delinquent		5,631						
Due from other funds		377		963				
Due from other governmental units	44,691	357,664	13,276	61,395		1,086,668		124,112
Prepaid items	1,016							
Inventory		46,195				25,244		
TOTAL ASSETS	\$ 2,604,911	\$ 3,478,023	\$ 13,276	\$ 2,120,204	\$ 669,104	\$ 1,255,937	\$ 799,301	\$ 3,438,975
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 96,585	\$ 124,903	\$ 45	\$ 579,721	\$	\$ 398,089	\$	\$ 77,283
Deposits payable	6,817	394,325						
Accrued compensation and payroll taxes	202,040	279,222				708		
Due to other funds	7,359	110,819	13,091	23,544		36,404		25,900
Due to other governmental units	16,682	94,126	140	2,479		77	317	20,929
Deferred revenue	87,818	100,520		222		2,921		3,314,863
Total Liabilities	417,301	1,103,915	13,276	605,966		438,199	317	3,438,975
Fund Balance:								
Nonspendable	1,016	46,195				25,244		
Restricted				1,514,238	669,104			
Assigned	2,186,594	2,327,913				792,494	798,984	
Total Fund Balance	2,187,610	2,374,108		1,514,238	669,104	817,738	798,984	
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,604,911	\$ 3,478,023	\$ 13,276	\$ 2,120,204	\$ 669,104	\$ 1,255,937	\$ 799,301	\$ 3,438,975

Total	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Note 2001 and 2008	Debt Service			Total	Total Nonmajor Governmental Funds
				Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 308,700	\$	2,200	\$	\$ 215,645	\$ 1,492	\$ 1,264,521	\$ 1,483,858	\$ 1,792,558
7,380,156								7,380,156
17,851								17,851
1,405,079								1,405,079
3,314,863								3,314,863
185,850						18,255	18,255	204,105
5,631								5,631
1,340								1,340
1,687,806						12,630	12,630	1,700,436
1,016								1,016
71,439								71,439
<u>\$ 14,379,731</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$</u>	<u>\$ 215,645</u>	<u>\$ 1,492</u>	<u>\$ 1,295,406</u>	<u>\$ 1,514,743</u>	<u>\$ 15,894,474</u>
\$ 1,276,626	\$	\$	\$	\$	\$	\$	\$	\$ 1,276,626
401,142								401,142
481,970								481,970
217,117								217,117
134,750								134,750
3,506,344						18,255	18,255	3,524,599
6,017,949						18,255	18,255	6,036,204
72,455								72,455
2,183,342		2,200		215,645	1,492	1,277,151	1,496,488	3,679,830
6,105,985								6,105,985
8,361,782		2,200		215,645	1,492	1,277,151	1,496,488	9,858,270
<u>\$ 14,379,731</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$</u>	<u>\$ 215,645</u>	<u>\$ 1,492</u>	<u>\$ 1,295,406</u>	<u>\$ 1,514,743</u>	<u>\$ 15,894,474</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	Community Development Projects
REVENUES								
General property taxes	\$ 5,158,956	\$ 5,348,893	\$	\$ 576	\$	\$ 232,576	\$	\$
Tax increments								
Sales tax								
Nonproperty tax		843,831						
Intergovernmental revenues	887,113	56,765	20,822	223,929		4,217,428		461,273
Charges for services	166,985	6,647,200		1,565,040		2,009,402		
Interest earnings	15,525	14,930		102,399	7,301	4,055	5,936	
Net decrease in the fair value of investments	(4,800)	(4,400)		(7,400)	(1,000)	(3,300)	(900)	
Miscellaneous revenues	269,154	167,566		947,212		117,154	2,193,589	68,712
Total Revenues	6,492,933	13,074,785	20,822	2,831,756	6,301	6,577,315	2,198,625	529,985
EXPENDITURES								
Culture	6,192,562							
Park and recreation		12,651,545						
Public safety			20,822					
Airport operations				3,485,498				
Transit						6,544,287		
Economic development/tourism							1,146,311	497,762
Debt service								
Total Expenditures	6,192,562	12,651,545	20,822	3,485,498		6,544,287	1,146,311	497,762
Excess (deficiency) of revenues over (under) expenditures	300,371	423,240		(653,742)	6,301	33,028	1,052,314	32,223
OTHER FINANCING SOURCES (USES)								
Transfers in		80,535						
Transfers out	(94,997)	(366,277)		(1,050,394)			(845,592)	(32,223)
Total Other Financing Sources (Uses)	(94,997)	(285,742)		(1,050,394)			(845,592)	(32,223)
Net change in fund balances	205,374	137,498		(1,704,136)	6,301	33,028	206,722	
Fund Balances - beginning	1,982,236	2,236,610		3,218,374	662,803	784,710	592,262	
Fund Balances - ending	\$ 2,187,610	\$ 2,374,108	\$	\$ 1,514,238	\$ 669,104	\$ 817,738	\$ 798,984	\$

Total	Debt Service						Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Transportation Sales Tax Notes 2001 and 2008	Facility Improvements Loan	Energy Development Authority Bond	Public Works and Transit Operation Center Bond		
\$10,741,001	\$ 998,456	\$	\$	\$	\$	\$ 1,585,816	\$ 1,585,816	\$12,326,817
			2,319,419				998,456	998,456
843,831							2,319,419	2,319,419
5,867,330							843,831	843,831
10,388,627						375,594	375,594	6,242,924
150,146	(1,593)			1,954	(29)	4,008	4,340	10,388,627
								154,486
(21,800)								(21,800)
3,763,387								3,763,387
<u>31,732,522</u>	<u>996,863</u>		<u>2,319,419</u>	<u>1,954</u>	<u>(29)</u>	<u>1,965,418</u>	<u>5,283,625</u>	<u>37,016,147</u>
6,192,562								6,192,562
12,651,545								12,651,545
20,822								20,822
3,485,498								3,485,498
6,544,287								6,544,287
1,644,073					5,899		5,899	1,649,972
	996,863	38,548	3,824,936	595,620	1,158,712	1,073,125	7,687,804	7,687,804
<u>30,538,787</u>	<u>996,863</u>	<u>38,548</u>	<u>3,824,936</u>	<u>595,620</u>	<u>1,164,611</u>	<u>1,073,125</u>	<u>7,693,703</u>	<u>38,232,490</u>
1,193,735		(38,548)	(1,505,517)	(593,666)	(1,164,640)	892,293	(2,410,078)	(1,216,343)
80,535		40,748	1,505,517	566,969	1,165,841		3,279,075	3,359,610
(2,389,483)								(2,389,483)
<u>(2,308,948)</u>		<u>40,748</u>	<u>1,505,517</u>	<u>566,969</u>	<u>1,165,841</u>		<u>3,279,075</u>	<u>970,127</u>
(1,115,213)		2,200		(26,697)	1,201	892,293	868,997	(246,216)
9,476,995				242,342	291	384,858	627,491	10,104,486
<u>\$ 8,361,782</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$</u>	<u>\$ 215,645</u>	<u>\$ 1,492</u>	<u>\$ 1,277,151</u>	<u>\$ 1,496,488</u>	<u>\$ 9,858,270</u>

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 5,164,406	\$ 5,164,406	\$ 5,158,956	\$ (5,450)	\$ 4,637,931
Intergovernmental	869,385	887,113	887,113		964,385
Charges for services	146,650	146,650	166,985	20,335	196,001
Interest earnings		5,305	15,525	10,220	26,413
Net decrease in the fair value of investments			(4,800)	(4,800)	(9,000)
Miscellaneous					
Contributions		264,854	264,854		255,498
Other	7,700	7,700	4,300	(3,400)	10,747
Total Revenues	<u>6,188,141</u>	<u>6,476,028</u>	<u>6,492,933</u>	<u>16,905</u>	<u>6,081,975</u>
EXPENDITURES					
Public Library	6,165,696	6,197,783	6,061,556	136,227	5,777,338
Gifts appropriations		720,570	131,006	589,564	259,135
Total Expenditures	<u>6,165,696</u>	<u>6,918,353</u>	<u>6,192,562</u>	<u>725,791</u>	<u>6,036,473</u>
Excess (deficiency) of revenues over (under) expenditures	22,445	(442,325)	300,371	742,696	45,502
OTHER FINANCING USES					
Transfers in					181,250
Transfers out	(22,445)	(22,445)	(94,997)	(72,552)	(22,446)
Total Other Financing Sources (Uses)	<u>(22,445)</u>	<u>(22,445)</u>	<u>(94,997)</u>	<u>(72,552)</u>	<u>158,804</u>
Net change in fund balance		(464,770)	205,374	670,144	204,306
Fund Balance - beginning	<u>1,982,237</u>	<u>1,982,237</u>	<u>1,982,236</u>		<u>1,777,930</u>
Fund Balance - ending	<u>\$ 1,982,237</u>	<u>\$ 1,517,467</u>	<u>\$ 2,187,610</u>	<u>\$ 670,144</u>	<u>\$ 1,982,236</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 5,346,176	\$ 5,346,176	\$ 5,348,893	\$ 2,717	\$ 5,539,986
Nonproperty taxes	781,290	781,290	843,831	62,541	
Intergovernmental	24,822	24,822	56,765	31,943	106,474
Charges for services	7,120,173	7,125,541	6,647,200	(478,341)	6,805,237
Interest earnings	36,150	36,150	14,930	(21,220)	33,439
Net decrease in the fair value of investments			(4,400)	(4,400)	(10,900)
Miscellaneous					
Contributions	16,250	22,600	12,810	(9,790)	21,296
Other	143,033	159,573	154,756	(4,817)	125,694
Total Revenues	<u>13,467,894</u>	<u>13,496,152</u>	<u>13,074,785</u>	<u>(421,367)</u>	<u>12,621,226</u>
EXPENDITURES					
Administration	475,409	475,409	473,181	2,228	451,853
Recreation Department	665,866	668,415	644,459	23,956	683,997
Golf	1,409,599	1,431,665	1,429,042	2,623	1,391,205
Tennis Center	45,367	45,367	44,214	1,153	42,498
Volleyball Center	318,226	318,226	302,728	15,498	271,607
Swimming Pools	195,907	196,149	197,590	(1,441)	170,777
Graham Arenas	667,724	670,353	700,393	(30,040)	675,235
Park	4,267,297	4,278,855	4,161,386	117,469	3,959,928
Plummer House	54,482	54,495	67,522	(13,027)	58,128
Recreation Center	1,260,319	1,262,619	1,216,563	46,056	1,241,126
UCR Field House	130,000	130,000		130,000	
Mayo Civic Center	3,685,561	3,736,124	3,414,467	321,657	3,549,028
Total Expenditures	<u>13,175,757</u>	<u>13,267,677</u>	<u>12,651,545</u>	<u>616,132</u>	<u>12,495,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>292,137</u>	<u>228,475</u>	<u>423,240</u>	<u>194,765</u>	<u>125,844</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		80,535	80,535		230,474
Transfers out	(292,137)	(366,277)	(366,277)		(301,977)
Total Other Financing Sources (Uses)	<u>(292,137)</u>	<u>(285,742)</u>	<u>(285,742)</u>		<u>(71,503)</u>
Net change in fund balance		<u>(57,267)</u>	<u>137,498</u>	<u>194,765</u>	<u>54,341</u>
Fund Balance - beginning	<u>2,236,610</u>	<u>2,236,610</u>	<u>2,236,610</u>		<u>2,182,269</u>
Fund Balance - ending	<u>\$ 2,236,610</u>	<u>\$ 2,179,343</u>	<u>\$ 2,374,108</u>	<u>\$ 194,765</u>	<u>\$ 2,236,610</u>

