

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2013

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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, 2013, 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 did not audit the financial statements of the electric and water enterprise funds, both of which are major enterprise funds, which represent 48 percent, 53 percent, and 82 percent, respectively, of the total assets and deferred outflows of resources, net position, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the electric and water enterprise funds, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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

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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.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2013, 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

Change in Accounting Standards

As described in Note 5 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. Adoption of the provisions of this statement resulted in significant changes to the classifications of certain components of the financial statements.

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 basic financial statements.

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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 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 basic financial statements as a whole.

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

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, 2012, from which such partial information was derived.

We have previously audited the City's 2012 financial statements and our report, dated June 10, 2013, 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, 2012, 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 20, 2014, 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, Schaffn and Associates, Ltd.

Rochester, Minnesota
June 20, 2014

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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, 2013, with comparative data for the fiscal year ended December 31, 2012. 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. As described in Note 5 to the financial statements, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. This statement established accounting and financial reporting standards that retroactively reclassify, as deferred inflows of resources, certain items previously reported as liabilities. In addition, debt issuance costs are no longer reported in the Statement of Net Position under the new Standard.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$1,157,214,004 (*net position*). Of this amount, \$248,714,284 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$68,185,379.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$128,707,612, a decrease of \$2,769,138 in comparison with the prior year. Approximately 21 percent of this total amount, or \$27,169,199, 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 \$27,811,456 or approximately 44 percent of total general fund expenditures. This is slightly above the City's target of 42 percent of expenditures.
- The City of Rochester increased total outstanding long term debt obligations by \$32,720,697 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.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Additional explanation of these sections of the financial statements follows.

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

The *statement of net position* presents information on all of the City of Rochester's assets 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 fifteen 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 thirteen 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 81-90 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 85-90) 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
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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 35-77 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 81-95 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 \$1,157,214,004 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net position (74 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 214,791,343	\$ 194,273,137	\$ 232,590,789	\$ 204,025,950	\$ 447,382,132	\$ 398,299,087
Capital assets	606,195,488	564,253,603	515,623,424	505,239,051	1,121,818,912	1,069,492,654
Deferred outflows of resources			1,272,422	1,382,772	1,272,422	1,382,772
Total assets and deferred outflows of resources	<u>820,986,831</u>	<u>758,526,740</u>	<u>749,486,635</u>	<u>710,647,773</u>	<u>1,570,473,466</u>	<u>1,469,174,513</u>
Long-term liabilities outstanding	65,448,850	67,084,716	318,996,525	286,022,735	384,445,375	353,107,451
Other liabilities	9,925,887	9,785,161	17,944,298	16,473,960	27,870,185	26,259,121
Deferred inflows of resources			943,902	779,316	943,902	779,316
Total liabilities and deferred inflows of resources	<u>75,374,737</u>	<u>76,869,877</u>	<u>337,884,725</u>	<u>303,276,011</u>	<u>413,259,462</u>	<u>380,145,888</u>
Net position:						
Net investment in capital assets	553,588,996	509,225,208	305,162,231	299,805,898	858,751,227	809,031,106
Restricted	49,748,493	51,203,900			49,748,493	51,203,900
Unrestricted	142,274,605	121,227,755	106,439,679	107,565,864	248,714,284	228,793,619
Total net position	<u>\$ 745,612,094</u>	<u>\$ 681,656,863</u>	<u>\$ 411,601,910</u>	<u>\$ 407,371,762</u>	<u>\$ 1,157,214,004</u>	<u>\$ 1,089,028,625</u>

**CITY OF ROCHESTER, MINNESOTA
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An additional portion of the City of Rochester's net position (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$248,714,284) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental activities. Governmental activities increased the City of Rochester's net position by \$63,955,231. Most of this increase can be attributable to the capital grants and contributions (primarily street contributions and the Highway 63 turn back funds). 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 increased the City of Rochester's net position by \$4,230,148. This increase is due to program revenues exceeding expenses in all business activities except the sewer utility which reflected a \$2.5 million decline in net position.

**CITY OF ROCHESTER, MINNESOTA
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A condensed version of the Statement of Activities follows:

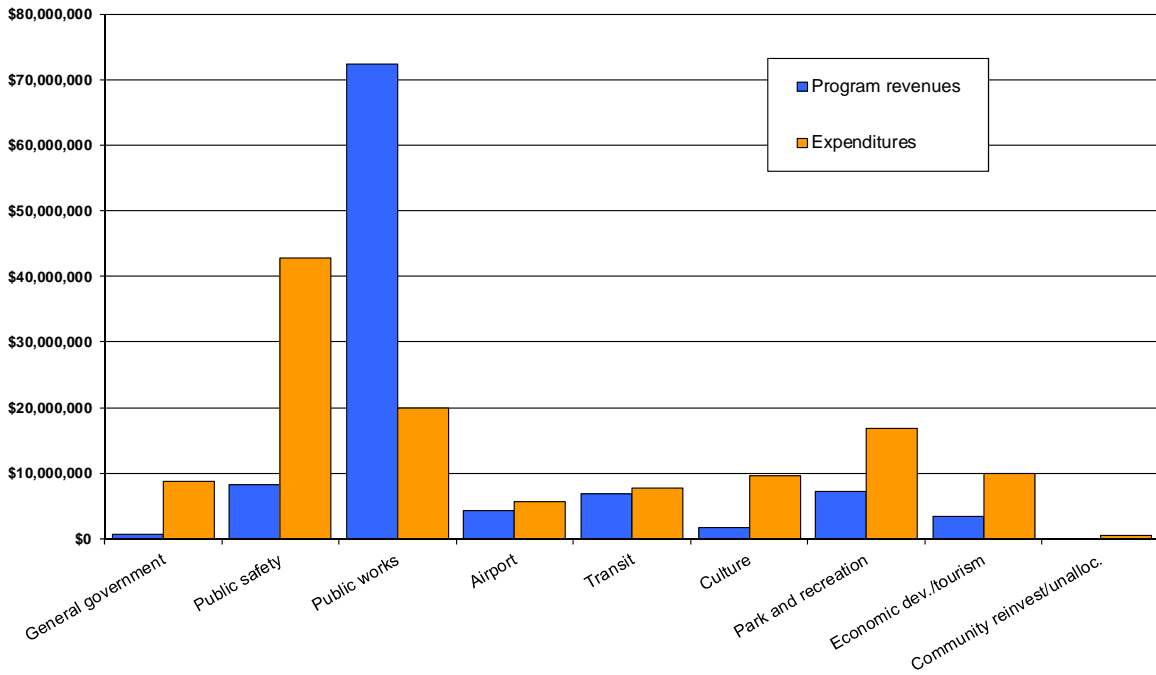
City of Rochester's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue:						
Program revenues:						
Charges for services	\$ 21,518,507	\$ 22,140,410	\$ 182,855,148	\$ 182,386,254	\$ 204,373,655	\$ 204,526,664
Operating grants and contributions	9,375,174	8,824,544			9,375,174	8,824,544
Capital grants and contributions	74,050,192	28,549,008	2,271,848	1,845,793	76,322,040	30,394,801
General revenues:						
Property taxes	50,008,722	47,786,839			50,008,722	47,786,839
Other taxes	19,157,845	18,133,095			19,157,845	18,133,095
Grants and contributions not restricted to specific programs	5,157,388	5,173,338	9,796	340,346	5,167,184	5,513,684
Other	1,292,733	2,291,883	304,839	1,100,800	1,597,572	3,392,683
Total revenues	<u>180,560,561</u>	<u>132,899,117</u>	<u>185,441,631</u>	<u>185,673,193</u>	<u>366,002,192</u>	<u>318,572,310</u>
Expenses:						
General government	8,811,595	8,347,314			8,811,595	8,347,314
Public safety	42,858,335	42,320,996			42,858,335	42,320,996
Public works	19,887,604	16,543,088			19,887,604	16,543,088
Airport	5,734,323	7,099,307			5,734,323	7,099,307
Transit	7,724,506	7,433,706			7,724,506	7,433,706
Culture	9,566,658	8,972,044			9,566,658	8,972,044
Park and recreation	16,841,511	16,373,665			16,841,511	16,373,665
Economic development/tourism	9,911,655	6,586,468			9,911,655	6,586,468
Community reinvestment/unallocated	506,967	537,748			506,967	537,748
Interest on long-term debt	2,380,003	2,522,739			2,380,003	2,522,739
Parking			4,393,329	4,144,820	4,393,329	4,144,820
Electric			132,336,451	130,435,312	132,336,451	130,435,312
Water			8,668,717	8,208,287	8,668,717	8,208,287
Sewer			24,553,468	24,146,154	24,553,468	24,146,154
Storm water			3,641,691	3,646,348	3,641,691	3,646,348
Total expenses	<u>124,223,157</u>	<u>116,737,075</u>	<u>173,593,656</u>	<u>170,580,921</u>	<u>297,816,813</u>	<u>287,317,996</u>
Increase in net position before transfers and special item	56,337,404	16,162,042	11,847,975	15,092,272	68,185,379	31,254,314
Special item - impairment loss				(35,536,828)		(35,536,828)
Transfers	<u>7,617,827</u>	<u>8,011,014</u>	<u>(7,617,827)</u>	<u>(8,011,014)</u>		
Increase in net position	63,955,231	24,173,056	4,230,148	(28,455,570)	68,185,379	(4,282,514)
Net position as restated, beginning (Note 5)	<u>681,656,863</u>	<u>657,483,807</u>	<u>407,371,762</u>	<u>435,827,332</u>	<u>1,089,028,625</u>	<u>1,093,311,139</u>
Net position, end of year	<u>\$ 745,612,094</u>	<u>\$ 681,656,863</u>	<u>\$ 411,601,910</u>	<u>\$ 407,371,762</u>	<u>\$ 1,157,214,004</u>	<u>\$ 1,089,028,625</u>

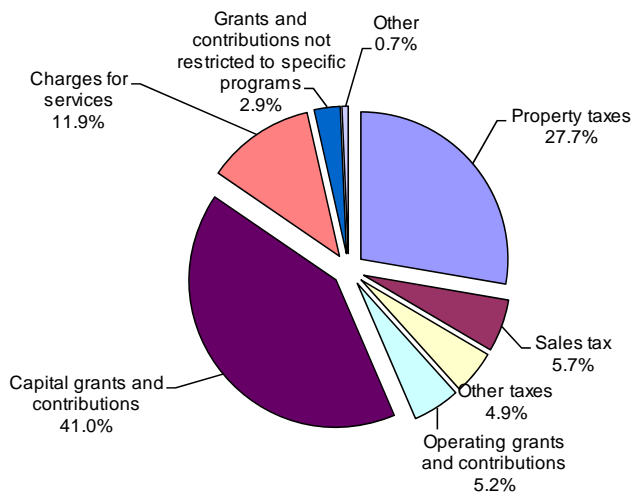
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Expenditures and Program Revenues - Governmental Activities