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

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>2012 Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>2011 Actual Amounts</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
Intergovernmental	\$	\$	\$ 20,822	\$ 20,822	\$ 31,488
Total Revenues			<u>20,822</u>	<u>20,822</u>	<u>31,488</u>
EXPENDITURES					
Law enforcement block grant			<u>20,822</u>	<u>(20,822)</u>	<u>31,488</u>
Total Expenditures			<u>20,822</u>	<u>(20,822)</u>	<u>31,488</u>
Excess (deficiency) of revenues over (under) expenditures					
Fund Balance - beginning					
Fund Balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</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, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$	\$	\$ 576	\$ 576	\$ 1,371
Intergovernmental	198,752	198,752	223,929	25,177	234,980
Charges for services	1,787,448	1,787,448	1,565,040	(222,408)	1,611,573
Interest earnings	88,600	80,000	102,399	22,399	137,113
Net decrease in the fair value of investments			(7,400)	(7,400)	(17,200)
Miscellaneous	918,000	918,000	947,212	29,212	933,982
Total Revenues	<u>2,992,800</u>	<u>2,984,200</u>	<u>2,831,756</u>	<u>(152,444)</u>	<u>2,901,819</u>
EXPENDITURES					
Airport operations	2,940,980	2,940,980	3,327,737	(386,757)	3,040,025
US customs operations	163,100	163,100	157,761	5,339	152,757
Total Expenditures	<u>3,104,080</u>	<u>3,104,080</u>	<u>3,485,498</u>	<u>(381,418)</u>	<u>3,192,782</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(111,280)</u>	<u>(119,880)</u>	<u>(653,742)</u>	<u>(533,862)</u>	<u>(290,963)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in					166,000
Transfers out	<u>(1,050,394)</u>	<u>(1,050,394)</u>	<u>(1,050,394)</u>		<u>(486,952)</u>
Total Other Financing Sources (Uses)	<u>(1,050,394)</u>	<u>(1,050,394)</u>	<u>(1,050,394)</u>		<u>(320,952)</u>
Net change in fund balance	(1,161,674)	(1,170,274)	(1,704,136)	(533,862)	(611,915)
Fund Balance - beginning	<u>3,218,374</u>	<u>3,218,374</u>	<u>3,218,374</u>		<u>3,830,289</u>
Fund Balance - ending	<u>\$2,056,700</u>	<u>\$2,048,100</u>	<u>\$1,514,238</u>	<u>\$ (533,862)</u>	<u>\$3,218,374</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, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 8,000	\$ 8,000	\$ 7,301	\$ (699)	\$ 12,502
Net decrease in the fair value of investments			(1,000)	(1,000)	(4,000)
Total Revenues	<u>8,000</u>	<u>8,000</u>	<u>6,301</u>	<u>(1,699)</u>	<u>8,502</u>
Net change in fund balance	8,000	8,000	6,301	(1,699)	8,502
Fund Balance - beginning	<u>662,803</u>	<u>662,803</u>	<u>662,803</u>		<u>654,301</u>
Fund Balance - ending	<u>\$ 670,803</u>	<u>\$ 670,803</u>	<u>\$ 669,104</u>	<u>\$ (1,699)</u>	<u>\$ 662,803</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 233,517	\$ 233,517	\$ 232,576	\$ (941)	\$ 155,652
Intergovernmental revenues	4,113,125	4,212,125	4,217,428	5,303	3,965,674
Charges for services	684,811	2,004,811	2,009,402	4,591	672,682
Interest earnings			4,055	4,055	5,374
Net increase (decrease) in the fair value of investments			(3,300)	(3,300)	3,300
Miscellaneous		116,545	117,154	609	10,008
Total Revenues	<u>5,031,453</u>	<u>6,566,998</u>	<u>6,577,315</u>	<u>10,317</u>	<u>4,812,690</u>
EXPENDITURES					
Employee services	16,883	16,883	12,688	4,195	11,343
Contractual services	4,880,873	5,713,141	5,696,231	16,910	4,300,294
Materials and supplies	118,632	828,632	819,628	9,004	103,401
Other charges	15,065	15,065	15,740	(675)	12,482
Total Expenditures	<u>5,031,453</u>	<u>6,573,721</u>	<u>6,544,287</u>	<u>29,434</u>	<u>4,427,520</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(6,723)</u>	<u>33,028</u>	<u>39,751</u>	<u>385,170</u>
OTHER FINANCING USES					
Transfers in					6,992
Total Other Financing Sources (Uses)					<u>6,992</u>
Net change in fund balance		<u>(6,723)</u>	<u>33,028</u>	<u>39,751</u>	<u>392,162</u>
Fund Balance - beginning	<u>784,710</u>	<u>784,710</u>	<u>784,710</u>		<u>392,548</u>
Fund Balance - ending	<u>\$ 784,710</u>	<u>\$ 777,987</u>	<u>\$ 817,738</u>	<u>\$ 39,751</u>	<u>\$ 784,710</u>

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2012

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, 2012
With Comparative Totals as of December 31, 2011

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2012	2011
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 470,519	\$ 209,680	\$ 1,903,461	\$ 2,583,660	\$ 3,138,304
Investments	7,397,300	3,295,800	28,389,400	39,082,500	37,995,500
Accrued interest receivable	17,196	7,662	65,993	90,851	138,031
Accounts receivable					9,139
Taxes receivable delinquent	2,510	2,627		5,137	3,292
Due from other governmental units	2,646	2,029		4,675	3,642
Total Current Assets	<u>7,890,171</u>	<u>3,517,798</u>	<u>30,358,854</u>	<u>41,766,823</u>	<u>41,287,908</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	76,196			76,196	198,471
Machinery and equipment	27,066,510	1,333,798		28,400,308	27,709,403
Less: Accumulated depreciation	(17,160,407)	(1,054,282)		(18,214,689)	(17,818,494)
Total capital assets (net of accumulated depreciation)	<u>9,982,299</u>	<u>279,516</u>		<u>10,261,815</u>	<u>10,089,380</u>
Total Assets	<u>17,872,470</u>	<u>3,797,314</u>	<u>30,358,854</u>	<u>52,028,638</u>	<u>51,377,288</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	17,743	37,308	14,112	69,163	28,743
Accrued interest payable	11,583			11,583	12,490
Deposits payable			85,177	85,177	96,773
Accrued compensation and payroll taxes			10,267	10,267	9,772
Due to other governmental units	276	446	10,326	11,048	20,933
Accrued claims			1,188,623	1,188,623	1,191,145
Bonds payable	120,000			120,000	120,000
Total Current Liabilities	<u>149,602</u>	<u>37,754</u>	<u>1,308,505</u>	<u>1,495,861</u>	<u>1,479,856</u>
Noncurrent Liabilities:					
Bonds payable	850,000			850,000	970,000
Accrued claims			734,815	734,815	632,594
Post employment benefit obligation			2,569,553	2,569,553	2,108,405
Total Noncurrent Liabilities	<u>850,000</u>		<u>3,304,368</u>	<u>4,154,368</u>	<u>3,710,999</u>
Total Liabilities	<u>999,602</u>	<u>37,754</u>	<u>4,612,873</u>	<u>5,650,229</u>	<u>5,190,855</u>
NET POSITION					
Net investment in capital assets	9,012,299	279,516		9,291,815	8,999,380
Unrestricted	7,860,569	3,480,044	25,745,981	37,086,594	37,187,053
Total Net Position	<u>\$ 16,872,868</u>	<u>\$ 3,759,560</u>	<u>\$ 25,745,981</u>	<u>\$ 46,378,409</u>	<u>\$ 46,186,433</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, 2012
With Comparative Totals for the Year Ended December 31, 2011

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2012	2011
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 2,076,388	\$ 514,193	\$	\$ 2,590,581	\$ 2,545,133
Copy center charges	26,331			26,331	24,109
Departmental workers' compensation charges			371,952	371,952	198,799
Departmental insurance charges			13,091,066	13,091,066	12,128,140
Departmental flex charges			18,297	18,297	18,669
Employee insurance charges			1,067,366	1,067,366	862,840
Employee flex benefit contributions			682,233	682,233	676,900
Total Operating Revenues	<u>2,102,719</u>	<u>514,193</u>	<u>15,230,914</u>	<u>17,847,826</u>	<u>16,454,590</u>
Operating Expenses:					
Copy center	19,859			19,859	20,211
Minor equipment		390,942		390,942	343,481
Workers' compensation benefits			535,830	535,830	567,735
Workers' compensation insurance premiums			92,344	92,344	74,831
Health insurance claims			14,007,418	14,007,418	11,105,641
Flex benefits			708,961	708,961	718,041
Property and liability insurance			437,036	437,036	517,457
Property and liability claims			22,883	22,883	115,500
Other	1,368	312,949		314,317	208,416
Depreciation	2,081,156	141,677		2,222,833	2,230,249
Total Operating Expenses	<u>2,102,383</u>	<u>845,568</u>	<u>15,804,472</u>	<u>18,752,423</u>	<u>15,901,562</u>
Operating Income (Loss)	<u>336</u>	<u>(331,375)</u>	<u>(573,558)</u>	<u>(904,597)</u>	<u>553,028</u>
Nonoperating Revenues (Expenses):					
General property taxes	146,592	269,739		416,331	155,860
Interest earnings	85,884	37,352	328,467	451,703	769,951
Net decrease in the fair value of investments	(15,900)	(6,200)	(61,700)	(83,800)	(201,700)
Interest and fiscal charges	(27,981)			(27,981)	(30,158)
Gain on disposal of property	283,656			283,656	51,813
Intergovernmental revenues	2,581			2,581	100,650
Other income (expense)					100
Total Nonoperating Revenues	<u>474,832</u>	<u>300,891</u>	<u>266,767</u>	<u>1,042,490</u>	<u>846,516</u>
Income Before Transfers and Contributions	475,168	(30,484)	(306,791)	137,893	1,399,544
Capital contributions					71,317
Transfers in	20,199	108,601		128,800	35,928
Transfers out		(74,717)		(74,717)	(79,743)
Change in Net Position	<u>495,367</u>	<u>3,400</u>	<u>(306,791)</u>	<u>191,976</u>	<u>1,427,046</u>
Total Net Position - beginning	<u>16,377,501</u>	<u>3,756,160</u>	<u>26,052,772</u>	<u>46,186,433</u>	<u>44,759,387</u>
Total Net Position - ending	<u>\$ 16,872,868</u>	<u>\$ 3,759,560</u>	<u>\$ 25,745,981</u>	<u>\$ 46,378,409</u>	<u>\$ 46,186,433</u>

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

For the Year Ended December 31, 2012

With Comparative Totals for the Year Ended December 31, 2011

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2012	2011
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 2,103,757	\$ 521,397	\$ 13,481,315	\$ 16,106,469	\$ 14,934,472
Cash received from employees			1,749,599	1,749,599	1,539,740
Cash paid to suppliers	(20,951)	(666,332)	(15,255,071)	(15,942,354)	(13,045,972)
Net Cash Provided by Operating Activities	2,082,806	(144,935)	(24,157)	1,913,714	3,428,240
Cash Flows From Noncapital Financing Activities:					
General property taxes	144,082	267,406		411,488	153,383
Intergovernmental revenues	2,581			2,581	100,650
Transfers in	20,199	108,601		128,800	35,928
Transfers out		(74,717)		(74,717)	(79,743)
Net Cash Provided by (Used in) Noncapital Financing Activities	166,862	301,290		468,152	210,218
Cash Flows From Capital and Related Financing Activities:					
Principal and interest payments on bonds	(148,888)			(148,888)	(123,737)
Proceeds from sale of property	332,612			332,612	54,204
Acquisition of capital assets	(2,354,748)	(93,569)		(2,448,317)	(2,158,273)
Net Cash Used in Capital and Related Financing Activities	(2,171,024)	(93,569)		(2,264,593)	(2,227,806)
Cash Flows From Investing Activities:					
Investment income	94,600	41,156	363,127	498,883	822,020
Net (increase) decrease in investments	(280,500)	(145,700)	(744,600)	(1,170,800)	(1,860,300)
Net Cash Provided by (Used in) Investing Activities	(185,900)	(104,544)	(381,473)	(671,917)	(1,038,280)
Net Increase (Decrease) in Cash and Cash Equivalents	(107,256)	(41,758)	(405,630)	(554,644)	372,372
Cash and Cash Equivalents, Beginning of Year	577,775	251,438	2,309,091	3,138,304	2,765,932
Cash and Cash Equivalents, End of Year	\$ 470,519	\$ 209,680	\$ 1,903,461	\$ 2,583,660	\$ 3,138,304

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2012
With Comparative Totals for the Year Ended December 31, 2011

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2012	2011
Operating Income (Loss)	\$ 336	\$ (331,375)	\$ (573,558)	\$ (904,597)	\$ 553,028
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	2,081,156	141,677		2,222,833	2,230,249
(Increase) Decrease In:					
Accounts receivable		9,139		9,139	20,351
Due from other governmental units	1,038	(1,935)		(897)	(729)
Increase (Decrease) In:					
Accounts payable		37,113	10,262	47,375	(45,242)
Deposits payable			(11,596)	(11,596)	(16,531)
Accrued compensation and payroll taxes			495	495	(7,847)
Due to other governmental units	276	446	(10,607)	(9,885)	5,461
Post employment benefit obligation			461,148	461,148	453,347
Accrued claims			99,699	99,699	236,153
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by Operating Activities	<u>\$2,082,806</u>	<u>\$ (144,935)</u>	<u>\$ (24,157)</u>	<u>\$ 1,913,714</u>	<u>\$ 3,428,240</u>
Non Cash Transactions:					
Receipt of contributed property	\$	\$	\$	\$	\$ 71,317
Decrease in fair value of investments	(15,900)	(6,200)	(61,700)	(83,800)	(201,700)
Equipment purchases in accounts payable at year end	17,743			17,743	24,698

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CITY OF ROCHESTER, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

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CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation</u>								
<u>Tax Increment Bonds:</u>								
Taxable Tax Increment Bonds District 7, Series 1997	5.50% (2/1; 8/1)	3/4/1997	2/1/2024	(1)	\$ 2,768,500	\$ 2,669,380	\$ 1,404,958	\$ 1,264,422
Subtotal General Obligation Tax Increment Bonds					2,768,500	2,669,380	1,404,958	1,264,422
Taxable Tax Increment Bonds Series 2009A	2.6; 3.0; 3.4; 3.65 3.9; 4.2; 4.4; 4.7; 5.0; 5.1; 5.2; 5.3; 5.4; 5.5; 5.6; 5.7; 5.8; 5.9; 6.0% (2/1; 8/1)	3/15/2009	2/1/2033	\$ 225,000 (2013) 235,000 (2014) 245,000 (2015) 250,000 (2016) 260,000 (2017) 270,000 (2018) 285,000 (2019) 300,000 (2020) 315,000 (2021) 330,000 (2022) 345,000 (2023) 365,000 (2024) 385,000 (2025) 405,000 (2026) 430,000 (2027) 455,000 (2028) 485,000 (2029) 515,000 (2030) 540,000 (2031) 570,000 (2032) 605,000 (2033)	8,035,000	8,035,000	220,000	7,815,000
Subtotal General Obligation Tax Increment Bonds					8,035,000	8,035,000	220,000	7,815,000
Total General Obligation Tax Increment Bonds					\$ 10,803,500	\$ 10,704,380	\$ 1,624,958	\$ 9,079,422

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)**

December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation</u>								
<u>Revenue Bonds:</u>								
Wastewater Treatment Revenue Bonds 2004A dated November 1, 2004- str 2/1/11	3.0, 5.0% (2/1; 8/1)	11/1/2004	2/1/2026	\$ 2,560,000 (2013) 3,820,000 (2014) 4,735,000 (2015) 4,930,000 (2016) 5,125,000 (2017) 5,340,000 (2018) 5,560,000 (2019) 5,795,000 (2020) 6,050,000 (2021) 6,320,000 (2022) 6,600,000 (2023) 6,905,000 (2024) 7,225,000 (2025) 6,195,000 (2026)	\$ 83,735,000	\$ 83,735,000	\$ 6,575,000	\$ 77,160,000
Subtotal General Obligation Revenue Bonds					<u>83,735,000</u>	<u>83,735,000</u>	<u>6,575,000</u>	<u>77,160,000</u>
<u>General Obligation</u>								
<u>Revenue Bonds (continued):</u>								
Wastewater Treatment Revenue Bonds 2007A	4.0, 4.125, 4.25 4.375, 5.0% (2/1; 8/1)	2/1/2007	12/1/2026	\$ 1,475,000 (2013) 1,625,000 (2014) 1,690,000 (2015) 1,750,000 (2016) 1,820,000 (2017) 1,890,000 (2018) 1,965,000 (2019) 2,045,000 (2020) 2,130,000 (2021) 2,215,000 (2022) 2,285,000 (2023) 2,385,000 (2024) 2,485,000 (2025) 2,610,000 (2026)	30,455,000	30,455,000	2,085,000	28,370,000
Subtotal General Obligation Revenue Bonds					<u>30,455,000</u>	<u>30,455,000</u>	<u>2,085,000</u>	<u>28,370,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation Revenue Bonds:</u>								
Variable Rate Demand Wastewater Treatment Revenue Bonds 2007B	Variable (monthly)	4/12/2007	12/1/2026	(2)	\$ 19,500,000	\$ 19,500,000	\$ 3,500,000	\$ 16,000,000
Subtotal General Obligation Revenue Bonds					19,500,000	19,500,000	3,500,000	16,000,000
<u>General Obligation Revenue Bonds:</u>								
Wastewater Treatment Revenue Crossover Refunding Bonds 2012A	4.0, 5.0% (2/1; 8/1)	5/15/2012	2/1/2026	\$ 4,500,000 (2016) 4,675,000 (2017) 4,940,000 (2018) 5,135,000 (2019) 5,415,000 (2020) 5,650,000 (2021) 5,890,000 (2022) 6,150,000 (2023) 6,425,000 (2024) 6,580,000 (2025) 5,480,000 (2026)	60,840,000	60,840,000		60,840,000
Subtotal General Obligation Revenue Bonds					60,840,000	60,840,000		60,840,000
Total General Obligation Revenue Bonds					\$ 194,530,000	\$ 194,530,000	\$ 12,160,000	\$ 182,370,000

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES**
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Taxable General Obligation Bonds (3)</u>								
General Obligation Taxable	1.0; 1.25; 2.0;	10/19/2010	2/1/2036	\$ 870,000 (2013)	\$ 26,700,000	\$ 26,700,000	\$ 50,000	\$ 26,650,000
Build America Bonds, Series 2010A	2.25; 2.75; 2.875; 3.6;			880,000 (2014)				
(Public Works - \$26,275,000)	3.7; 3.75; 4.0; 4.375 ;			890,000 (2015)				
(Equipment - \$375,000)	4.6;4.7; 4.8; 4.9; 5.0;			900,000 (2016)				
	5.15%			915,000 (2017)				
	(2/1; 8/1)			940,000 (2018)				
				955,000 (2019)				
				975,000 (2020)				
				950,000 (2021)				
				970,000 (2022)				
				1,000,000 (2023)				
				1,030,000 (2024)				
				1,060,000 (2025)				
				1,095,000 (2026)				
				1,125,000 (2027)				
				1,165,000 (2028)				
				1,205,000 (2029)				
				1,250,000 (2030)				
				1,285,000 (2031)				
				1,335,000 (2032)				
				1,385,000 (2033)				
				1,435,000 (2034)				
				1,490,000 (2035)				
				1,545,000 (2036)				
					\$ 26,700,000	\$ 26,700,000	\$ 50,000	\$ 26,650,000
Total Taxable General Obligation Bonds								

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation</u>								
<u>Certificates of Indebtedness</u>								
Equipment Certificates of Indebtedness Series 2009B	2.50; 3.0; 3.25; 3.50% (2/1; 8/1)	3/15/2009	2/1/2019	\$ 75,000 (2013) 80,000 (2014) 85,000 (2015) 80,000 (2016) 90,000 (2017) 90,000 (2018) 95,000 (2019)	\$ 815,000	\$ 815,000	\$ 220,000	\$ 595,000
Total General Obligation Certificates of Indebtedness					<u>\$ 815,000</u>	<u>\$ 815,000</u>	<u>\$ 220,000</u>	<u>\$ 595,000</u>
<u>Revenue Bonds:</u>								
Electric Utility Revenue Bonds, Series 2002A	3.00, 3.25, 3.50, 3.75, 4.00, 4.125 4.25, 4.375, 4.50% (12/1)	8/15/2002	12/1/2017	\$ 840,000 (2013) 875,000 (2014) 915,000 (2015) 960,000 (2016) 1,005,000 (2017)	\$ 11,275,000	\$ 11,275,000	\$ 6,680,000	\$ 4,595,000
Subtotal Revenue Bonds					<u>11,275,000</u>	<u>11,275,000</u>	<u>6,680,000</u>	<u>4,595,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Revenue Bonds (continued):</u>								
Electric Utility Revenue Bonds, Series 2007C	4, 4.25, 4.5, 5% (12/1)	3/19/2007	12/1/2030	\$1,235,000 (2013) 1,285,000 (2014) 2,305,000 (2015) 2,415,000 (2016) 2,535,000 (2017) 3,710,000 (2018) 3,895,000 (2019) 4,060,000 (2020) 4,225,000 (2021) 4,395,000 (2022) 4,590,000 (2023) 4,800,000 (2024) 5,015,000 (2025) 5,240,000 (2026) 5,475,000 (2027) 5,710,000 (2028) 5,995,000 (2029) 6,295,000 (2030)	\$ 76,680,000	\$ 76,680,000	\$ 3,500,000	\$ 73,180,000
Subtotal Revenue Bonds					76,680,000	76,680,000	3,500,000	73,180,000
Total Revenue Bonds					\$ 87,955,000	\$ 87,955,000	\$ 10,180,000	\$ 77,775,000

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Economic Development Authority Revenue Bonds</u>								
Lease Revenue Bonds Series 2007	4.70% (2/1; 8/1)	12/12/2007	2/1/2033	\$ 265,000 (2013) 280,000 (2014) 290,000 (2015) 305,000 (2016) 320,000 (2017) 335,000 (2018) 350,000 (2019) 365,000 (2020) 385,000 (2021) 400,000 (2022) 420,000 (2023) 440,000 (2024) 460,000 (2025) 485,000 (2026) 505,000 (2027) 530,000 (2028) 555,000 (2029) 580,000 (2030) 605,000 (2031) 635,000 (2032) 665,000 (2033)	\$ 9,900,000	\$ 9,900,000	\$ 725,000	\$ 9,175,000
Subtotal Economic Development Authority Revenue Bonds					9,900,000	9,900,000	725,000	9,175,000

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Economic Development</u>								
<u>Authority Revenue Bonds (continued):</u>								
Lease Revenue Bonds Series 2008	4.71% (2/1; 8/1)	1/9/2008	2/1/2033	\$ 180,000 (2013) 190,000 (2014) 195,000 (2015) 205,000 (2016) 215,000 (2017) 225,000 (2018) 235,000 (2019) 250,000 (2020) 260,000 (2021) 270,000 (2022) 285,000 (2023) 300,000 (2024) 310,000 (2025) 325,000 (2026) 345,000 (2027) 360,000 (2028) 375,000 (2029) 395,000 (2030) 410,000 (2031) 430,000 (2032) 450,000 (2033)	\$ 6,700,000	\$ 6,700,000	\$ 490,000	\$ 6,210,000
Subtotal Economic Development Authority Revenue Bonds					<u>6,700,000</u>	<u>6,700,000</u>	<u>490,000</u>	<u>6,210,000</u>
Total Economic Development Authority Revenue Bonds					<u>\$ 16,600,000</u>	<u>\$ 16,600,000</u>	<u>\$ 1,215,000</u>	<u>\$ 15,385,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS		AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Revenue Notes:</u>									
Electric Utility Note, Note of 2005	3.98% (12/1)	3/10/2005	12/1/2014	\$ 795,000 880,000	(2013) (2014)	\$ 5,765,000	\$ 5,765,000	\$ 4,090,000	\$ 1,675,000
Subtotal Revenue Notes						5,765,000	5,765,000	4,090,000	1,675,000
<u>Revenue Notes:</u>									
Electric Utility Note, Note of 2009A	Variable (12/1)	9/25/2009	12/1/2014	\$1,375,000 1,430,000	(2013) (2014)	6,790,000	6,790,000	3,985,000	2,805,000
Subtotal Revenue Notes						6,790,000	6,790,000	3,985,000	2,805,000
Total Revenue Notes						\$ 12,555,000	\$ 12,555,000	\$ 8,075,000	\$ 4,480,000
<u>Notes Payable:</u>									
Airport Hanger Note of 2006	0% (monthly)	11/1/2006	11/1/2016	\$ 26,394 26,394 26,394 21,996	(2013) (2014) (2015) (2016)	\$ 263,944	\$ 263,944	162,766	\$ 101,178
Total Notes Payable						\$ 263,944	\$ 263,944	\$ 162,766	\$ 101,178