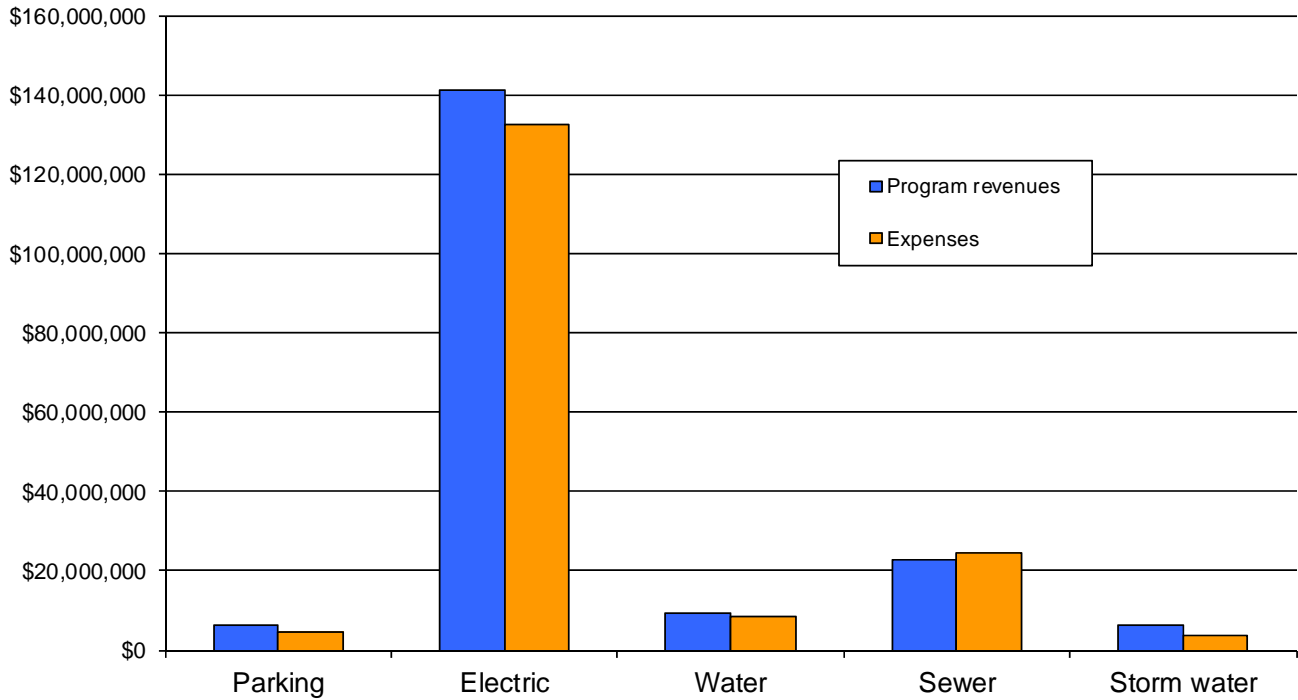
Revenues by Source - Governmental Activities



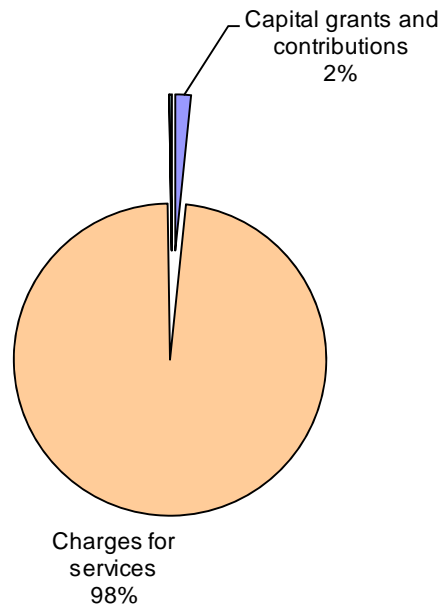
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

Fund balances are classified as follows:

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$128,707,612, a decrease of \$2,769,138 from the prior year. The general fund increased fund balance by nearly \$1.1 million, while the construction improvement fund decreased fund balance by nearly \$3.0 million due to capital project expenditures of prior-accumulated reserves. Additionally, all other governmental funds reflected a net decrease of \$873,148 in fund balance, largely showing up in airport and transit operations losses.

Approximately 21 percent of the total fund balance, or \$27,169,199, constitutes unassigned fund balance, which is available for spending at the government's discretion, \$1,042,209 is considered to be nonspendable (prepaid or inventory), \$46,574,023 has been restricted by grantors, donors, debt covenants, or regulation, \$47,141,420 has been committed by council action for CIP projects, and \$6,780,761 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
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Governmental funds (continued).

The general fund is the chief operating fund of the City of Rochester. The general fund increased its total fund balance by \$1,088,680 from the prior year. At the end of the current fiscal year, unassigned fund balance of the general fund was \$27,169,199 while total fund balance amounted to \$28,713,389. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 43 percent of total general fund expenditures, while total fund balance represents 46 percent of that same amount. The City's financial policies set a target of five months of total expenditures, or 41.7 percent.

The library fund increased its fund balance by \$78,756 for the year after transferring \$52,446 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 \$113,395 below the approved budget. The municipal recreation fund increased its fund balance by \$192,387 as a net gain in the Recreation Center and Park Operation budgets more than offset losses in the Plummer House, Graham Arena, and Mayo Civic Center operations. The airport fund decreased its total fund balance by \$955,780 for the year to \$558,458. This decline was the result of higher than expected operating expenditures, mainly in personnel benefit 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 a decrease in fund balance of \$95,052 due to lower than expected State and ridership revenues. Minnesota Bio Science Center fund decreased fund balance by \$133,948 due to common area cost of unleased space.

Debt service fund balances increased by \$40,861 this year reflecting the accumulation of reserves held for payment of the Public Works and Transit Facility bonds.

The construction improvement fund decreased fund balance by \$2,984,670 as federal construction dollars were received in 2012 for the transit facility expansion which was completed in 2013.

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 - \$17,042,031 Electric - \$53,969,505, Water - \$5,372,814, Sewer - \$20,633,041 and Storm water - \$5,509,276. 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 \$2.5 million reduction in net position for the year as revenues improved from prior year due to scheduled rate increases, but fell short of plan due to lower than expected sewer flows. The Sewer Utility's rates were increased an average of 8 percent effective January of 2013 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 to \$2,800 in 2013 and is scheduled to increase \$100 per year to \$3,000 by 2015. The schedule of rate increases was necessary as sewer flows continue to fall below plan.

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Proprietary funds (continued).

The Water Utility's rates were increased by 1.5% beginning in January of 2014. Rates had not been increased in this utility since 2007.

The Electric Utility rates were increased 3.0% beginning in January of 2014. Electric rates had not been increased since 2009. They were held flat due to cost reduction measures implemented as the Board's sentiment reflected the local economy.

The Parking Enterprise growth in net position of \$1.1 million was largely due to increased parking revenues. Parking rates were increased in 2013 reflecting a seven-year rate plan adopted in 2008. The plan calls for rate increases every other year such that the third phase of increases was implemented in 2013 but no increase was implemented in 2012. Increases were developed to rebalance based on market demand and ranged from 4% to 20%, but averaged approximately 8.8%.

The Storm Water Utility rates were held flat again in 2013. This utility's last increase was in 2011, an increase of 3% following the rate structure approved by council for years 2008 through 2011. An update to that study is currently underway.

General Fund Budgetary Highlights

The City approved the 2013 general fund budget anticipating a "balanced budget" or slight increase or decrease in fund balance.

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

- Increase in the Public Safety expenditures due to drug enforcement administration and Fire overtime needs.
- Increase in the City Attorney's 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.
- Street and Alley budget was increased primarily to reflect sealcoating and other roadwork completed by our own street crews that was funded by capital project accounts or private developer direct reimbursements.

At the close of the year, general fund total expenditures were \$2,363,722 below final budget while actual revenues were above final budget by \$862,903. Much of the lower expenses can be traced to greater engineering design charge-backs to project accounts, savings in public works, police 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 Human Resources due to consulting costs associated with health plan compliance and design work.

**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, 2013, amounts to \$1,121,818,912 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Rochester's reported investment in capital assets for the current fiscal year was \$52,326,258, or 4.9 percent. This increase is a result of significant construction activities in infrastructure including streets, underground mains and continued construction of the electric transmission line.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 66,718,459	\$ 64,462,666	\$ 14,668,248	\$ 14,521,439	\$ 81,386,707	\$ 78,984,105
Buildings	100,333,951	104,781,570	253,078,404	250,298,891	353,412,355	355,080,461
Improvements other than buildings	28,436,938	30,047,015			28,436,938	30,047,015
Machinery and equipment	22,092,379	22,192,937	214,147,506	219,881,191	236,239,885	242,074,128
Infrastructure	280,971,591	254,721,355			280,971,591	254,721,355
Construction in progress	107,642,170	88,048,060	33,729,266	20,537,530	141,371,436	108,585,590
Total	<u>\$ 606,195,488</u>	<u>\$ 564,253,603</u>	<u>\$ 515,623,424</u>	<u>\$ 505,239,051</u>	<u>\$ 1,121,818,912</u>	<u>\$ 1,069,492,654</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 53-55 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$346,049,988 in bonds and notes outstanding. Of this amount, \$212,383,965 comprises debt backed by the full faith and credit of the government, \$130,739,784 represents bonds and notes secured solely by specified revenue sources, \$2,668,116 represents an energy loan payable through savings in costs from energy improvements, and \$258,123 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			
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 8,548,965	\$ 9,079,422	\$	\$	\$ 8,548,965	\$ 9,079,422
General obligation revenue bonds			116,695,000	121,530,000	116,695,000	121,530,000
General obligation equipment certificates of indebtedness	520,000	595,000			520,000	595,000
General obligation taxable Build America bonds	25,780,000	26,650,000			25,780,000	26,650,000
General obligation revenue crossover refunding bonds			60,840,000	60,840,000	60,840,000	60,840,000
Revenue bonds	14,940,000	15,385,000	113,490,000	77,775,000	128,430,000	93,160,000
Notes payable	74,784	101,178	2,235,000	4,480,000	2,309,784	4,581,178
Energy loan payable	2,668,116	3,139,789			2,668,116	3,139,789
Capital Lease			258,123	518,410	258,123	518,410
Total	<u>\$ 52,531,865</u>	<u>\$ 54,950,389</u>	<u>\$ 293,518,123</u>	<u>\$ 265,143,410</u>	<u>\$ 346,049,988</u>	<u>\$ 320,093,799</u>

The City of Rochester's total bonds and notes payable increased by \$25,956,189 during the current fiscal year.

The sole new debt issuance by the City during 2013 was an electric utility revenue bond in the amount of \$42,330,000 related to the CAPX 2020 transmission power line construction costs.

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 59.

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 remained steady at 4.7 percent by the end of March 2014,. 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 2014 has shown a slight decrease of 0.2% or a loss of 233 jobs. The goods producing sector, primarily manufacturing, decreased jobs slightly for the year while the service sector saw a small increase in jobs for the year.

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

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

- **Building Activity.** Building activity continued its rebound during 2013 and on into the first quarter of 2014. Total Commercial and residential building permits issued during 2013 totaled \$329,111,548. This represents a slight increase over 2012 and was an increase of 60 percent over 2011, 64.6 percent over 2010, and 101 percent over 2009. Total permits issued the first quarter of 2014 totaled \$78,794,798, an increase of 125 percent over first quarter of 2013.
- **Destination Medical Center (DMC).** The State legislature approved Mayo Clinic's Destination Medical Center (DMC) during 2013, a \$6 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. The legislation secures State, City and County funding of \$585 million 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.
- Projects got underway under the voter-approved extension of Rochester's 1/2-cent sales tax as authorized by 2011 State Legislature. 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, 2012 and much of 2013 making earnings of the City's investment portfolio fall significantly from prior levels. The most recent interest rate climb has provided better investment opportunities.

All of these factors were considered in preparing the City of Rochester's budget for the 2014 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 held flat for pay 2014 due to an increase in State local government aid pledged revenues and associated levy limit put in place for this year.