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2012

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Loan Payable</u>								
Energy Loan Payable Note of 2006	4.10% (3/31; 9/30)	6/30/2006	9/30/2018	\$ 471,674 (2013) 491,210 (2014) 511,556 (2015) 532,745 (2016) 554,812 (2017) 577,792 (2018)	\$ 5,715,795	\$ 5,715,795	\$ 2,576,006	\$ 3,139,789
Total Loan Payable					\$ 5,715,795	\$ 5,715,795	\$ 2,576,006	\$ 3,139,789
<u>Capital Lease Obligations</u>								
Electric Utility Capital Leases	7.769%; 4.46%; 1.995% (Monthly, Qtr., Monthly)	11/5/2007	6/1/2014	\$ 257,589 (2013) 260,821 (2014)	\$ 1,411,049	\$ 1,411,049	\$ 892,639	\$ 518,410
Total Capital Lease Obligations					1,411,049	1,411,049	892,639	518,410
TOTAL DEBT PAYABLE					\$ 357,349,288	\$ 357,250,168	\$ 37,156,369	\$ 320,093,799

- (1) The Taxable Tax Increment Bonds are structured without fixed principal maturities. The payments are equal to the amount of "Available Tax Increments" received by the City within the six month period preceding each payment date. All payments are applied first to pay accrued and unpaid interest and next to reduction of principal.
- (2) The Variable Rate Demand Wastewater Treatment Revenue Bonds are structured without fixed principal maturities. Monthly interest payments will be made however, the principal is not due until maturity.
- (3) A portion of the City's interest payable on the General Obligation Taxable Build America Bonds are reimbursed to the City through federal grants.

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF PERSONNEL EXPENDITURES-ALL FUNDS
For the Year Ended December 31, 2012

	Employer Contributions						Total	
	Salaries and Wages	Pension	Social Security	Group Insurance	Workers' Compensation	Unemployment Compensation	Other (1) Contributions	Wages and Contributions
<u>Government and Fiduciary Fund Types</u>								
General Government	\$ 4,585,251	\$ 316,936	\$ 318,481	\$ 937,396	\$ 5,989	\$ 6,487	\$ 9,302	\$ 6,179,842
Public Safety								
Police	12,692,688	1,667,407	279,565	2,608,772	116,808	928	24,846	17,391,014
Communications	1,533,227	110,993	114,119	292,016	1,179	566	4,010	2,056,110
Fire	8,131,173	1,158,650	123,500	1,434,760	58,745		2,659	10,909,487
Fire Hazmat Response Team	29,118	4,193	392		149			33,852
Emergency Management	98,039	7,023	7,433	1,262	738		202	114,697
Building Safety	1,746,490	124,523	125,923	405,076	3,956		1,183	2,407,151
Animal Control	151,769	10,831	11,278	43,211	1,450			218,539
Flood Control	149,623	7,573	11,026	15,054	1,769	430	72	185,547
Public Works	5,278,579	377,527	379,128	1,061,729	82,737		6,260	7,185,960
Music	295,562	21,103	21,602	61,934	291		749	401,241
Library	3,453,347	238,817	255,892	592,468	6,748	1,970	8,191	4,557,433
Park and Recreation	5,313,719	339,474	387,406	927,565	65,986	14,232	2,035	7,050,417
TOTAL	\$43,458,585	\$4,385,050	\$2,035,745	\$8,381,243	\$ 346,545	\$ 24,613	\$ 59,509	\$58,691,290
<u>Proprietary Fund Types</u>								
Parking	\$ 268,007	\$ 18,801	\$ 19,742	\$ 64,353	\$ 3,909		\$ 404	\$ 375,216
Electric Utility	13,861,499	1,000,680	1,014,720	2,445,659	108,422	11,456	4,372	18,446,808
Water Utility	1,521,949	108,704	112,435	328,314			231	2,071,633
Sewer Utility	2,162,692	155,505	156,350	573,797	30,824	2,048	880	3,082,096
Storm Water Utility	379,494	27,540	28,527	61,740	818		908	499,027
TOTAL	\$18,193,641	\$1,311,230	\$1,331,774	\$3,473,863	\$ 143,973	\$ 13,504	\$ 6,795	\$24,474,780

(1) Other contributions include transit and parking subsidies and administration fees for the City's Flexible Benefits Plan.

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CITY OF ROCHESTER, MINNESOTA

STATISTICAL SECTION

DECEMBER 31, 2012

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Content</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	104
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	111
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	116
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	122
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	125

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF ROCHESTER, MINNESOTA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Expenses					
Governmental activities:					
General government	\$ 8,347,314	\$ 8,007,217	\$ 7,689,602	\$ 6,943,475	\$ 7,474,607
Public safety	42,320,996	40,121,082	38,566,296	37,982,196	36,879,979
Public works	16,543,088	16,928,415	24,596,491	24,551,047	18,064,883
Airport	7,099,307	6,835,339	6,881,982	5,572,561	6,204,997
Transit	7,433,706	5,264,547	4,885,878	4,465,509	4,463,679
Culture	8,972,044	8,588,954	8,045,420	7,698,935	7,830,377
Park and recreation	16,373,665	16,444,476	15,952,230	15,631,196	14,899,915
Economic development/tourism	6,586,468	6,386,889	13,054,890	6,545,075	3,168,068
Community reinvestment/unallocated	537,748	558,095	599,580	572,515	1,351,984
Interest on long-term debt	2,544,147	2,653,978	1,824,346	1,574,213	1,194,906
Total governmental activities expenses	<u>116,758,483</u>	<u>111,788,992</u>	<u>122,096,715</u>	<u>111,536,722</u>	<u>101,533,395</u>
Business-Type activities:					
Parking	4,144,820	4,058,355	4,100,101	3,731,599	3,520,547
Electric utility	130,435,312	129,122,438	131,769,006	123,933,285	132,989,378
Water utility	8,208,287	8,063,227	7,242,501	7,172,964	6,950,672
Sewer utility	23,967,214	22,097,030	21,766,488	22,180,957	21,923,523
Storm water utility	3,646,348	2,995,740	2,982,478	2,721,314	2,852,576
Total business-type activities expenses	<u>170,401,981</u>	<u>166,336,790</u>	<u>167,860,574</u>	<u>159,740,119</u>	<u>168,236,696</u>
Total primary government expenses	<u>\$ 287,160,464</u>	<u>\$ 278,125,782</u>	<u>\$ 289,957,289</u>	<u>\$ 271,276,841</u>	<u>\$ 269,770,091</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 555,338	\$ 540,045	\$ 512,005	\$ 501,912	\$ 471,410
Public safety	5,671,791	4,820,088	4,769,132	4,705,781	5,448,286
Public works	395,433	276,631	234,659	194,890	230,585
Airport	3,778,968	2,901,820	2,982,614	2,678,608	2,934,276
Transit	2,086,011	672,682	664,888	659,012	663,088
Culture	296,401	378,587	323,655	412,840	394,469
Park and recreation	6,707,922	6,855,382	6,744,988	6,810,599	6,221,588
Economic development/tourism	2,648,546	2,058,326	62,446	63,291	126,214
Operating grants and contributions	8,824,544	9,038,414	12,179,932	10,404,046	7,249,392
Capital grants and contributions	28,549,008	27,302,175	30,373,195	17,571,480	23,341,029
Total governmental activities program revenues	<u>59,513,962</u>	<u>54,844,150</u>	<u>58,847,514</u>	<u>44,002,459</u>	<u>47,080,337</u>
Business-type activities:					
Charges for services:					
Parking	5,566,720	5,146,359	4,763,393	4,701,251	4,512,354
Electric utility	142,602,756	142,412,918	142,768,456	136,149,438	147,462,166
Water utility	8,619,876	8,320,952	8,132,955	8,192,390	8,174,118
Sewer utility	20,461,638	18,381,793	16,873,321	15,150,978	13,646,680
Storm water utility	5,135,264	4,982,245	4,688,635	4,239,649	3,593,395
Capital grants and contributions	1,845,793	1,701,524	6,540,059	1,088,397	5,123,882
Total business-type activities program revenues	<u>184,232,047</u>	<u>180,945,791</u>	<u>183,766,819</u>	<u>169,522,103</u>	<u>182,512,595</u>
Total primary government program revenues	<u>\$ 243,746,009</u>	<u>\$ 235,789,941</u>	<u>\$ 242,614,333</u>	<u>\$ 213,524,562</u>	<u>\$ 229,592,932</u>

Schedule 1

2007	2006	2005	2004	2003
\$ 6,878,399	\$ 6,487,386	\$ 6,064,465	\$ 5,903,311	\$ 5,734,481
33,168,820	31,767,951	28,164,368	27,197,802	27,005,418
18,210,209	14,268,684	12,249,412	11,869,756	10,830,561
5,432,334	4,387,112	5,457,037	3,691,508	3,909,745
3,500,207	3,270,811	3,297,701	2,736,558	2,421,656
7,023,517	6,611,227	6,443,821	7,910,173	7,133,775
13,505,054	14,034,860	14,436,903	12,095,905	11,132,117
8,367,880	3,834,472	3,560,176	3,149,558	3,583,394
350,641	4,708,895	939,928	198,911	413,928
747,424	988,639	870,516	1,333,511	1,652,179
<u>97,184,485</u>	<u>90,360,037</u>	<u>81,484,327</u>	<u>76,086,993</u>	<u>73,817,254</u>
3,327,342	3,088,091	3,138,080	2,963,261	2,978,908
138,769,304	117,966,938	97,352,275	92,520,009	90,481,982
6,921,476	6,765,775	6,096,397	5,731,981	5,395,691
16,546,960	14,313,983	14,067,892	8,831,583	8,296,896
2,809,129	3,031,398	2,524,057	1,899,924	
<u>168,374,211</u>	<u>145,166,185</u>	<u>123,178,701</u>	<u>111,946,758</u>	<u>107,153,477</u>
<u>\$ 265,558,696</u>	<u>\$ 235,526,222</u>	<u>\$ 204,663,028</u>	<u>\$ 188,033,751</u>	<u>\$ 180,970,731</u>
\$ 475,122	\$ 445,062	\$ 440,710	\$ 508,946	\$ 451,376
5,276,766	5,729,159	6,020,036	5,787,232	4,522,238
266,410	212,015	240,393	254,291	429,059
2,936,705	2,647,146	2,586,232	2,392,001	2,305,849
185,476	150,853	61,994	65,675	86,919
359,394	350,637	373,127	323,362	282,398
5,664,465	5,212,280	5,295,126	5,415,854	4,828,787
50,984	63,375	5,104	10,000	49,097
6,857,250	6,797,593	7,059,210	7,107,431	5,454,108
23,698,012	34,407,050	37,406,085	31,083,644	32,661,685
<u>45,770,584</u>	<u>56,015,170</u>	<u>59,488,017</u>	<u>52,948,436</u>	<u>51,071,516</u>
4,191,797	3,876,103	3,670,386	3,700,360	3,545,223
156,772,451	130,723,369	112,432,402	102,339,632	99,090,742
8,273,714	7,747,854	7,047,596	6,475,669	6,368,057
13,234,276	11,394,102	10,208,056	9,407,148	9,487,546
3,470,521	4,219,736	3,822,275	3,082,517	
2,066,552	5,510,770	13,946,513	16,514,378	3,231,367
<u>188,009,311</u>	<u>163,471,934</u>	<u>151,127,228</u>	<u>141,519,704</u>	<u>121,722,935</u>
<u>\$ 233,779,895</u>	<u>\$ 219,487,104</u>	<u>\$ 210,615,245</u>	<u>\$ 194,468,140</u>	<u>\$ 172,794,451</u>

CITY OF ROCHESTER, MINNESOTA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year				
	2012	2011	2010	2009	2008
Net (Expense) Revenue					
Governmental Activities	\$ (57,244,521)	\$ (56,944,842)	\$ (63,249,201)	\$ (67,534,263)	\$ (54,453,058)
Business-type activities	13,830,066	14,609,001	15,906,245	9,781,984	14,275,899
Total primary government net revenue	<u>\$ (43,414,455)</u>	<u>\$ (42,335,841)</u>	<u>\$ (47,342,956)</u>	<u>\$ (57,752,279)</u>	<u>\$ (40,177,159)</u>
General Revenues and Other Changes In Net Position					
Governmental activities:					
Taxes					
General property taxes	\$ 47,786,839	\$ 43,323,671	\$ 41,711,795	\$ 39,179,058	\$ 37,734,057
Tax increments collection (refund)	2,546,157	1,952,314	1,943,050	1,686,611	1,590,432
Sales tax	10,300,777	9,840,169	9,346,574	9,192,275	9,594,526
Nonproperty taxes	5,286,161	4,923,322	4,833,173	4,909,229	4,773,328
Unrestricted grants and contributions	5,173,338	4,363,964	5,489,944	8,799,788	7,128,314
Interest earnings	2,081,801	3,978,207	4,082,540	4,695,597	6,132,448
Gain on disposition of property	283,656	51,813	61,681	30,671	401,516
Net increase (decrease) in the fair value of investments	(324,140)	(816,364)	(1,294,764)	(2,517,582)	2,807,423
Miscellaneous	250,566	1,741,451	545,128	819,814	344,243
Transfers	8,011,014	10,537,266	3,251,868	5,735,310	6,809,616
Total governmental activities	<u>81,396,169</u>	<u>79,895,813</u>	<u>69,970,989</u>	<u>72,530,771</u>	<u>77,315,903</u>
Business-type activities:					
Taxes:					
General property taxes					
Unrestricted grants and contributions	340,346	58,226	80,746	33,451	124,105
Interest earnings	938,274	1,496,480	1,856,829	2,142,150	4,435,397
Net increase (decrease) in the fair value of investments	112,057	(175,200)	(390,708)	(243,846)	303,115
Miscellaneous	50,469	(205,752)	(169,004)	(360,518)	(219,415)
Transfers	(8,011,014)	(10,537,266)	(3,251,868)	(5,735,310)	(6,809,616)
Special item - impairment loss	(35,536,828)				
Total business-type activities	<u>(42,106,696)</u>	<u>(9,363,512)</u>	<u>(1,874,005)</u>	<u>(4,164,073)</u>	<u>(2,166,414)</u>
Total primary government	<u>\$ 39,289,473</u>	<u>\$ 70,532,301</u>	<u>\$ 68,096,984</u>	<u>\$ 68,366,698</u>	<u>\$ 75,149,489</u>
Change in Net Position					
Governmental activities	\$ 24,151,648	\$ 22,950,971	\$ 6,721,788	\$ 4,996,508	\$ 22,862,845
Business-type activities	(28,276,630)	5,245,489	14,032,240	5,617,911	12,109,485
Total primary government	<u>\$ (4,124,982)</u>	<u>\$ 28,196,460</u>	<u>\$ 20,754,028</u>	<u>\$ 10,614,419</u>	<u>\$ 34,972,330</u>

Schedule 1 (Continued)

2007	2006	2005	2004	2003
\$ (51,413,901)	\$ (34,344,867)	\$ (22,266,524)	\$ (23,138,557)	\$ (22,745,738)
19,635,100	18,305,749	27,948,527	29,572,946	14,569,458
<u>\$ (31,778,801)</u>	<u>\$ (16,039,118)</u>	<u>\$ 5,682,003</u>	<u>\$ 6,434,389</u>	<u>\$ (8,176,280)</u>
\$ 35,000,100	\$ 32,917,358	\$ 29,975,840	\$ 26,767,245	\$ 22,420,404
1,299,451	1,191,508	1,234,488	(1,595,672)	4,055,894
9,720,049	9,196,080	8,767,156	8,614,955	8,220,946
4,685,569	4,391,370	4,028,109	3,756,385	3,617,969
7,805,835	7,166,725	7,909,168	9,044,063	10,416,306
6,680,418	5,623,033	3,797,186	3,387,331	3,997,386
1,719,959	108,549			
2,719,499	883,248	(607,192)	(569,493)	(835,075)
132,821	124,415	203,936		1,692,941
1,830,010	10,414,727	8,324,956	(67,769,519)	(32,179,691)
<u>71,593,711</u>	<u>72,017,013</u>	<u>63,633,647</u>	<u>(18,364,705)</u>	<u>21,407,080</u>
			98	235,464
480,253	9,796	9,796	9,796	31,509
5,692,584	3,292,735	3,187,157	1,325,304	1,172,064
819,635	326,437	(287,211)	(207,523)	(167,200)
(615,399)	1,351,962	283,893	1,738,514	259,370
(1,830,010)	(10,414,727)	(8,324,956)	67,769,519	32,179,691
<u>4,547,063</u>	<u>(5,433,797)</u>	<u>(5,131,321)</u>	<u>70,635,708</u>	<u>33,710,898</u>
<u>\$ 76,140,774</u>	<u>\$ 66,583,216</u>	<u>\$ 58,502,326</u>	<u>\$ 52,271,003</u>	<u>\$ 55,117,978</u>
\$ 20,179,810	\$ 37,672,146	\$ 41,367,123	\$ (41,503,262)	\$ (1,338,658)
24,182,163	12,871,952	22,817,206	100,208,654	48,280,356
<u>\$ 44,361,973</u>	<u>\$ 50,544,098</u>	<u>\$ 64,184,329</u>	<u>\$ 58,705,392</u>	<u>\$ 46,941,698</u>

CITY OF ROCHESTER, MINNESOTA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities										
Net investment in capital assets	\$ 509,225,208	\$ 489,129,077	\$ 465,058,494	\$ 476,322,274	\$ 471,563,821	\$ 450,240,101	\$ 457,528,492	\$ 416,561,604	\$ 386,058,137	\$ 282,388,474
Restricted	51,203,900	54,664,399	42,452,366	44,545,026	41,620,652	34,132,247	35,318,787	41,810,285	32,353,633	31,162,798
Unrestricted	121,642,048	114,126,032	127,457,677	107,379,449	110,065,768	116,015,048	87,360,307	84,163,551	82,756,547	71,778,956
Total governmental activities net position	\$ 682,071,156	\$ 657,919,508	\$ 634,968,537	\$ 628,246,749	\$ 623,250,241	\$ 600,387,396	\$ 580,207,586	\$ 542,535,440	\$ 501,168,317	\$ 385,330,228
Business-type activities										
Net investment in capital assets	\$ 309,122,288	\$ 338,400,428	\$ 339,648,274	\$ 321,275,110	\$ 337,553,519	\$ 319,020,538	\$ 316,363,375	\$ 308,718,179	\$ 284,200,027	\$ 197,870,991
Restricted	2,563,653	3,204,362	3,232,791	7,765,427	7,348,707	10,752,218	8,878,318	10,307,549	12,106,066	3,980,447
Unrestricted	96,124,576	94,482,357	87,960,593	87,768,881	66,289,281	69,309,266	49,658,166	43,002,179	42,904,608	37,153,609
Total business-type activities net position	\$ 407,810,517	\$ 436,087,147	\$ 430,841,658	\$ 416,809,418	\$ 411,191,507	\$ 399,082,022	\$ 374,899,859	\$ 362,027,907	\$ 339,210,701	\$ 239,005,047
Primary government										
Net investment in capital assets	\$ 818,347,496	\$ 827,529,505	\$ 804,706,768	\$ 797,597,384	\$ 809,117,340	\$ 769,260,639	\$ 773,891,867	\$ 725,279,783	\$ 670,258,164	\$ 480,259,465
Restricted	53,767,553	57,868,761	45,685,157	52,310,453	48,969,359	44,884,465	44,197,105	52,117,834	44,459,699	35,143,245
Unrestricted	217,766,624	208,608,389	215,418,270	195,148,330	176,355,049	185,324,314	137,018,473	127,165,730	125,661,155	108,932,565
Total primary government net position	\$ 1,089,881,673	\$ 1,094,006,655	\$ 1,065,810,195	\$ 1,045,056,167	\$ 1,034,441,748	\$ 999,469,418	\$ 955,107,445	\$ 904,563,347	\$ 840,379,018	\$ 624,335,275

CITY OF ROCHESTER, MINNESOTA
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General fund										
Reserved	\$	\$	\$	\$ 492,914	\$ 607,823	\$ 522,548	\$ 278,233	\$ 247,167	\$ 204,663	\$ 168,106
Unreserved				22,043,737	19,434,360	21,191,433	19,049,670	18,523,007	16,623,301	14,355,909
Nonspendable	1,063,172	211,484	136,478							
Restricted	37,364	34,461	35,060							
Committed										
Assigned	762,355	559,851	639,978							
Unassigned	25,761,818	23,127,951	22,027,942							
Total general fund	<u>27,624,709</u>	<u>23,933,747</u>	<u>22,839,458</u>	<u>22,536,651</u>	<u>20,042,183</u>	<u>21,713,981</u>	<u>19,327,903</u>	<u>18,770,174</u>	<u>16,827,964</u>	<u>14,524,015</u>
All other governmental funds										
Reserved				53,638,296	49,533,336	33,041,168	43,485,369	55,787,032	34,777,175	31,719,292
Unreserved, reported in:										
Special revenue funds				10,325,542	8,989,193	7,752,101	6,881,281	6,427,946	5,764,579	5,258,039
Capital projects funds				24,282,673	34,726,536	53,197,187	21,619,691	17,265,911	34,799,074	29,901,889
Nonspendable	72,455	35,357	273,738							
Restricted	47,851,673	50,947,047	53,108,779							
Committed	49,821,928	43,894,506	47,328,336							
Assigned	6,105,985	5,560,461	4,876,324							
Total all other governmental funds	<u>103,852,041</u>	<u>100,437,371</u>	<u>105,587,177</u>	<u>88,246,511</u>	<u>93,249,065</u>	<u>93,990,456</u>	<u>71,986,341</u>	<u>79,480,889</u>	<u>75,340,828</u>	<u>66,879,220</u>
Total governmental funds	<u>\$131,476,750</u>	<u>\$124,371,118</u>	<u>\$128,426,635</u>	<u>\$110,783,162</u>	<u>\$113,291,248</u>	<u>\$115,704,437</u>	<u>\$91,314,244</u>	<u>\$98,251,063</u>	<u>\$92,168,792</u>	<u>\$81,403,235</u>

Note: The City implemented GASB Statement No. 54 in 2011, therefore, classifications of fund balance have changed.