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, 2013

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CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET POSITION
December 31, 2013
With Comparative Totals as of December 31, 2012

	Governmental Activities	Business-Type Activities	Totals	
			2013	2012
ASSETS				
Cash and cash equivalents	\$ 4,156,673	\$ 6,549,620	\$ 10,706,293	\$ 21,205,452
Investments	158,504,810	84,944,036	243,448,846	228,259,774
Land held for resale	1,645,000		1,645,000	1,645,000
Receivables (net of allowance for uncollectibles)	19,665,576	7,551,803	27,217,379	28,133,649
Internal balances	(3,129,814)	3,129,814		
Due from other governmental units	32,865,088	80,762	32,945,850	13,907,513
Accrued utility revenues		4,987,454	4,987,454	4,787,308
Cash and investments with escrow agent		70,130,432	70,130,432	73,286,008
Restricted and reserved cash and investments	41,803	36,884,359	36,926,162	6,065,946
Inventory	935,537	5,907,466	6,843,003	9,162,008
Prepaid items	106,670	76,640	183,310	169,922
Other assets		12,348,403	12,348,403	11,676,507
Capital assets:				
Nondepreciable	174,360,629	48,397,514	222,758,143	187,569,695
Depreciable, net	431,834,859	467,225,910	899,060,769	881,922,959
Total Assets	<u>820,986,831</u>	<u>748,214,213</u>	<u>1,569,201,044</u>	<u>1,467,791,741</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized deferred amount on refunding		1,272,422	1,272,422	1,382,772
Total Assets and Deferred Outflows of Resources	<u>820,986,831</u>	<u>749,486,635</u>	<u>1,570,473,466</u>	<u>1,469,174,513</u>
LIABILITIES				
Accounts and contracts payable	2,357,040	11,683,488	14,040,528	13,000,400
Deposits payable	617,510	876,968	1,494,478	1,800,772
Accrued interest payable	965,370	3,297,971	4,263,341	4,823,550
Accrued compensation and payroll taxes	2,958,144	1,062,023	4,020,167	3,629,429
Accrued claims	1,773,492	442,859	2,216,351	1,950,438
Due to other governmental units	1,254,331	580,988	1,835,319	1,054,532
Noncurrent liabilities:				
Due within one year	7,882,604	11,937,523	19,820,127	18,150,744
Due in more than one year	57,566,246	307,059,002	364,625,248	334,956,707
Total Liabilities	<u>75,374,737</u>	<u>336,940,823</u>	<u>412,315,560</u>	<u>379,366,572</u>
DEFERRED INFLOWS OF RESOURCES				
Advance payments on leases		943,902	943,902	779,316
Total Liabilities and Deferred Inflows of Resources	<u>75,374,737</u>	<u>337,884,725</u>	<u>413,259,462</u>	<u>380,145,888</u>
NET POSITION				
Net investment in capital assets	553,588,996	305,162,231	858,751,227	809,031,106
Restricted for:				
Airport	558,458		558,458	1,514,238
CDBG loans	3,174,470		3,174,470	3,314,863
Economic development loan	317,356		317,356	279,856
Civic music endowment	41,803		41,803	37,364
Park and recreation	99,202		99,202	98,992
Debt service	1,537,349		1,537,349	1,496,488
Childrens playgrounds	668,732		668,732	669,104
Flood control	23,039,732		23,039,732	22,411,486
Tax increment financing	3,576,156		3,576,156	2,819,224
Sales tax authorized projects	16,735,235		16,735,235	18,562,285
Unrestricted	142,274,605	106,439,679	248,714,284	228,793,619
Total Net Position	<u>\$ 745,612,094</u>	<u>\$ 411,601,910</u>	<u>\$ 1,157,214,004</u>	<u>\$ 1,089,028,625</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2013

With Comparative Totals for the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 8,811,595	\$ 541,468	\$ 20,668	\$ 74,557
Public safety	42,858,335	5,836,234	2,352,809	
Public works	19,887,604	416,248	605,375	71,369,636
Airport	5,734,323	2,710,121	259,770	1,370,844
Transit	7,724,506	2,174,648	4,333,086	430,745
Culture	9,566,658	368,657	1,416,035	
Park and recreation	16,841,511	6,782,711	295,272	142,046
Economic development/tourism	9,911,655	2,688,420	92,159	662,364
Community reinvestment/unallocated	506,967			
Interest on long-term debt	2,380,003			
Total governmental activities	124,223,157	21,518,507	9,375,174	74,050,192
Business-Type activities:				
Parking	4,393,329	6,105,503		
Electric utility	132,336,451	140,978,042		
Water utility	8,668,717	8,282,104		1,065,132
Sewer utility	24,553,468	21,926,463		625,212
Storm water utility	3,641,691	5,563,036		581,504
Total business-type activities	173,593,656	182,855,148		2,271,848
Total	\$ 297,816,813	\$ 204,373,655	\$ 9,375,174	\$ 76,322,040

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 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 as restated - beginning (Note 5)

Net position - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Totals	
		2013	2012
\$ (8,174,902)	\$	\$ (8,174,902)	\$ (7,368,871)
(34,669,292)		(34,669,292)	(34,412,367)
52,503,655		52,503,655	(2,185,028)
(1,393,588)		(1,393,588)	(440,974)
(786,027)		(786,027)	6,208,000
(7,781,966)		(7,781,966)	(7,325,124)
(9,621,482)		(9,621,482)	(5,307,406)
(6,468,712)		(6,468,712)	(3,330,856)
(506,967)		(506,967)	(537,748)
(2,380,003)		(2,380,003)	(2,522,739)
<u>(19,279,284)</u>		<u>(19,279,284)</u>	<u>(57,223,113)</u>
	1,712,174	1,712,174	1,421,900
	8,641,591	8,641,591	12,752,573
	678,519	678,519	892,848
	(2,001,793)	(2,001,793)	(3,642,228)
	<u>2,502,849</u>	<u>2,502,849</u>	<u>2,226,032</u>
	11,533,340	11,533,340	13,651,125
<u>(19,279,284)</u>	<u>11,533,340</u>	<u>(7,745,944)</u>	<u>(43,571,987)</u>
50,008,722		50,008,722	47,786,839
2,969,470		2,969,470	2,546,157
10,372,478		10,372,478	10,300,777
5,815,897		5,815,897	5,286,161
5,157,388	9,796	5,167,184	5,513,684
1,957,763	767,460	2,725,223	3,020,075
65,952		65,952	283,656
(1,394,762)	(409,347)	(1,804,109)	(212,083)
663,780	(53,274)	610,506	301,035
			(35,536,828)
<u>7,617,827</u>	<u>(7,617,827)</u>	<u>75,931,323</u>	<u>39,289,473</u>
<u>83,234,515</u>	<u>(7,303,192)</u>	<u>75,931,323</u>	<u>39,289,473</u>
63,955,231	4,230,148	68,185,379	(4,282,514)
<u>681,656,863</u>	<u>407,371,762</u>	<u>1,089,028,625</u>	<u>1,093,311,139</u>
<u>\$ 745,612,094</u>	<u>\$ 411,601,910</u>	<u>\$ 1,157,214,004</u>	<u>\$ 1,089,028,625</u>

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2013

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013
With Comparative Totals as of December 31, 2012

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2013	2012
ASSETS					
Cash and cash equivalents	\$ 420,246	\$ 1,415,046	\$ 1,629,183	\$ 3,464,475	\$ 8,585,107
Investments	28,643,345	80,777,520	6,729,845	116,150,710	109,299,295
Land held for resale		1,645,000		1,645,000	1,645,000
Accrued interest receivable	178,611	194,928	16,930	390,469	352,741
Accounts receivable (net of allowance for uncollectibles)	555,341	587,360	1,409,748	2,552,449	2,264,706
Loans receivable		556,406	3,174,470	3,730,876	5,027,791
Taxes receivable delinquent	380,052	39,138	144,019	563,209	804,273
Special assessments receivable:					
Deferred		11,877,871		11,877,871	11,566,765
Delinquent	15,030	326,480	80,937	422,447	410,275
Utility connection charges receivable:					
Deferred		22,628		22,628	46,176
Due from other funds	765,098	4,516,717	588	5,282,403	3,079,859
Due from other governmental units	1,259,712	30,902,185	698,205	32,860,102	13,806,999
Prepaid items	5,711	100,000	961	106,672	39,160
Restricted cash and investments	41,803			41,803	37,364
Inventory	854,419		81,118	935,537	1,096,467
TOTAL ASSETS	\$ 33,119,368	\$ 132,961,279	\$ 13,966,004	\$ 180,046,651	\$ 158,061,978
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 871,753	\$ 931,843	\$ 495,041	\$ 2,298,637	\$ 2,677,521
Deposits payable	274,067		261,694	535,761	903,661
Accrued compensation and payroll taxes	2,424,099		523,115	2,947,214	2,622,890
Due to other funds	262,643	4,063,408	173,154	4,499,205	1,838,850
Due to other governmental units	178,335	935,307	128,452	1,242,094	488,698
Total Liabilities	4,010,897	5,930,558	1,581,456	11,522,911	8,531,620
Deferred Inflows of Resources:					
Unavailable revenue					
Property taxes	380,052	39,138	144,019	563,209	804,273
Special assessments	15,030	12,204,351	80,937	12,300,318	11,977,040
Utility connection charges		22,628		22,628	46,176
Loans receivable		23,755,503	3,174,470	26,929,973	5,226,119
Total Deferred Inflows of Resources	395,082	36,021,620	3,399,426	39,816,128	18,053,608
Fund Balance:					
Nonspendable	860,130	100,000	82,079	1,042,209	1,135,627
Restricted	41,803	43,767,681	2,764,539	46,574,023	47,889,037
Committed		47,141,420		47,141,420	49,821,928
Assigned	642,257		6,138,504	6,780,761	6,868,340
Unassigned	27,169,199			27,169,199	25,761,818
Total Fund Balance	28,713,389	91,009,101	8,985,122	128,707,612	131,476,750
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 33,119,368	\$ 132,961,279	\$ 13,966,004	\$ 180,046,651	\$ 158,061,978

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, 2013

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

Total governmental fund balances (page 21)		\$ 128,707,612
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 851,636,852	
Less: Accumulated depreciation	<u>(256,980,849)</u>	594,656,003
Some receivables are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
Delinquent property taxes and special assessments	\$ 985,656	
Deferred special assessments and utility connection agreements	11,900,499	
Due from other governments	23,199,097	
Loans receivable	<u>3,730,876</u>	39,816,128
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.		44,788,308
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	\$ (51,681,865)	
Compensated absences	(9,644,553)	
Accrued interest	(954,912)	
Unamortized bond premium	<u>(74,627)</u>	<u>(62,355,957)</u>
Net position of governmental activities (page 18)		<u><u>\$ 745,612,094</u></u>

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

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2013	2012
REVENUES					
General property taxes	\$ 33,793,856	\$ 3,246,419	\$ 12,773,336	\$ 49,813,611	\$ 47,517,667
Tax increments collection		1,959,625	1,009,128	2,968,753	2,545,678
Sales tax		10,372,478		10,372,478	10,300,776
Special assessments		3,373,890		3,373,890	3,372,669
Utility connection and availability		1,017,876		1,017,876	1,225,703
Nonproperty taxes	4,806,229		1,009,668	5,815,897	5,286,161
Licenses and permits	3,258,186			3,258,186	3,066,039
Fines and forfeits	501,266			501,266	571,770
Intergovernmental revenues	7,538,845	13,361,141	6,543,132	27,443,118	35,540,209
Charges for services	3,261,063	441,871	10,583,384	14,286,318	13,909,393
Interest earnings	175,947	1,393,242	51,571	1,620,760	1,630,099
Net decrease in the fair value of investments	(259,262)	(706,200)	(62,600)	(1,028,062)	(240,340)
Miscellaneous revenues	581,986	3,100,316	4,103,280	7,785,582	6,427,896
Total Revenues	53,658,116	37,560,658	36,010,899	127,229,673	131,153,720
EXPENDITURES					
Current:					
General government	8,247,598			8,247,598	7,764,505
Public safety	39,633,134		54,030	39,687,164	38,136,230
Public works	10,980,007			10,980,007	8,823,486
Airport operations			3,418,210	3,418,210	3,485,498
Transit			6,832,839	6,832,839	6,544,287
Culture	1,431,194		6,653,996	8,085,190	7,415,474
Park and recreation			13,101,852	13,101,852	12,651,545
Economic development/tourism	2,288,016		1,861,001	4,149,017	3,635,191
Community reinvestment and unallocated	506,968			506,968	537,745
Debt service			4,683,390	4,683,390	7,687,804
Capital outlay		38,465,142		38,465,142	36,982,468
Total Expenditures	63,086,917	38,465,142	36,605,318	138,157,377	133,664,233
Excess (deficiency) of revenues over (under) expenditures	(9,428,801)	(904,484)	(594,419)	(10,927,704)	(2,510,513)
OTHER FINANCING SOURCES (USES)					
Transfers in	11,751,721	14,705,430	2,005,042	28,462,193	28,513,745
Transfers out	(1,234,240)	(16,785,616)	(2,283,771)	(20,303,627)	(18,897,600)
Total other financing sources (uses)	10,517,481	(2,080,186)	(278,729)	8,158,566	9,616,145
Net change in fund balances	1,088,680	(2,984,670)	(873,148)	(2,769,138)	7,105,632
Fund Balance - beginning	27,624,709	93,993,771	9,858,270	131,476,750	124,371,118
Fund Balance - ending	\$ 28,713,389	\$ 91,009,101	\$ 8,985,122	\$ 128,707,612	\$ 131,476,750