CITY OF ROCHESTER, MINNESOTA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
REVENUES										
General property taxes	\$ 47,517,667	\$ 43,271,181	\$ 41,574,807	\$ 38,806,150	\$ 37,400,201	\$ 34,885,591	\$ 32,747,658	\$ 29,970,540	\$ 26,897,971	\$ 22,507,887
Tax increments collections (refund)	2,545,678	1,951,402	1,943,050	1,686,611	1,590,432	1,299,451	1,191,508	1,234,488	(1,595,672)	4,055,894
Sales tax	10,300,776	9,840,169	9,346,574	9,192,275	9,594,526	9,720,049	9,196,080	8,767,156	8,614,955	8,220,946
Special assessments	3,372,669	1,920,163	1,645,097	1,533,001	1,572,955	1,872,185	2,837,271	1,906,295	2,278,962	2,941,526
Utility connection and availability	1,225,703	609,934	825,430	326,051	550,149	174,075	3,157,467	2,954,785	3,403,538	2,747,797
Nonproperty taxes	5,286,161	4,923,322	4,833,173	4,909,229	4,773,328	4,685,569	4,391,370	4,028,109	3,756,385	3,617,969
Licenses and permits	3,066,039	2,420,015	2,379,733	2,279,973	2,680,368	2,810,859	3,289,288	3,570,176	3,386,298	2,284,715
Fines and forfeits	571,770	547,800	527,450	544,259	524,331	513,192	427,241	402,795	489,227	489,804
Intergovernmental revenues	35,540,209	31,480,025	37,041,345	29,659,974	29,181,062	24,742,193	22,573,306	32,664,845	24,944,012	25,216,442
Charges for services	13,909,393	12,585,871	12,530,294	13,687,801	13,861,583	12,527,566	11,682,523	11,595,069	11,401,301	10,714,301
Interest earnings	1,630,099	3,208,257	3,173,913	3,649,388	4,951,680	5,627,588	4,827,415	3,321,326	3,020,843	3,543,879
Net increase (decrease) in the fair value of investments	(240,340)	(614,664)	(924,764)	(2,008,682)	2,045,623	2,183,099	730,848	(489,892)	(465,593)	(699,075)
Miscellaneous revenues	6,427,896	6,925,433	6,553,480	3,583,948	2,209,994	4,400,318	6,001,604	3,907,969	4,654,733	3,962,914
Total Revenues	131,153,720	119,068,908	121,449,582	107,849,978	110,936,232	105,441,735	103,053,579	103,833,661	90,786,960	89,604,999
EXPENDITURES										
General government	7,764,505	7,189,932	7,049,164	6,691,631	6,873,581	6,368,922	5,964,505	5,403,334	5,100,229	5,018,922
Public safety	38,136,230	37,120,837	35,865,215	34,986,398	34,891,804	31,350,259	29,955,158	27,667,124	26,002,843	25,530,479
Public works	8,823,486	9,800,681	10,253,529	9,096,795	10,640,690	9,120,258	7,682,125	7,754,287	7,394,724	8,794,145
Airport operations	3,485,498	3,192,782	3,116,769	3,038,389	3,192,454	3,105,049	2,734,471	2,860,315	2,569,762	2,486,053
Transit	6,544,287	4,427,520	4,216,924	3,791,674	3,781,225	2,828,406	2,649,879	2,749,219	2,275,346	2,078,501
Culture	7,415,474	7,278,575	7,238,432	6,896,807	7,099,224	6,658,566	6,390,860	6,004,368	5,620,173	5,097,913
Park and recreation	12,651,545	12,495,382	12,341,947	12,024,541	11,728,868	10,929,854	10,357,189	10,079,101	9,308,479	8,628,398
Economic development/tourism	3,635,191	3,316,165	3,262,793	2,601,319	2,352,074	2,457,602	2,218,788	2,509,103	2,262,933	2,046,331
Community reinvestment and unallocated	537,745	558,095	470,731	572,108	633,038	352,345	469,416	284,907	196,943	411,960
Debt service										
Interest	2,775,540	2,377,564	2,110,335	1,284,802	874,312	808,672	1,204,347	871,820	1,044,521	1,493,986
Principal	4,912,264	1,472,961	1,260,612	958,505	663,295	8,043,363	3,237,648	420,979	2,764,417	19,235,385
Capital outlay	36,982,468	45,390,342	55,413,183	46,496,499	55,245,719	18,346,025	58,045,351	44,461,829	27,672,306	39,032,035
Total Expenditures	133,664,233	134,620,836	142,599,634	128,439,468	137,976,284	100,369,321	130,909,737	111,066,386	92,212,676	119,854,108
Excess (deficiency) of revenues over (under) expenditures	(2,510,513)	(15,551,928)	(21,150,052)	(20,589,490)	(27,040,052)	5,072,414	(27,856,158)	(7,232,725)	(1,425,716)	(30,249,109)
OTHER FINANCING SOURCES (USES)										
Sale of land					360,000					
Proceeds from borrowing			26,383,439	8,035,000	9,200,000	9,900,000	5,979,739			
Premiums on issuance of debt			85,609							
Transfers in	28,513,745	15,644,800	16,710,433	14,722,178	23,646,860	23,434,123	20,006,124	16,745,551	19,070,845	29,737,413
Transfers out	(18,897,600)	(4,148,389)	(4,385,956)	(4,675,774)	(8,579,997)	(14,016,344)	(5,066,524)	(3,787,385)	(6,879,572)	(20,331,062)
Total other financing sources (uses)	9,616,145	11,496,411	38,793,525	18,081,404	24,626,863	19,317,779	20,919,339	12,958,166	12,191,273	9,406,351
Net change in fund balances	\$ 7,105,632	\$ (4,055,517)	\$ 17,643,473	\$ (2,508,086)	\$ (2,413,189)	\$ 24,390,193	\$ (6,936,819)	\$ 5,725,441	\$ 10,765,557	\$ (20,842,758)
Debt service as a percentage of noncapital expenditures	7.95%	4.35%	3.90%	2.77%	1.88%	10.89%	6.16%	1.96%	5.96%	25.84%

CITY OF ROCHESTER, MINNESOTA
TAX CAPACITY AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Payable Year	Real Property		Personal Property		Total Tax Capacity (1)	City Tax Rate %	Total Taxable Market Value (1)	% of Tax Capacity to Total Taxable Market Value
	Tax Capacity	Taxable Market Value	Tax Capacity	Taxable Market Value				
2004	\$ 69,480,548	\$ 5,722,379,100	\$ 510,278	\$ 25,454,100	\$ 69,990,826	40.743	\$ 5,747,833,200	1.22
					66,852,309		5,448,462,400	1.23
2005	78,600,356	6,390,285,710	610,070	29,020,600	79,210,426	41.620	6,419,306,310	1.23
					78,104,210		6,403,581,010	1.22
2006	85,437,761	7,002,553,700	679,693	34,513,900	86,117,454	41.672	7,037,067,600	1.22
					84,983,357		7,015,198,500	1.21
2007	90,949,329	7,512,154,400	822,074	41,718,600	91,771,403	41.707	7,553,873,000	1.21
					90,567,262		7,530,242,600	1.20
2008	95,794,200	7,901,523,500	688,498	35,004,300	96,482,698	42.455	7,936,527,800	1.22
					95,077,087		7,910,965,100	1.20
2009	103,127,070	8,375,322,700	739,892	37,650,400	103,866,962	41.008	8,412,973,100	1.23
					102,305,913		8,385,349,000	1.22
2010	105,604,986	8,548,508,300	810,344	43,140,600	106,415,330	42.817	8,591,648,900	1.24
					104,661,042		8,558,844,600	1.22
2011	105,848,625	8,575,056,496	861,029	45,763,600	106,709,654	44.141	8,620,820,096	1.24
					104,995,949		8,587,630,696	1.22
2012	99,613,525	7,952,933,692 (2)	857,272	45,503,400	100,470,797	49.184	7,998,437,092	1.26
					98,171,649		7,962,184,992	1.23
2013	100,008,612	7,972,893,891	873,344	46,307,000	100,881,956	51.158	8,019,200,891	1.26
					98,582,808		7,982,948,791	1.23

(1) Second amounts are net of Tax Increment.

(2) Taxable Market Value was reduced in 2012 as the result of the Market Value Exclusion.

NOTE - Valuations are determined as of January 1 of year preceding tax collection year.

The County determines a property's tax capacity by multiplying a property's estimated market value times the property's class rate which is determined by its use.

The total City tax levy divided by the total City tax capacity determines a percentage, the City tax rate, that is applied to each parcel's tax capacity to determine the tax amount.

**CITY OF ROCHESTER, MINNESOTA
PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Percent of Tax Capacity)**

Fiscal Year	City of Rochester			Overlapping Rates		
	Direct Rate			Range of Tax Rates for Independent		Range of Total
	Operating	Debt Service	Total Direct Rate	School Districts 531, 534 & 535	Olmsted County	Direct and Overlapping Tax Rates
2004	40.743 %	NA %	40.743 %	25.966 - 36.121 %	55.782 %	122.491 - 132.646 %
2005	41.620	NA	41.620	25.388 - 26.697	51.786	118.794 - 120.103
2006	41.672	NA	41.672	23.695 - 24.881	50.831	116.198 - 117.384
2007	41.707	NA	41.707	22.670 - 38.666	51.957	116.334 - 132.330
2008	42.455	NA	42.455	21.801 - 37.766	52.454	116.710 - 132.675
2009	40.900	0.108	41.008	20.303 - 37.107	52.288	113.599 - 130.403
2010	42.340	0.477	42.817	20.656 - 36.881	52.594	116.067 - 132.292
2011	43.418	0.723	44.141	21.917 - 37.268	54.017	120.075 - 135.426
2012	44.649	4.535	49.184	22.493 - 41.811	57.446	129.123 - 148.441
2013	50.856	0.302	51.158	21.584 - 42.233	57.979	130.721 - 151.370

Source: Olmsted County Assessor

Note: The City's direct property tax rate is determined by dividing the amount of tax levied by the Common Council by the City's total tax capacity.

*Overlapping rates are those of local and county governments that apply to property owners within the City of Rochester. Not all overlapping rates apply to all City of Rochester property owners. Although the county property tax rates apply to all city property owners, some city properties lie within the geographical boundaries of different school districts.

**CITY OF ROCHESTER, MINNESOTA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

Taxpayers (1)	2012 Taxes Payable			2003 Taxes Payable		
	Taxable Tax Capacity	Rank	Percentage of Total City Tax Capacity Value	Taxable Tax Capacity	Rank	Percentage of Total City Tax Capacity Value
Mayo Foundation/Association	\$ 7,166,408	1	7.27 %	\$ 4,097,599	1	6.70 %
MEPC-Apache Properties	1,163,266	2	1.18			
IBM Corporation	884,258	3	0.90	908,305	3	1.49
Maine Land LLC	461,482	4	0.47			
Sunstone Kahler	413,130	5	0.42	383,209	8	0.63
Sunstone Skyway LLC	385,476	6	0.39			
Mills Properties	336,188	7	0.34			
MN Bio Science Center	315,521	8	0.32			
Grandeville at Cascade Lake LP	313,194	9	0.32			
Minnesota Energy Resources	302,967	10	0.31			
General Growth-Apache Mall				1,777,276	2	2.91
BGD5 - Ltd Partnership				571,538	4	0.94
IRET Properties				489,550	5	0.80
Utilicorp United				416,545	6	0.68
Dayton-Hudson-Target				409,100	7	0.67
Seneca Foods				334,410	9	0.55
Rochester Development Inc.				316,901	10	0.52
TOTAL	<u>\$11,741,890</u>		<u>11.92 %</u>	<u>\$ 9,704,433</u>		<u>15.89 %</u>

(1) Source: Olmsted County Assessor

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year	Net Tax Levy for the Fiscal Year (1)	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date (2)		Total Delinquent Taxes (3)	Delinquent Taxes As A % Of Total Net Tax Levy
			Amount	Percentage of Net Levy		Amount	Percentage of Net Levy		
2003	\$ 24,950,756	\$ 22,867,100	\$ 22,510,212	98.44%	\$ 249,095	\$ 22,759,307	99.53%	\$ (10,205)	(0.04)
2004	27,189,112	25,100,811	24,842,761	98.97	171,985	25,014,746	99.66	(2,790)	(0.01)
2005	32,370,616	30,167,456	29,854,020	98.96	159,940	30,013,960	99.49	(1,963)	(0.01)
2006	35,159,505	32,947,173	32,528,890	98.73	247,083	32,775,973	99.48	1,329	0.00
2007	37,438,500	35,219,727	34,649,500	98.38	352,455	35,001,955	99.38	6,783	0.02
2008	39,965,404	37,769,398	37,245,742	98.61	366,465	37,612,207	99.58	(2,237)	(0.01)
2009	41,487,000	39,282,764	38,551,029	98.14	477,505	39,028,534	99.35	69,696	0.18
2010	44,272,624	42,032,311	41,252,386	98.14	437,959	41,690,345	99.19	96,648	0.23
2011	45,832,300	43,528,945	42,867,162	98.48	156,628	43,023,790	98.84	156,628	0.36
2012	47,934,440	47,935,157 (4)	47,401,428	98.89		47,401,428	98.89	462,154	0.96

- (1) Tax Levy adjusted for Market Value Credit in 2003-2011.
- (2) Excludes Tax Increment Districts and Mobile Home Tax Collections.
- (3) On records of Olmsted County Auditor before allowance for uncollectible and excludes Mobile Home Taxes. Olmsted County Auditor Balances are net of tax abatements and additions which are not presented in this schedule.
- (4) The Net Tax Levy amount is slightly higher in 2012 due to rounding by the formula that Olmsted County uses to spread the tax levy across the multitude of properties.

**CITY OF ROCHESTER, MINNESOTA
ELECTRIC, WATER AND SANITARY SEWER CHARGES BY CUSTOMER
LAST TEN FISCAL YEARS**

Electricity (in millions of Kilowatt Hours)	Fiscal Year										
	Type of Customer	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Residential		343	346	345	325	328	343	334	327	300	305
General Service		635	643	644	634	641	641	624	609	593	601
Industrial Service		237	237	240	246	307	308	293	286	271	250
Street & Highway Lighting		6	7	7	7	6	7	7	7	7	7
Rental Lights		1	1	1	1	1	1	1	1	1	1
Interdepartmental Service		8	7	7	8	8	9	9	8	8	9
Total KWH		1,230	1,241	1,244	1,221	1,291	1,309	1,268	1,238	1,180	1,173
Total direct rate per Kilowatt Hour		\$ 0.105	\$ 0.105	\$ 0.101	\$ 0.099	\$ 0.092	\$ 0.089	\$ 0.081	\$ 0.073	\$ 0.071	\$ 0.069
Water (in millions of gallons)		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Customer											
Residential		2,372	2,193	2,107	2,250	2,297	2,379	2,375	2,246	2,058	2,479
Commercial Service		1,654	1,585	1,505	1,549	1,617	1,654	1,594	1,543	1,484	1,579
Industrial Service		507	525	521	518	462	534	575	524	577	525
Interdepartmental Service		44	54	68	85	161	198	136	111	189	82
Total gallons		4,577	4,357	4,201	4,402	4,537	4,765	4,680	4,424	4,308	4,665
Total direct rate per 1,000 gallons		\$ 1.724	\$ 1.740	\$ 1.758	\$ 1.687	\$ 1.655	\$ 1.606	\$ 1.529	\$ 1.474	\$ 1.395	\$ 1.279
Sanitary Sewer (in millions of gallons)		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Customer											
Residential		1,563	1,591	1,641	1,679	1,640	1,586	1,637	1,622	1,640	1,690
Commercial		1,636	1,639	1,639	1,633	1,787	1,683	1,787	1,703	1,725	1,739
Industrial		807	774	734	835	638	697	722	689	981	982
Total gallons		4,006	4,004	4,014	4,147	4,065	3,966	4,146	4,014	4,346	4,411
Total direct rate per 1,000 gallons		\$ 4.571	\$ 4.225	\$ 3.851	\$ 3.272	\$ 2.287	\$ 2.096	\$ 1.895	\$ 1.744	\$ 1.673	\$ 1.702

Source: City of Rochester Public Utilities - Electric & Water
City of Rochester - Water Reclamation Plant - Sanitary Sewer

**CITY OF ROCHESTER, MINNESOTA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Governmental Activities

Fiscal Year	Taxable GO Bonds ³	Sales Tax Bonds	Sales Tax Notes	Tax Increment Bonds ¹	Equipment Certificates of Indebtedness ¹	Airport Hangar Notes	REDA Lease Revenue Bonds	Energy Improvement Loan	Pollution Cleanup Loan ³
2002	\$	\$ 28,383,673	\$ 2,500,000	\$ 6,358,611	\$	\$ 429,357	\$	\$	\$
2003		10,458,673	2,399,000	5,206,761		371,822			
2004		10,458,673	2,295,000	2,603,879		314,287			
2005		10,258,673	2,188,000	2,547,435		256,752			
2006		7,275,130	2,078,000	2,465,264		458,762		5,715,795	
2007			1,965,000	2,378,511		374,832	9,900,000	5,231,245	
2008			4,349,000	2,286,921		304,172	16,600,000	4,846,199	
2009			4,143,000	10,036,806	815,000	237,776	16,600,000	4,445,206	
2010	26,700,000		3,928,000	9,841,721	740,000	189,851	16,215,000	4,027,603	108,439
2011	26,700,000		3,707,000	9,586,023	665,000	141,926	15,810,000	3,592,703	
2012	26,650,000			9,079,422	595,000	101,178	15,385,000	3,139,789	

Note: Details of the city's outstanding debt can be found in the notes to the financial statements.

- 1 City issued \$8,035,000 GO Taxable Tax Increment Bonds; \$2,825,000 of GO Revenue Refunding Bonds; \$815,000 of GO Equipment Certificates of Indebtedness and \$6,790,000 of Electric Utility Revenue Notes in 2009; \$60,840,000 of GO Revenue Crossover Refunding Bonds in 2012
- 2 Includes general bonded debt, other governmental activities debt, blended component unit debt and business-type activities debt.
- 3 City issued \$26,700,000 Taxable GO Build America Bonds and a Minnesota Department of Economic Development Pollution Cleanup Reimbursement Loan Note in 2010.

See Schedule 15 for personal income and population data.

Business-Type Activities								
Total Governmental Activities Debt	Electric/Water Revenue Bonds/Notes	Wastewater Utility Bonds ¹	Electric Notes Payable	Obligation Under Capital Lease	Total Business Activities Debt ¹	Total Primary Government Debt ²	Percentage of Personal Income	Per Capita
\$ 37,671,641	\$47,390,000	\$ 7,620,000	\$ 200,000		\$ 55,210,000	\$ 92,881,641	3.01%	\$ 1,018
18,436,256	46,315,000	6,890,000			53,205,000	71,641,256	2.20%	770
15,671,839	45,050,000	89,855,000			134,905,000	150,576,839	4.34%	1,588
15,250,860	49,160,000	89,070,000			138,230,000	153,480,860	4.25%	1,579
17,992,951	48,935,000	87,920,000			136,855,000	154,847,951	4.05%	1,570
19,849,588	92,760,000	136,105,000		663,703	229,528,703	249,378,291	6.16%	2,473
28,386,292	90,225,000	134,290,000		450,604	224,965,604	253,351,896	5.94%	2,473
36,277,788	94,140,000	131,200,000		228,252	225,568,252	261,846,040	5.95%	2,504
61,750,614	90,100,000	128,010,000		16,867	218,126,867	279,877,481	5.89%	2,621
60,202,652	86,280,000	124,405,000		12,505	210,697,505	270,900,157	5.67%	2,506
54,950,389	82,255,000	182,370,000		518,410	265,143,410	320,093,799	N/A	2,926

CITY OF ROCHESTER, MINNESOTA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

General Bonded Debt Outstanding

Fiscal Year	Taxable GO Bonds	Sale Tax Bonds and Notes	Tax Increment Bonds	Wastewater Utility Bonds	Equipment Certificates of Indebtedness	Total	Less: Available In Debt Service	Net General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	Per Capita
2003		\$ 12,857,673	\$ 5,206,761	\$ 6,890,000		\$ 24,954,434	\$ (642)	\$ 24,953,792	0.48	\$ 268
2004		12,753,673	2,603,879	89,855,000		105,212,552	(549)	105,212,003	1.83	1,110
2005		12,446,673	2,547,435	89,070,000		104,064,108		104,064,108	1.62	1,071
2006		9,353,130	2,465,264	87,920,000		99,738,394	(107,469)	99,630,925	1.42	1,010
2007		1,965,000	2,378,511	136,105,000		140,448,511	(824,831)	139,623,680	1.85	1,385
2008		4,349,000	2,286,921	134,290,000		140,925,921	(772,422)	140,153,499	1.77	1,368
2009		4,143,000	10,036,806	131,200,000	815,000	146,194,806	(620,869)	145,573,937	1.73	1,392
2010	26,700,000	3,928,000	9,841,721	128,010,000	740,000	169,219,721	(562,948)	168,656,773	1.96	1,580
2011	26,700,000	3,707,000	9,586,023	124,405,000	665,000	165,063,023	(627,491)	164,435,532	1.91	1,503
2012	26,650,000		9,079,422	182,370,000	595,000	218,694,422	(74,780,296) (1)	143,914,126	1.80	1,315

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

See Schedule 15 for personal income and population data

See Schedule 5 for estimated market value information

Source: City of Rochester Finance Department

(1) Includes funds of \$73,286,008 in an escrow account to cover three years of interest payments on the Series 2012A Bonds and the 2016-2026 maturities of the Series 2004A Bonds

CITY OF ROCHESTER, MINNESOTA
COMPUTATION OF DIRECT AND INDIRECT GENERAL OBLIGATION BONDED DEBT
AND LEGAL DEBT MARGIN
December 31, 2012

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Independent School District #531	\$ 49,531,657	0.50%	\$ 247,658
Independent School District #534	9,734,393	10.44%	1,016,271
Independent School District #535	71,240,230	85.45%	60,874,777
Other debt			
Olmsted County	100,982,600	70.44%	71,132,143
Independent School District #534	814,200	10.44%	<u>85,002</u>
Subtotal, overlapping debt			133,355,851
City direct debt	54,950,389		<u>54,950,389</u>
Total direct and overlapping debt			<u><u>\$ 188,306,240</u></u>

Sources: Tax capacity data to estimate applicable percentages provided by Olmsted County Property Records
Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Rochester. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using tax capacity values. Applicable percentages were estimated by determining the portion of another governmental unit's tax capacity value that is within the City's boundaries and dividing it by each unit's total tax capacity value.

**CITY OF ROCHESTER, MINNESOTA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**
(Dollars in Thousands)

Legal Debt Margin Calculation for the Fiscal Year 2012

Market Value	\$ 8,019,201
Debt Limit (3% of market value)	<u>240,576</u>
Debt applicable to limit:	
Energy improvement loan	3,140
GO Equipment Certificates	595
Taxable GO Build America Bonds, Series 2010A	26,650
Less: Amount set aside for repayment of:	
Energy Improvement Loan	(216)
Public Works and Transit Operation Center Bond	<u>(1,277)</u>
Total net debt applicable to limit	<u>28,892</u>
Legal debt margin	<u><u>\$ 211,684</u></u>

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt limit	\$ 240,576	\$ 239,953	\$ 258,625	\$ 257,749	\$ 168,259	\$ 158,731	\$ 151,077	\$ 140,741	\$ 128,387	\$ 114,957
Total net debt applicable to limit	<u>28,892</u>	<u>30,336</u>	<u>30,911</u>	<u>5,019</u>	<u>4,540</u>	<u>4,990</u>	<u>5,609</u>	<u> </u>	<u> </u>	<u> </u>
Legal debt margin	\$ 211,684	\$ 209,617	\$ 227,714	\$ 252,730	\$ 163,719	\$ 153,741	\$ 145,468	\$ 140,741	\$ 128,387	\$ 114,957
Total net debt applicable to the limit as a percentage of debt limit	12.01%	12.64%	11.95%	1.95%	2.70%	3.14%	3.71%	0.00%	0.00%	0.00%

The legal debt limit for municipalities in Minnesota is 3% of the market value of taxable property. This limit applies only to the City's general obligation tax levy bonds and excludes improvement, revenue, tax increment and sales tax supported bonds.

CITY OF ROCHESTER, MINNESOTA
PLEGDED REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Fiscal Year	Electric Utility Bonds						Water Utility Note					
	Utility Service Charges & Taxes	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Utility Service Charges & Taxes	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2003	\$ 99,091	\$ 89,449	\$ 9,642	\$ 1,075	\$ 2,431	\$ 3						
2004	102,340	91,257	11,083	1,265	2,251	3.15						
2005	112,432	97,047	15,385	1,655	2,414	3.78						
2006	130,723	117,883	12,840	1,750	2,427	3.07	7,748	5,171	2,577		25	103.08
2007	156,772	120,945	35,827	2,335	3,252	6.41	8,274	5,230	3,044	\$ 355	72	7.13
2008	147,462	129,655	17,807	2,165	4,202	2.80	8,174	5,248	2,926	370	55	6.88
2009	136,149	120,377	15,772	2,485	4,064	2.41	8,192	5,439	2,753	390	42	6.37
2010	142,768	127,248	15,520	3,630	4,061	2.02	8,133	5,426	2,707	410	20	6.29
2011	142,413	123,151	19,262	3,824	3,871	2.50	8,321	6,199	2,122			
2012	142,603	123,562	19,041	4,025	1,807	3.26	8,620	5,959	2,661			
Fiscal Year	Sewer Utility Bonds						Airport T-Hanger Notes					
	Utility Service Charges & Taxes	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Airport Hangar Rental	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2003	\$ 9,745	\$ 5,866	\$ 3,879	\$ 730	\$ 283	3.83	\$ 53	\$ 53	\$ 58	\$ 58	0.92	
2004	9,407	6,000	3,407	770	900	2.04	55	55	58		0.96	
2005	10,208	6,587	3,621	785	4,077	0.74	57	57	58		0.99	
2006	11,394	6,930	4,464	1,150	4,041	0.86	63	63	62		1.02	
2007	13,234	8,354	4,880	1,770	5,634	0.66	65	65	84		0.77	
2008	13,647	9,471	4,176	1,815	5,774	0.55	61	61	71		0.86	
2009	15,151	8,683	6,468	5,915	5,480	0.57	59	59	66		0.89	
2010	16,873	8,555	8,318	3,190	5,369	0.97	59	59	48		1.23	
2011	18,382	9,046	9,336	3,605	5,272	1.05	60	60	48		1.25	
2012	20,462	9,722	10,740	2,875	6,095	1.20	59	59	41		1.44	
Fiscal Year	REDA Lease Revenue Bonds											
	Building Rental	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage						
				Principal	Interest							
2008	\$	\$	\$	\$	\$ 473							
2009					781							
2010	981		981	385	772	0.85						
2011	1,063		1,063	405	753	0.92						
2012	1,063		1,063	425	734	0.92						

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expense, but does include payments to the City's General Fund in lieu of tax, reported as transfers out on Form C-2.