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, 2013

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

Net change in fund balances - total governmental funds (page 23)	\$ (2,769,138)
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Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay-capitalized	\$ 29,013,377	
Depreciation expense	<u>(17,603,748)</u>	11,409,629

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.	465,478
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Infrastructure is contributed from the State of Minnesota to governmental activities. The amounts affect governmental net position but do not affect fund balance.	29,000,000
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(210,902)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	21,762,520
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences, December 31, 2013	\$ (9,644,553)	
Compensated absences, December 31, 2012	<u>9,486,768</u>	(157,785)

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.		
Principal retirement on long-term debt	\$ 2,298,524	
Amortization of bond premium	3,379	
Change in accrued interest	<u>26,807</u>	2,328,710

Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities	<u>2,126,719</u>
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Change in net position of governmental activities (pages 19 and 20)	<u>\$ 63,955,231</u>
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CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 33,628,795	\$ 33,628,795	\$ 33,793,856	\$ 165,061	\$ 32,127,088
Sales tax					7,981,357
Nonproperty taxes	4,516,539	4,516,539	4,806,229	289,690	4,442,330
Licenses and permits	2,785,365	2,785,365	3,258,186	472,821	3,066,039
Fines and forfeits	565,387	565,387	501,266	(64,121)	571,770
Intergovernmental	7,272,224	7,272,224	7,538,845	266,621	7,426,147
Charges for services	3,142,725	3,142,725	3,261,063	118,338	3,121,527
Interest earnings	350,013	350,013	175,947	(174,066)	267,218
Net decrease in the fair value of investments			(259,262)	(259,262)	(51,840)
Miscellaneous	534,165	534,165	581,986	47,821	453,678
Total Revenues	<u>52,795,213</u>	<u>52,795,213</u>	<u>53,658,116</u>	<u>862,903</u>	<u>59,405,314</u>
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	703,610	850,473	806,019	44,454	742,534
City Administrator	639,981	639,981	641,003	(1,022)	614,049
Development District Administration	165,579	165,579	163,678	1,901	153,885
City Clerk	392,881	392,881	447,715	(54,834)	379,433
Elections and Voter Registration	175,152	175,152	207,655	(32,503)	152,035
Finance Department	1,333,491	1,334,784	1,306,389	28,395	1,258,806
Information Systems	1,452,868	1,471,807	1,342,128	129,679	1,263,029
City Attorney	1,379,457	1,419,536	1,403,777	15,759	1,400,790
Human Resources	1,250,745	1,279,648	1,339,116	(59,468)	1,202,199
Planning and Zoning	7,186	25,786	16,806	8,980	7,347
City Hall Maintenance	545,868	568,694	573,312	(4,618)	590,398
Total General Government	<u>8,046,818</u>	<u>8,324,321</u>	<u>8,247,598</u>	<u>76,723</u>	<u>7,764,505</u>
Public Safety:					
Police Department	21,780,336	21,994,535	21,372,554	621,981	20,913,447
Fire Department	13,756,015	14,023,804	14,223,184	(199,380)	13,358,742
Fire Hazmat Response Team		71,948	98,497	(26,549)	121,639
Building Safety	2,947,799	2,947,799	2,807,213	140,586	2,686,490
Animal Control	306,300	309,776	293,192	16,584	295,958
Drug Enforcement Administration		242,826	51,310	191,516	35,647
Flood Control	589,861	589,861	510,030	79,831	528,257
Emergency Mgmt/Safety Council	240,532	285,648	277,154	8,494	175,228
Total Public Safety	<u>39,620,843</u>	<u>40,466,197</u>	<u>39,633,134</u>	<u>833,063</u>	<u>38,115,408</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,613,903	\$ 2,621,926	\$ 2,401,677	\$ 220,249	\$ 2,142,557
PWTOC Building/Site Operations	57,492	57,492	43,715	13,777	26,344
Traffic Engineer	1,145,781	1,157,334	1,127,702	29,632	1,087,597
Street and Alley	5,511,649	6,221,026	6,178,661	42,365	4,333,301
City Lighting	1,269,704	1,269,704	1,228,252	41,452	1,233,687
Total Public Works	<u>10,598,529</u>	<u>11,327,482</u>	<u>10,980,007</u>	<u>347,475</u>	<u>8,823,486</u>
Culture:					
Art Center/Theatre	535,550	535,550	535,439	111	360,483
Music Department	876,994	1,095,271	895,755	199,516	862,429
Total Culture	<u>1,412,544</u>	<u>1,630,821</u>	<u>1,431,194</u>	<u>199,627</u>	<u>1,222,912</u>
Economic Development/Tourism	<u>1,838,500</u>	<u>2,392,191</u>	<u>2,288,016</u>	<u>104,175</u>	<u>1,985,219</u>
Community Reinvestment and Unallocated	<u>1,441,636</u>	<u>1,309,627</u>	<u>506,968</u>	<u>802,659</u>	<u>537,745</u>
Total Expenditures	<u>62,958,870</u>	<u>65,450,639</u>	<u>63,086,917</u>	<u>2,363,722</u>	<u>58,449,275</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,163,657)</u>	<u>(12,655,426)</u>	<u>(9,428,801)</u>	<u>3,226,625</u>	<u>956,039</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	11,906,820	11,906,820	11,751,721	(155,099)	11,385,946
Transfers out	<u>(162,994)</u>	<u>(162,994)</u>	<u>(1,234,240)</u>	<u>(1,071,246)</u>	<u>(8,651,023)</u>
Total other financing sources (uses)	<u>11,743,826</u>	<u>11,743,826</u>	<u>10,517,481</u>	<u>(1,226,345)</u>	<u>2,734,923</u>
Net change in fund balances	<u>1,580,169</u>	<u>(911,600)</u>	<u>1,088,680</u>	<u>2,000,280</u>	<u>3,690,962</u>
Fund Balance - beginning	<u>27,624,709</u>	<u>27,624,709</u>	<u>27,624,709</u>		<u>23,933,747</u>
Fund Balance - ending	<u>\$29,204,878</u>	<u>\$26,713,109</u>	<u>\$28,713,389</u>	<u>\$ 2,000,280</u>	<u>\$27,624,709</u>

**CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION**

December 31, 2013

With Comparative Totals as of December 31, 2012

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 212,446	\$ 5,178,525	\$ 796,044
Investments	13,393,066	37,558,555	5,773,515
Accrued interest receivable	41,401		
Accounts receivable	151,548	6,785,749	311,718
Accrued utility revenues		4,844,354	143,101
Taxes receivable delinquent			
Inventory, material, supplies and fuel		5,761,750	140,588
Due from other funds			
Due from other governmental units	2,533		
Prepaid items		76,640	
Cash and investments with escrow agent			
Total Current Assets	<u>13,800,994</u>	<u>60,205,573</u>	<u>7,164,966</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	8,658,092	27,818,199	3,707,582
Depreciable	36,843,917	304,750,440	126,711,355
Less: Accumulated depreciation	<u>(20,547,320)</u>	<u>(176,168,260)</u>	<u>(39,416,167)</u>
Net capital assets	24,954,689	156,400,379	91,002,770
Restricted and reserved cash	3,519,734	25,935,278	
Restricted investments		7,429,347	
Other assets		12,274,586	
Total Noncurrent Assets	<u>28,474,423</u>	<u>202,039,590</u>	<u>91,002,770</u>
Total Assets	<u>42,275,417</u>	<u>262,245,163</u>	<u>98,167,736</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding		1,272,422	
Total Assets and Deferred Outflows of Resources	<u>42,275,417</u>	<u>263,517,585</u>	<u>98,167,736</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	35,602	10,224,146	410,176
Deposits payable	41,617	525,810	4,771
Accrued interest payable		429,794	
Accrued compensation and payroll taxes	16,589	766,177	91,787
Accrued compensated absences	45,971	1,433,492	183,264
Due to other funds	249	2,352,573	533,291
Due to other governmental units	77,992	477,937	9,023
Accrued claims			
Bonds and capital lease payable		4,558,123	
Total Current Liabilities	<u>218,020</u>	<u>20,768,051</u>	<u>1,232,312</u>
Noncurrent Liabilities:			
Bonds payable		111,166,877	
Unamortized bond premium		7,359,540	
Bonds payable, net		<u>118,526,417</u>	
Obligation under capital lease		258,123	
Accrued compensated absences	60,677	1,265,332	208,473
Accrued claims		442,859	
Post employment benefit obligation			
Unearned lease revenues			
Total Noncurrent Liabilities	<u>60,677</u>	<u>120,492,731</u>	<u>208,473</u>
Total Liabilities	<u>278,697</u>	<u>141,260,783</u>	<u>1,440,785</u>
DEFERRED INFLOWS OF RESOURCES			
Advance payments on leases		592,535	351,367
Total Liabilities and Deferred Inflows of Resources	<u>278,697</u>	<u>141,853,318</u>	<u>1,792,152</u>
NET POSITION			
Net investment in capital assets	24,954,689	67,694,762	91,002,770
Unrestricted	17,042,031	53,969,505	5,372,814
Total Net Position	<u>\$ 41,996,720</u>	<u>\$ 121,664,267</u>	<u>\$ 96,375,584</u>

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		2013	2012
		2013	2012		
\$ 284,590	\$ 78,015	\$ 6,549,620	\$ 10,036,685	\$ 692,198	\$ 2,583,660
22,448,500	5,770,400	84,944,036	79,877,978	42,354,100	39,082,500
54,951	14,126	110,478	92,282	101,230	90,851
128,315	63,994	7,441,325	7,472,649		
		4,987,454	4,787,308		
				4,398	5,137
5,128		5,907,466	8,065,539		
1,917,564	410,049	2,327,613	2,301,513		
78,229		80,762	95,839	4,986	4,675
		76,640	130,762		
70,130,432		70,130,432	73,286,008		
95,047,709	6,336,584	182,555,826	186,146,563	43,156,912	41,766,823
3,814,411	4,399,230	48,397,514	35,058,969	458,583	76,196
318,903,362	58,389,201	845,598,275	825,786,471	30,693,564	28,400,308
(133,241,802)	(8,998,816)	(378,372,365)	(355,606,389)	(19,612,662)	(18,214,689)
189,475,971	53,789,615	515,623,424	505,239,051	11,539,485	10,261,815
		29,455,012	3,519,734		
		7,429,347	2,508,848		
72,161	1,656	12,348,403	12,115,261		
189,548,132	53,791,271	564,856,186	523,382,894	11,539,485	10,261,815
284,595,841	60,127,855	747,412,012	709,529,457	54,696,397	52,028,638
		1,272,422	1,382,772		
284,595,841	60,127,855	748,684,434	710,912,229	54,696,397	52,028,638
276,816	736,748	11,683,488	10,253,718	58,404	69,163
304,770		876,968	811,935	81,750	85,177
2,868,177		3,297,971	3,830,248	10,458	11,583
169,250	18,221	1,062,023	996,272	10,930	10,267
249,551	22,122	1,934,400	1,899,644		
189,481	35,217	3,110,811	3,542,522		
15,928	108	580,988	554,786	12,237	11,048
				924,201	1,188,623
5,445,000		10,003,123	8,538,032	125,000	120,000
9,518,973	812,416	32,549,772	30,427,157	1,222,980	1,495,861
172,090,000		283,256,877	256,345,000	725,000	850,000
14,351,008		21,710,548	17,467,735		
186,441,008		304,967,425	273,812,735	725,000	850,000
		258,123	260,378		
282,424	16,548	1,833,454	1,950,700		
		442,859	27,000	849,291	734,815
				3,197,806	2,569,553
186,723,432	16,548	307,501,861	276,050,813	4,772,097	4,154,368
196,242,405	828,964	340,051,634	306,477,970	5,995,077	5,650,229
		943,902	779,316		
196,242,405	828,964	340,995,536	307,257,286	5,995,077	5,650,229
67,720,395	53,789,615	305,162,231	299,805,898	10,689,485	9,291,815
20,633,041	5,509,276	102,526,667	103,849,045	38,011,835	37,086,594
\$ 88,353,436	\$ 59,298,891	407,688,898	403,654,943	\$ 48,701,320	\$ 46,378,409
		3,913,012	3,716,819		
		\$ 411,601,910	\$ 407,371,762		