**CITY OF ROCHESTER, MINNESOTA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

YEAR	POPULATION (1)	PERSONAL INCOME (thousands of dollars)	PER CAPITA PERSONAL INCOME (2)	PUBLIC SCHOOL ENROLLMENT (3)	UNEMPLOYMENT RATE (4)
2003	93,037	\$ 3,256,853	\$ 35,006	16,010	4.4%
2004	94,820	3,472,214	36,619	15,528	4.1
2005	97,191	3,615,311	37,198	15,449	3.5
2006	98,649	3,819,196	38,715	15,868	3.2
2007	100,845	4,045,700	40,118	16,330	4.0
2008	102,437	4,266,296	41,648	16,181	5.4
2009	104,578	4,399,178	42,066	15,804	6.0
2010	106,769	4,753,569	44,522	16,427	5.5
2011	108,100	4,775,209	44,174	16,443	4.8
2012	109,400	N/A	N/A	16,734	4.8

Sources: (1) State Demographers Estimate/2010-Census Bureau
(2) Bureau of Economic Analysis - Rochester MSA
(3) Independent School District #535
(4) Minnesota Department of Jobs & Training

**CITY OF ROCHESTER, MINNESOTA
PRINCIPAL EMPLOYERS
PREVIOUS YEAR AND NINE YEARS AGO**

Employer	2011			2003		
	Employees ⁽¹⁾	Rank	Percentage of Total City Employment ⁽²⁾	Employees ⁽⁴⁾	Rank ⁽⁴⁾	Percentage of Total City Employment ⁽⁴⁾
Mayo Clinic	35,000	1	33.55%	N/A	N/A	N/A
IBM ⁽³⁾	N/A			N/A	N/A	N/A
Rochester Public Schools	2,239	2	2.15%	N/A	N/A	N/A
Olmsted County	1,193	3	1.14%	N/A	N/A	N/A
Olmsted Medical Center	1,091	4	1.05%	N/A	N/A	N/A
City of Rochester	831	5	0.80%	N/A	N/A	N/A
Crenlo	744	6	0.71%	N/A	N/A	N/A
Charter Communications	725	7	0.69%	N/A	N/A	N/A
Interstate Hotels & Resorts	590	8	0.57%	N/A	N/A	N/A
Rochester Community and Technical College	550	9	0.53%	N/A	N/A	N/A
Federal Medical Center	450	10	0.43%	N/A	N/A	N/A

(1) Rochester Area Economic Development, Inc

(2) Bureau of Economic Analysis -
Rochester MSA 2009 employment

(3) Company no longer provides data

(4) Comparative information not available prior to 2005

CITY OF ROCHESTER, MINNESOTA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Mayor and Council	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
City Administrator	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Development District Administration	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Business District Maintenance	1.00	1.00	1.00	1.00	0.67	1.00	1.00	1.00	1.00	1.00
City Clerk/Elections/Parking Ticket Coll.	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finance	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	10.00	11.00
City Attorney	12.00	12.00	11.50	11.00	11.00	11.00	11.00	11.00	10.00	10.00
Human Resources	8.50	8.00	8.00	8.00	8.00	7.17	7.00	6.00	6.00	7.00
Information Systems	10.50	10.00	10.00	10.00	10.00	10.00	10.00	9.00	7.00	9.00
Maintenance City Hall	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
General Government	65.50	64.00	63.50	63.00	62.67	61.17	61.00	59.00	55.00	59.00
Police	164.50	164.17	162.18	161.50	156.50	151.00	145.00	141.33	138.00	143.00
Public Safety Communications	25.00	25.00	25.00	25.00	25.00	25.00	26.00	25.00	25.00	25.00
Fire	104.00	104.00	104.00	107.00	107.67	107.00	107.00	104.00	103.58	105.00
Building Safety	26.00	26.00	26.00	26.00	26.00	26.00	26.00	26.00	25.00	25.00
Animal Control	3.00	3.00	3.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00
Flood Control Maintenance	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Emergency Management	1.00	1.00	0.50							
Public Safety	325.50	325.17	322.68	325.50	321.17	315.00	309.00	301.33	296.58	303.00
Engineering	35.00	35.00	35.00	36.00	35.83	35.00	35.00	33.00	33.00	37.00
Traffic	8.00	8.00	8.00	9.00	9.00	9.00	10.00	8.00	8.00	9.00
Street and Alley	44.00	44.00	44.00	45.00	45.00	44.25	44.00	43.75	41.00	44.00
Public Works	87.00	87.00	87.00	90.00	89.83	88.25	89.00	84.75	82.00	90.00
Music	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Library	49.75	49.75	50.75	52.75	52.58	51.75	51.75	50.25	50.25	51.00
Total Culture	53.75	53.75	54.75	56.75	56.58	55.75	55.75	54.25	54.25	55.00
Park & Recreation Administration	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Recreation	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Golf	9.00	9.00	11.00	12.00	12.00	11.00	11.00	11.00	11.00	12.00
Tennis Center	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Volleyball Center	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Graham Arenas	3.00	3.00	3.00	3.00	2.83	2.00	2.00	2.00	2.00	2.00
Parks	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00	26.75	28.00
Parkway Landscaping	2.00	1.42								
Recreation Center	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	7.00
Mayo Civic Center	15.00	15.00	15.00	15.00	13.83	13.00	13.00	13.00	13.00	13.00
Parks and Recreation	72.00	71.42	72.00	73.00	71.66	69.00	69.00	69.00	67.75	71.00
Total Governmental Activities	603.75	601.34	599.93	608.25	601.91	589.17	583.75	568.33	555.58	578.00
Parking Administration/Operations	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	4.00
Electric Utility	186.00	185.00	182.00	189.00	186.00	181.00	181.00	176.00	172.00	172.00
Water Utility	21.00	19.00	19.00	19.00	19.00	20.00	20.00	20.00	20.00	20.00
Sewer Utility	39.00	38.50	37.00	38.00	38.00	37.50	36.00	37.00	37.00	36.00
Storm Water Utility	5.79	5.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00	
Total Business Activities	255.79	251.50	248.00	256.00	253.00	248.50	247.00	242.00	239.00	232.00
Totals for Organization	859.54	852.84	847.93	864.25	854.91	837.67	830.75	810.33	794.58	810.00

Source: City's Adopted Budgets

CITY OF ROCHESTER, MINNESOTA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police										
Part I crimes	2,953	2,557	2,679	3,117	3,183	2,835	2,826	2,743	2,873	3,282
Part II crimes	3,465	3,647	3,832	4,160	4,143	4,037	3,903	3,813	4,049	4,331
Arrests	2,974	2,881	3,422	3,857	3,757	3,692	3,350	3,646	4,089	4,492
Fire										
Total emergency responses	8,578	7,975	8,023	7,585	7,719	7,542	6,661	6,543	6,124	5,648
EMS responses	5,692	5,544	5,095	4,935	5,096	4,449	4,481	3,871	3,486	3,136
Fire responses	223	189	214	200	232	283	268	200	245	284
Public Works										
Streets resurfaced (miles)	11	14	12	16.5	17	7	20	27	30	27
Residential snow plowing (miles)	5,120	4,680	5,000	5,500	4,320	4,320	4,010	4,050	4,000	3,900
Airport										
Airline passengers	214,522	224,327	240,237	257,426	297,857	319,233	296,889	283,113	277,504	278,990
Air cargo (millions of pounds)	19.40	18.40	18	17.00	18.43	29.07	28.90	29.60	34.20	31.50
Transit										
Passengers (millions)	1.78	1.70	1.56	1.62	1.77	1.55	1.43	1.43	1.17	1.20
Route miles (thousands)	1,257	1,260	1,261	1,167	1,084	990	953	940	970	951
Library										
Annual circulation (millions)	1.64	1.64	1.61	1.60	1.60	1.51	1.47	1.48	1.40	1.38
Park & Recreation										
Rounds of golf played	100,100	90,027	97,337	98,525	96,905	91,484	105,076	90,298	136,000	132,000
Hours of arena ice rentals	9,000	8,000	8,000	8,000	8,000	8,000	2,810	2,900	2,695	2,900
Civic center event-days	1,849	2,117	1,293	1,353	1,480	1,203	1,279	1,348	1,337	1,002
Electric Utility										
Number of customers	49,990	49,407	48,219	47,675	47,407	46,954	46,433	45,586	44,545	43,359
Average daily consumption (megawatt hours)	3,371	3,401	3,410	3,345	3,537	3,584	3,470	3,393	3,232	3,214
Water Utility										
Number of customers	37,667	37,269	36,951	36,732	36,413	36,070	35,527	34,761	33,756	32,721
Average daily consumption (millions of gallons)	12.54	12.00	11.51	12.06	12.43	13.05	12.80	12.12	11.80	12.78
Sanitary Sewer Utility										
Gallons of wastewater treated annually (millions of gallons)	4,846	5,114	5,004	4,836	4,847	5,030	4,904	4,914	5,333	4,805

Sources: Various City Department's annual budget workload measurements

CITY OF ROCHESTER, MINNESOTA
CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	5	5	5	5	5	4	4	4	4	4
Public Works										
Streets (miles)	526	524	522	511	507	502	500	483	468	456
Intersections w/traffic signals	146	142	142	142	139	137	139	141	133	130
Street lights	9,245	9,255	9,240	9,180	9,085	9,045	8,814	8,299	7,667	7,606
Storm sewer (miles)	291	291	322	266	264	262	261	254	228	215
Airport										
9,033' x 150' No./So. runway	1	1	1	1	1	1	1	1		
7,533' x 150' No./So.runway									1	1
7,300' x 150' E/W runway	1	1	1	1	1	1	1	1	1	1
Transit										
Transit buses	52	50	48	44	44	44	56	56	46	43
Bus shelters	67	67	67	62	60	60	60	60	60	59
Library										
Holdings (thousands)	482	474	460	454	438	429	435	439	401	370
Park & Recreation										
Acres of parkland	4,060	3,606	3,603	3,603	3,093	3,060	3,045	3,030	3,015	3,107
Number of parks	111	105	104	104	103	101	99	96	94	92
Number of golf courses	4	4	4	4	4	4	4	4	4	4
Electric Utility										
Miles of distribution line	772	769	742	726	717	709	697	678	679	652
Water Utility										
Miles of watermain	574	571	570	567	566	562	557	543	528	487
Number of fire hydrants	6,799	6,773	6,751	6,726	6,693	6,598	6,554	6,361	6,189	5,823
Sanitary Sewer Utility										
Miles of sanitary sewer	473	473	472	470	467	467	466	456	455	436
Treatment capacity (thousands of gallons)	23,850	23,850	23,850	23,850	23,850	23,850	19,100	19,100	19,100	19,100
Area of City (square miles)	54.75	54.73	54.67	54.67	53.41	51.89	51.44	50.90	49.26	48.87

Sources: Various City Department's annual financial report statistics and budget workload measurements