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

For the Year Ended December 31, 2013
 With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 6,105,503	\$	\$
Sales and charges for services, pledged as security for revenue bonds		133,650,361	7,528,460
Miscellaneous		7,327,681	753,644
Total Operating Revenues	<u>6,105,503</u>	<u>140,978,042</u>	<u>8,282,104</u>
Operating Expenses:			
Purchased power		88,020,377	
Maintenance and operations	3,088,757	30,458,057	6,038,919
Amortization of regulatory assets		380,299	
Depreciation	1,309,352	10,184,576	2,647,112
Total Operating Expenses	<u>4,398,109</u>	<u>129,043,309</u>	<u>8,686,031</u>
Operating Income (Loss)	<u>1,707,394</u>	<u>11,934,733</u>	<u>(403,927)</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	135,535	(79,629)	80,829
Net increase (decrease) in the fair value of investments	(147,400)		
Interest and fiscal charges		(3,421,412)	(8)
Amortization of regulatory assets		(130,487)	
Gain (loss) on disposal of property	(31,245)		
Other income (expense)	137	(145,386)	(44,836)
Total Nonoperating Revenues (Expenses)	<u>(42,396)</u>	<u>(3,776,914)</u>	<u>35,985</u>
Income (Loss) Before Transfers, Capital Contributions and Special Item	1,664,998	8,157,819	(367,942)
Capital contributions			1,762,330
Transfers in			1,500,000
Transfers out	(519,492)	(8,307,132)	(345,922)
Income (Loss) Before Special Item	1,145,506	(149,313)	2,548,466
Special Item - Impairment Loss (Note 6)			
Change in net position	1,145,506	(149,313)	2,548,466
Net Position as Restated - Beginning (Note 5)	40,851,214	121,813,580	93,827,118
Net Position - End of Year	<u>\$ 41,996,720</u>	<u>\$ 121,664,267</u>	<u>\$ 96,375,584</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		2013	2012
		2013	2012		
\$	\$ 4,828,309	\$ 10,933,812	\$ 10,510,774	\$ 18,418,909	\$ 17,847,826
21,832,596		163,011,417	161,819,378		
93,867	734,727	8,909,919	10,056,103		
21,926,463	5,563,036	182,855,148	182,386,255	18,418,909	17,847,826
		88,020,377	88,282,512		
8,905,837	2,521,141	51,012,711	46,395,695	15,322,026	16,529,590
		380,299	367,781		
8,867,425	1,126,429	24,134,894	24,810,833	2,251,312	2,222,833
17,773,262	3,647,570	163,548,281	159,856,821	17,573,338	18,752,423
4,153,201	1,915,466	19,306,867	22,529,434	845,571	(904,597)
				437,364	416,331
9,219		9,796	340,346	2,959	2,581
584,079	46,646	767,460	938,274	337,001	451,703
(212,247)	(49,700)	(409,347)	112,057	(366,700)	(83,800)
(6,820,148)		(10,241,568)	(10,255,830)	(25,325)	(27,981)
		(130,487)	84,774		
		(31,245)	(149,370)	65,952	283,656
298,545		108,460	(174,740)		
(6,140,552)	(3,054)	(9,926,931)	(9,104,489)	451,251	1,042,490
(1,987,351)	1,912,412	9,379,936	13,424,945	1,296,822	137,893
642,165	1,434,179	3,838,674	3,505,007		
655,409	27,517	2,182,926	1,941,645	1,113,459	128,800
(1,810,549)	(384,486)	(11,367,581)	(11,611,873)	(87,370)	(74,717)
(2,500,326)	2,989,622	4,033,955	7,259,724	2,322,911	191,976
			(35,536,828)		
(2,500,326)	2,989,622	4,033,955	(28,277,104)	2,322,911	191,976
90,853,762	56,309,269			46,378,409	46,186,433
\$ 88,353,436	\$ 59,298,891			\$ 48,701,320	\$ 46,378,409
		196,193	(178,466)		
		\$ 4,230,148	\$ (28,455,570)		

See Notes to the Financial Statements

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

For the Year Ended December 31, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 6,119,905	\$ 136,769,725	\$ 8,384,685
Cash received from other City funds	46,627	5,551,114	203,329
Cash received from employees			
Cash paid to employees	(369,327)	(14,157,368)	(1,588,947)
Cash paid to suppliers	(2,731,382)	(102,259,618)	(4,486,877)
Service territory acquisition		(511,112)	
Other income	137		
Net Cash Provided By Operating Activities	<u>3,065,960</u>	<u>25,392,741</u>	<u>2,512,190</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	577		
Transfers in			1,500,000
Transfers out	(519,492)	(8,242,920)	(344,196)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(518,915)</u>	<u>(8,242,920)</u>	<u>1,155,804</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property			
Proceeds from the issuance of bonds		48,207,391	
Principal payments on bonds		(13,114,551)	
Interest and fiscal charges			
Repayment of developer agreements			
Acquisition of capital assets	(407,569)	(21,830,433)	(5,138,377)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(407,569)</u>	<u>13,262,407</u>	<u>(5,138,377)</u>
Cash Flows From Investing Activities:			
Investment income	126,862	(70,850)	80,819
Net (increase) decrease in investments	(2,949,448)	(5,578,908)	1,025,452
Net Cash Provided By (Used In) Invested Activities	<u>(2,822,586)</u>	<u>(5,649,758)</u>	<u>1,106,271</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(683,110)</u>	<u>24,762,470</u>	<u>(364,112)</u>
Cash and Cash Equivalents, Beginning of Year	4,415,290	6,351,333	1,160,156
Cash and Cash Equivalents, End of Year	<u>\$ 3,732,180</u>	<u>\$ 31,113,803</u>	<u>\$ 796,044</u>
Classified As:			
Cash and Cash Equivalents	\$ 212,446	\$ 5,178,525	\$ 796,044
Restricted and Reserved Cash	3,519,734	25,935,278	
Total Cash and Cash Equivalents, End of Year	<u>\$ 3,732,180</u>	<u>\$ 31,113,803</u>	<u>\$ 796,044</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2013	2012
		2013	2012		
\$ 21,782,278	\$ 5,384,611	\$ 178,441,204	\$ 177,394,967	\$ 17,100,728	\$ 16,106,469
90,878	160,033	6,051,981	5,993,513	1,317,870	1,749,599
(3,187,051)	(593,280)	(19,895,973)	(19,092,215)		
(5,470,121)	(1,908,354)	(116,856,352)	(116,679,413)	(14,856,053)	(15,942,354)
		(511,112)	(608,580)		
298,545		298,682	246,135		
<u>13,514,529</u>	<u>3,043,010</u>	<u>47,528,430</u>	<u>47,254,407</u>	<u>3,562,545</u>	<u>1,913,714</u>
				438,103	411,488
9,219		9,796	340,346	2,959	2,581
655,409	27,517	2,182,926	1,941,645	1,113,459	128,800
<u>(1,810,549)</u>	<u>(384,486)</u>	<u>(11,301,643)</u>	<u>(11,612,469)</u>	<u>(87,370)</u>	<u>(74,717)</u>
<u>(1,145,921)</u>	<u>(356,969)</u>	<u>(9,108,921)</u>	<u>(9,330,478)</u>	<u>1,467,151</u>	<u>468,152</u>
				85,116	332,612
(1,296,860)		48,207,391			
(8,670,821)		(14,411,411)	(6,900,000)	(120,000)	(75,000)
		(8,670,821)	(8,567,331)	(26,450)	(73,888)
	(128,242)	(128,242)			
<u>(2,204,423)</u>	<u>(1,398,529)</u>	<u>(30,979,331)</u>	<u>(18,681,248)</u>	<u>(3,548,146)</u>	<u>(2,448,317)</u>
<u>(12,172,105)</u>	<u>(1,526,771)</u>	<u>(5,982,415)</u>	<u>(34,148,579)</u>	<u>(3,609,480)</u>	<u>(2,264,593)</u>
155,114	42,783	334,728	1,100,867	326,622	498,883
<u>(1,415,805)</u>	<u>(1,404,900)</u>	<u>(10,323,609)</u>	<u>(6,038,494)</u>	<u>(3,638,300)</u>	<u>(1,170,800)</u>
<u>(1,260,691)</u>	<u>(1,362,117)</u>	<u>(9,988,881)</u>	<u>(4,937,627)</u>	<u>(3,311,678)</u>	<u>(671,917)</u>
(1,064,188)	(202,847)	22,448,213	(1,162,277)	(1,891,462)	(554,644)
<u>1,348,778</u>	<u>280,862</u>	<u>13,556,419</u>	<u>14,718,696</u>	<u>2,583,660</u>	<u>3,138,304</u>
<u>\$ 284,590</u>	<u>\$ 78,015</u>	<u>\$ 36,004,632</u>	<u>\$ 13,556,419</u>	<u>\$ 692,198</u>	<u>\$ 2,583,660</u>
\$ 284,590	\$ 78,015	\$ 6,549,620	\$ 10,036,685	\$ 692,198	\$ 2,583,660
		29,455,012	3,519,734		
<u>\$ 284,590</u>	<u>\$ 78,015</u>	<u>\$ 36,004,632</u>	<u>\$ 13,556,419</u>	<u>\$ 692,198</u>	<u>\$ 2,583,660</u>

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

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

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)	\$ 1,707,394	\$ 11,934,733	\$ (403,927)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,309,352	10,564,876	2,647,112
Other income (expense)	137	(146,221)	
Service territory payments		(511,112)	
Other		92,176	(13,671)
(Increase) Decrease In:			
Accounts receivable	58,679	(299,399)	129,435
Accrued utility revenues			
Inventory		2,160,967	(5,750)
Due from other funds			
Due from other governmental units	(2,533)		
Prepaid items			
Other assets		49,452	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(45,565)	1,592,107	(41,402)
Deposits payable	4,905	(8,418)	(614)
Accrued expenses and other liabilities	6,301		
Unearned revenues		(36,420)	201,007
Accrued claims			
Due to other funds	(22)		
Due to other governmental units	27,312		
Net Cash Provided By Operating Activities	<u>\$ 3,065,960</u>	<u>\$ 25,392,741</u>	<u>\$ 2,512,190</u>
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ (147,400)	\$	\$
Receipt of contributed property			1,762,330
Equipment purchases in accounts payable at year end		753,546	322,362
Silver Lake Plant capital asset impairment			
Bond proceeds deposited with fiscal agent			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2013	2012
		2013	2012		
\$ 4,153,201	\$ 1,915,466	\$ 19,306,867	\$ 22,529,434	\$ 845,571	\$ (904,597)
8,867,425	1,126,429	24,515,194	25,178,614	2,251,312	2,222,833
298,545		152,461	243,057		
		(511,112)	(608,580)		
		78,505	(276,930)		
(116,884)	(63,994)	(292,163)	1,124,794		9,139
			79,850		
60	2,797	2,158,074	(411,012)		
(48,484)	22,382	(26,102)	(222,943)		
1,617	15,993	15,077	(63,611)	(311)	(897)
			(46,877)		
97,174	23,282	169,908	90,209		
103,014	13,713	1,621,867	(212,370)	(10,759)	47,375
69,160		65,033	37,188	(3,427)	(11,596)
38,315	(17,226)	27,390	271,822	628,916	461,643
		164,587	(406,296)		
			(8,000)	(149,946)	99,699
41,284	4,430	45,692	(19,770)		
10,102	(262)	37,152	(24,172)	1,189	(9,885)
<u>\$ 13,514,529</u>	<u>\$ 3,043,010</u>	<u>\$ 47,528,430</u>	<u>\$ 47,254,407</u>	<u>\$ 3,562,545</u>	<u>\$ 1,913,714</u>
\$ (212,247)	\$ (49,700)	\$ (409,347)	\$ 112,057	\$ (366,700)	\$ (83,800)
642,165	1,434,179	3,838,674	3,505,007		
		1,075,908	1,951,340	7,662	17,743
			35,536,828		
			73,087,001		

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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

The City of Rochester has two component units, the Rochester Economic Development Authority (REDA) and the Destination Medical Center Corporation (DMCC). The REDA was created to account for development allowable only under specific State statutes. The board of directors of the REDA is comprised of City Council members and the REDA directly provides all of its services to the City. There were no activities in the REDA in 2013 other than the accumulation of resources and debt service on outstanding bonds issued by the REDA which is reported in the Economic Development Authority Bond nonmajor debt service fund. The other component unit is the DMCC which was incorporated in 2013 as a nonprofit corporation with the City of Rochester as its sole member. There was no financial activity in DMCC during 2013 and therefore nothing has been reported for this entity in the City's 2013 financial statements.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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, 2013

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.

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

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

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

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

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

The City reports the following major 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, 2013

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, Deferred Inflows, Deferred Outflows, and Net Position

1. Deposits and investments

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

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

1. Deposits and investments (continued)

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, payables, and deferred inflows of resources

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

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

3. Receivables, payables, and deferred inflows of resources (continued)

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

4. Other Assets

Other Assets includes regulatory assets consisting of bond issue costs and service territory acquisition costs. With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the electric utility fund applied the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 10, 1989 FASB and AICPA Pronouncements, ¶ 480, General Standards of Accounting for the Effects of Regulation, to record bond issuance costs as a regulatory asset and amortize them over the terms of the bond issues. The electric utility fund applied the same GASB 62 provisions to record costs to acquire certain electric service territory rights from People's Cooperative Services (PCS) as a regulatory asset amortizing these costs over forty years. Prior year amounts have been restated to agree to this presentation.

5. Inventory

The materials and supplies inventories are valued at the lower of moving average cost or market. Fossil fuel inventories in the Enterprise Funds are valued at 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).

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

6. Deferred outflows of resources

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

7. Capital assets

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

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

8. Utility connection charges

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

9. Compensated absences benefits

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

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

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

10. Long-term obligations

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

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

10. Long-term obligations (continued)

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

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

11. Deferred Inflow of Resources

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

12. Fund equity

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 1: Summary of Significant Accounting Policies (continued)

12. Fund equity (continued)

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.

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, 2012 from which the summarized information was derived.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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, 2013

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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, 2013 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

Investment Policy

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

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

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

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

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

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk

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

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

The following is a summary of the City of Rochester's cash and investment portfolio as of December 31, 2013, including weighted average maturities and investment ratings by type of investment.

<u>Investment Type</u>	<u>December 31, 2013 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	\$ 24,309,738	0.40 - 0.65	A-1+	P1
Municipal Bond	1,997,560	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	33,070,180	0.05 - 3.47	AA+	Aaa
Federal Home Loan Bank	40,424,568	0.19 - 4.67	AA+	Aaa
Federal Home Loan Mortgage Corporation	58,403,475	0.05 - 4.67	AA+	Aaa
Federal National Mortgage Association	53,538,914	0.02 - 4.50	AA+	Aaa
Treasury Note	<u>34,252,710</u>	0.50 - 1.25	AA+	Aaa
Sub-total Investments	245,997,145			
Cash and Deposits	<u>115,214,588</u>			
Total	<u>\$ 361,211,733</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, 2013

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	\$ 33,070,180
Federal Home Loan Bank	Federal Agency Securities	40,424,568
Federal Home Loan Mortgage Corporation	Federal Agency Securities	58,403,475
Federal National Mortgage Association	Federal Agency Securities	53,538,914
Treasury Note	United States Treasury Securities	34,252,710

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, 2013 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	\$ 10,706,293
Investments	243,448,846
Cash and investments with escrow agent	70,130,432
Restricted and reserved cash and investments	<u>36,926,162</u>
Total	<u>\$ 361,211,733</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

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, 2013.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2013 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 14,671	\$ 644,356	\$ 531,001	\$ 69,684	\$ 1,259,712
Special Revenue	216,475	281,909	119,495	66,899	684,778
Capital Project	4,342,338	26,333,471	226,376		30,902,185
Debt Service			13,427		13,427
Enterprise		684	80,078		80,762
Internal Service	1,283		3,703		4,986
Totals	\$4,574,767	\$ 27,260,420	\$ 974,080	\$ 136,583	\$32,945,850

Amounts due to other governmental units as of December 31, 2013 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 175	\$ 23,748	\$ 152,458	\$ 1,954	\$ 178,335
Special Revenue	1,014	23,812	103,486	140	128,452
Capital Project		161,187	774,120		935,307
Enterprise		498,525	82,463		580,988
Internal Service		12,237			12,237
Totals	\$ 1,189	\$ 719,509	\$1,112,527	\$ 2,094	\$ 1,835,319

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013**

NOTE 3: Detailed Notes on All Funds (continued)

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

Restricted cash are deposits held for specifically required purposes. Reserved cash are deposits reserved by council action for a particular purpose. Cash and investments with escrow agent are deposits into an irrevocable trust with an escrow agent held for specifically required purposes. Descriptions of the items and balances as of December 31, 2013 are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:	
Rochester Area Foundation Endowment	\$ 41,803

Enterprise Funds

Electric Fund:	
Construction Fund	25,935,278

Restricted Investments -

Enterprise Funds

Electric Fund:	
Debt Service Reserve Accounts	5,588,191
CAPX 2020 Expense Reserve	1,841,156

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	70,130,432

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility. Provisions of these revenue bonds require that the electric utility 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, 2013

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, 2013 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 64,462,666	\$ 2,255,793	\$	\$ 66,718,459
Construction in progress	88,048,060	28,755,993	9,161,883	107,642,170
Total capital assets, not being depreciated	<u>152,510,726</u>	<u>31,011,786</u>	<u>9,161,883</u>	<u>174,360,629</u>
Capital assets, being depreciated:				
Buildings	173,322,368	77,150		173,399,518
Improvements other than buildings	48,032,618	20,025		48,052,643
Infrastructure	379,656,970	34,947,618		414,604,588
Machinery and equipment	70,006,287	5,634,469	3,269,135	72,371,621
Total capital assets, being depreciated	<u>671,018,243</u>	<u>40,679,262</u>	<u>3,269,135</u>	<u>708,428,370</u>
Less accumulated depreciation for:				
Buildings	68,540,798	4,524,769		73,065,567
Improvements other than buildings	17,985,603	1,630,102		19,615,705
Infrastructure	124,935,615	8,697,382		133,632,997
Machinery and equipment	47,813,350	5,002,807	2,536,915	50,279,242
Total accumulated depreciation	<u>259,275,366</u>	<u>19,855,060</u>	<u>2,536,915</u>	<u>276,593,511</u>
Total capital assets, being depreciated, net	<u>411,742,877</u>	<u>20,824,202</u>	<u>732,220</u>	<u>431,834,859</u>
Governmental activities capital assets, net	<u>\$ 564,253,603</u>	<u>\$ 51,835,988</u>	<u>\$ 9,894,103</u>	<u>\$ 606,195,488</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2013 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	\$ 14,521,439	\$ 146,809	\$	\$ 14,668,248
Construction in progress	20,537,530	26,027,408	12,835,672	33,729,266
Total capital assets, not being depreciated	<u>35,058,969</u>	<u>26,174,217</u>	<u>12,835,672</u>	<u>48,397,514</u>
Capital assets, being depreciated:				
Buildings and improvements	403,758,980	12,739,677	183,804	416,314,853
Machinery and equipment	422,027,491	8,721,224	1,465,293	429,283,422
Total capital assets, being depreciated	<u>825,786,471</u>	<u>21,460,901</u>	<u>1,649,097</u>	<u>845,598,275</u>
Less accumulated depreciation for:				
Buildings and improvements	153,460,089	9,928,613	152,254	163,236,449
Machinery and equipment	202,146,300	14,206,281	1,216,665	215,135,916
Total accumulated depreciation	<u>355,606,389</u>	<u>24,134,894</u>	<u>1,368,918</u>	<u>378,372,365</u>
Total capital assets, being depreciated, net	<u>470,180,082</u>	<u>(2,673,993)</u>	<u>280,179</u>	<u>467,225,910</u>
Business-type activities capital assets, net	<u>\$ 505,239,051</u>	<u>\$ 23,500,223</u>	<u>\$ 13,115,850</u>	<u>\$ 515,623,424</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense for the year ended December 31, 2013 was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 646,507
Public safety	2,910,953
Public works	6,406,588
Airport operations	1,966,489
Transit	883,763
Culture	1,180,008
Park and recreation	3,017,672
Economic development/tourism	591,768
Subtotal	<u>17,603,748</u>
Internal Service Funds:	
Equipment revolving	2,079,936
Information technology	<u>171,376</u>

Total depreciation expense - governmental activities	<u><u>\$ 19,855,060</u></u>
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Business-Type Activities:

Parking	\$ 1,309,352
Electric utility	10,184,576
Water utility	2,647,112
Sewer utility	8,867,425
Storm water utility	<u>1,126,429</u>

Total depreciation expense - business type activities	<u><u>\$ 24,134,894</u></u>
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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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, 2013, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 765,098	\$ 262,643
Construction improvement	4,516,717	4,063,408
Subtotal	5,281,815	4,326,051
Non-Major Governmental Funds:		
Special Revenue -		
Library		7,203
Municipal recreation system	588	111,357
Airport operations		24,565
Transit		554
Edward Byrne Memorial JAG		15,460
Community development projects		14,015
Subtotal	588	173,154
Total Governmental Funds	5,282,403	4,499,205
Proprietary Funds:		
Enterprise -		
Parking		249
Electric utility		2,352,573
Water utility		533,291
Sewer utility	1,917,564	189,481
Storm water utility	410,049	35,217
Total Proprietary Funds	2,327,613	3,110,811
Total All Funds	\$ 7,610,016	\$ 7,610,016

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

Transfers during the year ended December 31, 2013 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 11,751,721	\$ 1,234,240
Capital Project	14,705,430	16,785,616
Other Governmental Funds		
Library		52,446
Municipal Recreation System	248,243	529,551
Airport Operations		528,894
Minnesota Bio Science Center		1,163,438
Community Development Projects Fund		9,442
Airport Hangar Construction Notes	26,394	
Facility Energy Improvements Loan	566,967	
Economic Development Authority Bond	1,163,438	
Subtotal Other Governmental Funds	<u>2,005,042</u>	<u>2,283,771</u>
Subtotal Governmental Funds	28,462,193	20,303,627
Enterprise	2,182,926	11,367,581
Internal Service	<u>1,113,459</u>	<u>87,370</u>
Totals	<u>\$ 31,758,578</u>	<u>\$ 31,758,578</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 the Sanitary Sewer Fund transfer of \$422,471 and Airport Fund transfer of \$439,500 to the Construction Improvement Capital Project Fund for capital construction.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

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	\$ 28,462,193
Transfers out	(20,303,627)
Internal Service Funds:	
Transfer in	1,113,459
Transfers out	(87,370)
Capital assets transferred from Govt- Activities to Business-type activities	<u>(1,566,828)</u>
Government-wide Statement of Activities - Transfers in/out	<u><u>\$ 7,617,827</u></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, 2013 totaled \$314,107.

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:	
2014	\$ 44,478
2015	44,967
2016	45,462
2017	45,962
2018	46,468

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2013, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/13
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 958,965
District 36, Series 2009A	8,035,000	2.6-6.0%	2033	7,590,000
General Obligation Revenue Bonds:				
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	74,600,000
Revenue Bonds, Series 2007A	30,455,000	4.0-5.0%	2026	26,895,000
Variable Rate Revenue Bonds, Series 2007B	19,500,000	Variable	2026	15,200,000
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	25,450,000
Direct Pay, Series 2010A - Equipment	425,000	0.85-3.70%	2020	330,000
GO Equipment Certificates				
of Indebtedness, Series 2009B	815,000	2.5-3.5%	2019	520,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2007C	76,680,000	4.0-5.0%	2030	71,945,000
Bonds, Series 2013B	38,370,000	3.0-5.0%	2043	38,370,000
Bonds, Series 2013A	3,960,000	2.0%	2017	3,175,000
Rochester Economic Development Authority				
Lease Bonds, Series 2007	9,900,000	4.70%	2033	8,910,000
Lease Bonds, Series 2008	6,700,000	4.71%	2033	6,030,000
Revenue Notes:				
Electric Utility				
Note, Series 2005	5,765,000	3.98%	2014	880,000
Note, Series 2009A	6,790,000	Variable	2014	1,355,000
Notes Payable:				
Airport Hangar - 2006	263,944	0%	2016	74,784
Energy Loan Payable	5,715,795	4.10%	2018	2,668,116
Capital Leases	886,219	7.769%	2014	258,123
Compensated Absences				13,412,407
Post Employment Benefit Obligation				3,197,805
Less: Unamortized premium				21,785,175
Total Long-term Debt				<u>\$ 384,445,375</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, 2013

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 2004A 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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, 2013

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, 2013:

	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	\$ 1,264,422	\$	\$ 305,457	\$ 958,965	\$
District 36, Series 2009A	7,815,000		225,000	7,590,000	235,000
GO Equipment Certificates of Indebtedness, Series 2009B	595,000		75,000	520,000 (1)	80,000
GO Taxable Build America Bonds					
Direct Pay, Series 2010A - Public Works	26,275,000		825,000	25,450,000	835,000
Direct Pay, Series 2010A - Equipment	375,000		45,000	330,000 (1)	45,000
Revenue Bonds:					
REDA Lease Revenue Bonds, Series 2007	9,175,000		265,000	8,910,000	280,000
REDA Lease Revenue Bonds, Series 2008	6,210,000		180,000	6,030,000	190,000
Notes Payable:					
Airport Hangar 2006	101,178		26,394	74,784	26,394
Municipal Loan Payable:					
Energy Loan	3,139,789		471,673	2,668,116	491,210
Less: Unamortized Premium on Bonds	78,006		3,379	74,627	
Other Liabilities:					
Compensated Absences	9,486,768	5,979,995	5,822,210	9,644,553	5,700,000
Post-Employment Benefit Obligation	2,569,553	831,625	203,373	3,197,805 (1)	
Governmental Activities Long-term Liabilities	<u>67,084,716</u>	<u>6,811,620</u>	<u>8,447,486</u>	<u>65,448,850</u>	<u>7,882,604</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant					
Revenue Bonds, Series 2004A	77,160,000		2,560,000	74,600,000	3,820,000
Revenue Bonds, Series 2007A	28,370,000		1,475,000	26,895,000	1,625,000
Variable Rate Demand Revenue Bonds, Series 2007B	16,000,000		800,000	15,200,000	
Revenue Crossover Refunding Series 04A Bonds, Series 2012A	60,840,000			60,840,000	
Revenue Bonds:					
Electric Utility Revenue Bonds -					
Series 2002	4,595,000		4,595,000		
Series 2007	73,180,000		1,235,000	71,945,000	1,285,000
Series 2013B		38,370,000		38,370,000	
Series 2013A		3,960,000	785,000	3,175,000	780,000
Revenue Note:					
Electric Utility Note of 2005	1,675,000		795,000	880,000	880,000
Electric Utility Note of 2009A	2,805,000		1,450,000	1,355,000	1,355,000
Less: Unamortized Premium	17,028,980	5,877,391	1,195,823	21,710,548	
Deferred Refunding Balance	(1,382,772)		(1,382,772)		
Other Liabilities:					
Obligation Under Capital Lease	518,410		260,287	258,123	258,123
Compensated Absences	3,850,344	1,900,166	1,982,656	3,767,854	1,934,400
Business-type Activities Long-term Liabilities	<u>284,639,962</u>	<u>50,107,557</u>	<u>15,750,994</u>	<u>318,996,525</u>	<u>11,937,523</u>
Total	<u>\$ 351,724,678</u>	<u>\$ 56,919,177</u>	<u>\$ 24,198,480</u>	<u>\$ 384,445,375</u>	<u>\$ 19,820,127</u>

(1) Debt recorded in the internal service funds.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

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%	2/1/2015	\$66,045,000

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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, 2013, 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>								
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	1,300,000	1,352,947	560,000	595,532	577,793	17,827		
2019-2023	6,520,000	6,009,137	3,220,000	2,547,002				
2024-2028	7,515,000	4,491,571	4,060,000	1,694,865				
2029-2033	9,175,000	2,401,631	5,100,000	621,404				
2034-2036	4,470,000	350,973						
Totals	\$ 33,890,000	\$ 20,373,077	\$ 14,940,000	\$ 8,086,947	\$ 2,668,116	\$ 309,980	\$ 74,784	\$
	General Obligation Revenue				Capital Lease Obligations			
	Bonds				Principal		Interest	
	Principal	Interest						
<u>Business-Type Activities</u>								
2014	\$ 5,445,000	\$ 7,745,185	\$ 4,300,000	\$ 5,249,660	\$ 258,123	\$ 6,996		
2015	72,470,000	5,815,185	3,765,000	5,090,525				
2016	6,250,000	3,848,685	3,895,000	4,939,375				
2017	6,495,000	3,531,810	4,060,000	4,782,125				
2018	6,830,000	3,218,635	4,445,000	4,610,675				
2019-2023	38,880,000	10,817,625	25,385,000	19,908,400				
2024-2028	41,165,000	1,856,686	31,595,000	13,705,250				
2029-2033			19,125,000	6,349,500				
2034-2038			8,545,000	3,704,500				
2039-2043			10,610,000	1,643,500				
Totals	\$ 177,535,000	\$ 36,833,811	\$ 115,725,000	\$ 69,983,510	\$ 258,123	\$ 6,996		

*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, 2013

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, 2013, the City had not utilized \$136,372,590 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 \$2,113,271,000 and the balance outstanding at December 31, 2013 totals \$1,671,936,420.

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, 2013 there were approximately 50 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, 2013 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, 2013

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 2013, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 822,892
Interest on net OPEB obligations	115,630
Adjustment to ARC	<u>(106,897)</u>
Annual OPEB Cost	831,625
Contributions during the year	<u>(203,372)</u>
Increase in net OPEB obligation	628,253
Net OPEB beginning of year	<u>2,569,553</u>
Net OPEB end of year	<u><u>\$ 3,197,806</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Net OPEB Beginning of year	Employer Contribution	Percentage Contributed	Net OPEB Obligation
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
December 31, 2013	831,625	2,569,553	203,372	24.45%	3,197,806

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)
1/1/2011		\$ 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%
1/1/2013		6,738,892	6,738,892	0.00%	59,633,786	11.30%

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, 2013

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, 2013 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, 2013 were classified as follows:

	General Fund	Construction Improvement	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>				
Prepaid items	\$ 5,711	\$ 100,000	\$ 961	\$ 106,672
Inventory	854,419		81,118	935,537
Total Nonspendable	<u>860,130</u>	<u>100,000</u>	<u>82,079</u>	<u>1,042,209</u>
<u>Restricted for:</u>				
Civic music endowment	41,803			41,803
Flood control		23,039,732		23,039,732
Economic development loans		317,356		317,356
Park and recreation		99,202		99,202
Tax increment financing		3,576,156		3,576,156
Sales tax authorized projects		16,735,235		16,735,235
Airport operations			558,458	558,458
Children's playgrounds			668,732	668,732
Debt service			1,537,349	1,537,349
Total Restricted	<u>41,803</u>	<u>43,767,681</u>	<u>2,764,539</u>	<u>46,574,023</u>
<u>Committed to:</u>				
Capital improvement projects		47,141,420		47,141,420
Total Committed		<u>47,141,420</u>		<u>47,141,420</u>
<u>Assigned to:</u>				
Subsequent year budgets	227,036			227,036
Encumbrances	415,221			415,221
Library operations			2,265,405	2,265,405
Parks and recreation			2,525,130	2,525,130
Transit			682,933	682,933
Minnesota Bio Science Center			665,036	665,036
Total Assigned	<u>642,257</u>		<u>6,138,504</u>	<u>6,780,761</u>
<u>Unassigned</u>	<u>27,169,199</u>			<u>27,169,199</u>
Total Fund Balances	<u>\$ 28,713,389</u>	<u>\$ 91,009,101</u>	<u>\$ 8,985,122</u>	<u>\$ 128,707,612</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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	\$	\$ 41,803	\$	\$
Construction Improvement Fund:				
Flood Control				23,039,732
Economic Development Loans	317,356			
Park and Recreation		99,202		
Tax Increment Financing				3,576,156
Sales Tax Authorized Projects				16,735,235
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
Children's Playgrounds	668,732			
CDBG Loans	3,174,470			
Airport Operations				558,458
Debt Service Funds:				
Debt Service			1,537,349	
Total Restricted Net Position	<u>\$ 4,160,558</u>	<u>\$ 141,005</u>	<u>\$ 1,537,349</u>	<u>\$ 43,909,581</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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 \$940,000 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 \$1,773,492 reported in the Fund at December 31, 2013 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, 2013 and 2012 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2013	\$ 1,923,438	\$ 12,553,581	\$ (12,703,527)	\$ 1,773,492
2012	1,823,739	13,629,346	(13,529,647)	1,923,438

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

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.

CapX2020:

Since 2007, the Electric Utility has participated in the CapX2020 initiative, a joint initiative among midwest utilities intended to expand the transmission grid through construction of transmission lines primarily in Minnesota, Wisconsin and the surrounding region. In December 2012, the Utility Board and City Council approved the Project Agreements for the Utility's participation in the La Crosse Project portion of the CapX2020 initiative which consists of plans to build a 345 kilovolt (kV) line from Hampton, MN to Rochester, MN and on to La Crosse, WI. The project includes a transmission substation near Rochester where two associated 161 kV lines are routed to the Utility's Northern Hills and Chester Substations. Five utilities have an ownership interest in the La Crosse Project. The other participants in the La Crosse Project are Dairyland Power Cooperative ("DPC"), Northern States Power Company, a Minnesota corporation ("NSP-MN"), Northern States Power Company, a Wisconsin corporation ("NSP-WI"), Southern Minnesota Municipal Power Agency (SMMPA), and Wisconsin Public Power, Inc. (WPPI).

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 4: Other Information (continued)

B. Commitments (continued)

The La Crosse transmission line will improve reliability for the Twin Cities, Rochester and La Crosse areas, as well as improve access to generation in the southern part of Minnesota. The Utility is sharing in the project cost based on its load ratio shared between the five participating utilities, which is calculated to be 9% or approximately \$43.4 million. Construction began in 2013 and is expected to be completed by the end of 2015. NSP-MN is acting as the Construction Manager for the La Crosse Project and administers a trust account where the five participating utilities make required deposits based on expenditure plans provided by the Construction Manager, and from which the Construction Manager withdraws funds as construction expenditures occur. As of December 31, 2013 RPU had \$1,841,156 on deposit in the trust account.

Service Territory Settlements:

Under settlement agreements with People's Cooperative Services (PCS), the Electric Utility is required to make payments to PCS related to the acquisitions of certain electric service rights from PCS. The payment is based on kilowatt hours (kWh) sold in acquired areas and varies by each settlement agreement. The kWh compensation rate ranges from 12.73 mills (tenths of a cent) per kWh to 16.00 mills per kWh. These commitments expire over various periods with a maximum term of ten years for each acquisition. Costs are recognized under these agreements as service is provided and are recorded as a regulatory asset for utility rate-making purposes under the provisions of GASB Statement No. 62 and amortized over 40 years.

Southern Minnesota Municipal Power Agency:

The Electric Utility is a voting member of the Southern Minnesota Municipal Power Agency (SMMPA). The Utility has entered into a power purchase contract with SMMPA, whereby SMMPA will provide all Utility power requirements up to 216 megawatts, the contract rate of delivery. This contract expires in the year 2030. In 1999, the Utility and SMMPA agreed to a contract rate of delivery (CROD) that began in 2000. The CROD caps the amount of power SMMPA must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The Utility purchased 1,243,336,412 and 1,258,605,881 kilowatt hours totaling \$87,239,794 and \$87,384,202 from SMMPA during the years ended December 31, 2013 and 2012, respectively. The Utility leases a portion of its electrical transmission system, known as the North Loop, to SMMPA under a noncancelable operating lease through the year 2030. The Utility is responsible for all operating and maintenance costs. The Utility received a lump sum payment of \$1,500,000 in 1989 and lease revenues are being recognized ratably over the lease term.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 4: Other Information (continued)

C. Commitments (continued)

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments. As of December 31, 2013, the City's commitments with contractors and vendors were as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Major Street Projects	\$ 6,044,533
Sewer and Water Projects	3,501,332
Sidewalk Projects	86,479
Traffic Projects	8,583
Bridge Projects	6,298
Storm Water / Storm Sewer Projects	323,457
Water Reclamation Projects	349,637
Parking Ramp Rehabilitation	148,110
Airport Projects	408,187
Civic Center Expansion & Improvements	420,163
Plummer House HVAC Upgrades	147,218
Parks Projects - Various	66,681
Insulation install - City Hall Boiler Room	12,359
CapX 2020	27,537,825
4th Street Reservoir	293,275
Well #41 Construction	148,592
Building Demolition	9,452
Total Construction Projects	\$ 39,512,181
<u>Equipment Purchase Commitments</u>	
Permit Parking Software	\$ 19,200
City Hall Fire Panel	14,990
GIS Work Management Software	420,000
LEC Electronic Citation System	8,629
JDE Upgrade	7,425
Copier	889
SCADA Replacement	1,662,131
Buses	1,900,380
Total Equipment Purchase Commitments	\$ 4,033,644

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 4: Other Information (continued)

D. 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, 2013, 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.

E. 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, 2013

NOTE 4: Other Information (continued)

F. 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, 2013

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 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. In 2013, 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, 2013, 2012, and 2011 were \$3,087,768, \$3,018,670, and \$2,971,723, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$2,779,630, \$2,676,251, and \$2,653,432, 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, 2013

NOTE 5: New Accounting Pronouncements

During the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 65 "Items Previously Reported as Assets and Liabilities". This Standard required retroactive implementation which resulted in the restatement of beginning balances in the December 31, 2013 financial statements.

The following schedule reconciles the previously reported December 31, 2012 balances to the amounts reported in the December 31, 2013 financial statements.

<u>Activities/Fund</u>	<u>Net Position December 31, 2011 as Previously Reported</u>	<u>Restatement for Write-off of Unamortized Bond Issuance Costs</u>	<u>Net Position December 31, 2011 as Restated</u>
Governmental Activities	\$ 657,919,508	\$ 435,701	\$ 657,483,807
Business Type Activities	436,087,147	259,815	435,827,332
Proprietary Funds: Sewer Utility Fund	93,229,937	259,815	92,970,122
<u>Activities/Fund</u>	<u>Net Position December 31, 2012 as Previously Reported</u>	<u>Restatement for Write-off of Unamortized Bond Issuance Costs</u>	<u>Net Position December 31, 2012 as Restated</u>
Governmental Activities	\$ 682,071,156	\$ 414,293	\$ 681,656,863
Business Type Activities	407,810,517	438,755	407,371,762
Proprietary Funds: Sewer Utility Fund	91,292,517	438,755	90,853,762

With the implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, RPU applied the provisions of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements Section 480, General Standards of Accounting for the Effects of Regulation, to record bond issuance costs as a regulatory asset and amortize them over the terms of the bond issues. RPU applied the same GASB 62 provisions to record costs to acquire certain electric service territory rights from Peoples Energy Cooperative as a regulatory asset amortizing these costs over forty years. Amounts reported as Electric Fund capital assets in prior years have been reclassified to regulatory assets to agree to this presentation. The adoption of GASB 62 did not have any impact on net position.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

NOTE 5: New Accounting Pronouncements (Continued)

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 requires the reporting of unfunded pension liabilities in the government-wide and proprietary financial statements. Management has not determined the impact adoption of this new standard will have on the City's financial position.

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, 2013

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFITS
December 31, 2013

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)
1/1/2011	\$	\$ 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%
1/1/2013		6,738,892	6,738,892	0.00%	59,633,786	11.30%

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

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2013

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2013

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.

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2013

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, 2013

	Special Revenue							
	Library	Municipal Recreation System	Edward Byrne Memorial JAG	Airport Operations	F.E. Williams Estate	Transit	Minnesota Bio Science Center	
ASSETS								
Cash and cash equivalents	\$ 36,248	\$	\$	\$ 182	\$ 9,322	\$ 7,472	\$ 52,037	\$
Investments	2,486,300	2,584,045		13,500	657,800	546,600	441,600	
Accrued interest receivable	6,086	6,782		33	1,610	1,338	1,081	
Accounts receivable (net of allowance for uncollectibles)	18,214	495,949		611,253		113,697	170,635	
Loans receivable								3,174,470
Taxes receivable delinquent	60,930	64,681		3		2,330		
Special assessments receivable delinquent		80,937						
Due from other funds		588						
Due from other governmental units	47,564	363,789	15,555	46,648		105,383		105,839
Prepaid items	961							
Inventory		41,365				39,753		
TOTAL ASSETS	\$ 2,656,303	\$ 3,638,136	\$ 15,555	\$ 671,619	\$ 668,732	\$ 816,573	\$ 665,353	\$ 3,280,309
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ 74,268	\$ 164,040	\$ 45	\$ 87,579	\$	\$ 90,511	\$	\$ 78,598
Deposits payable	6,817	254,877						
Accrued compensation and payroll taxes	226,103	296,619				393		
Due to other funds	7,203	111,357	15,460	24,565		554		14,015
Due to other governmental units	14,616	99,130	50	1,014		99	317	13,226
Total Liabilities	329,007	926,023	15,555	113,158		91,557	317	105,839
Deferred Inflows of Resources:								
Unavailable revenue								
Property taxes	60,930	64,681		3		2,330		
Special assessments		80,937						
Loans receivable								3,174,470
Total Deferred Inflows of Resources	60,930	145,618		3		2,330		3,174,470
Fund Balance:								
Nonspendable	961	41,365				39,753		
Restricted				558,458	668,732			
Assigned	2,265,405	2,525,130				682,933	665,036	
Total Fund Balance	2,266,366	2,566,495		558,458	668,732	722,686	665,036	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 2,656,303	\$ 3,638,136	\$ 15,555	\$ 671,619	\$ 668,732	\$ 816,573	\$ 665,353	\$ 3,280,309

Total	Debt Service						Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Construction Notes	Hangar Improvements	Energy Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 105,261	\$	\$ 2,200	\$ 188,103	\$ 1,128	\$ 1,332,491	\$ 1,523,922	\$ 1,629,183	
6,729,845							6,729,845	
16,930							16,930	
1,409,748							1,409,748	
3,174,470							3,174,470	
127,944					16,075	16,075	144,019	
80,937							80,937	
588							588	
684,778					13,427	13,427	698,205	
961							961	
81,118							81,118	
<u>\$ 12,412,580</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 188,103</u>	<u>\$ 1,128</u>	<u>\$ 1,361,993</u>	<u>\$ 1,553,424</u>	<u>\$ 13,966,004</u>	
\$ 495,041	\$	\$	\$	\$	\$	\$	\$ 495,041	
261,694							261,694	
523,115							523,115	
173,154							173,154	
128,452							128,452	
<u>1,581,456</u>							<u>1,581,456</u>	
127,944					16,075	16,075	144,019	
80,937							80,937	
<u>3,174,470</u>							<u>3,174,470</u>	
<u>3,383,351</u>					<u>16,075</u>	<u>16,075</u>	<u>3,399,426</u>	
82,079							82,079	
1,227,190		2,200	188,103	1,128	1,345,918	1,537,349	2,764,539	
<u>6,138,504</u>							<u>6,138,504</u>	
<u>7,447,773</u>		<u>2,200</u>	<u>188,103</u>	<u>1,128</u>	<u>1,345,918</u>	<u>1,537,349</u>	<u>8,985,122</u>	
<u>\$ 12,412,580</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 188,103</u>	<u>\$ 1,128</u>	<u>\$ 1,361,993</u>	<u>\$ 1,553,424</u>	<u>\$ 13,966,004</u>	

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	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	\$ 5,385,789	\$ 5,567,321	\$	\$ 227	\$	\$ 218,123	\$	\$
Tax increments								
Nonproperty tax		1,009,668						
Intergovernmental revenues	845,040	36,297	54,030	259,770		4,333,086		656,972
Charges for services	172,618	6,822,568		1,484,241		2,103,957		
Interest earnings	12,907	14,419		5,635	5,428	7,115	2,004	
Net decrease in the fair value of investments	(22,000)	(24,600)		(1,700)	(5,800)	(4,100)	(4,400)	
Miscellaneous revenues	390,844	149,874		1,243,151		79,606	2,147,141	92,664
Total Revenues	6,785,198	13,575,547	54,030	2,991,324	(372)	6,737,787	2,144,745	749,636
EXPENDITURES								
Culture	6,653,996							
Park and recreation		13,101,852						
Public safety			54,030					
Airport operations				3,418,210				
Transit						6,832,839		
Economic development/tourism							1,115,255	740,194
Debt service								
Total Expenditures	6,653,996	13,101,852	54,030	3,418,210		6,832,839	1,115,255	740,194
Excess (deficiency) of revenues over (under) expenditures	131,202	473,695		(426,886)	(372)	(95,052)	1,029,490	9,442
OTHER FINANCING SOURCES (USES)								
Transfers in		248,243						
Transfers out	(52,446)	(529,551)		(528,894)			(1,163,438)	(9,442)
Total Other Financing Sources (Uses)	(52,446)	(281,308)		(528,894)			(1,163,438)	(9,442)
Net change in fund balances	78,756	192,387		(955,780)	(372)	(95,052)	(133,948)	
Fund Balances - beginning	2,187,610	2,374,108		1,514,238	669,104	817,738	798,984	
Fund Balances - ending	\$ 2,266,366	\$ 2,566,495	\$	\$ 558,458	\$ 668,732	\$ 722,686	\$ 665,036	\$

Total	Debt Service					Total	Total Nonmajor Governmental Funds
	Tax Increment Bonds	Airport Hangar Construction Notes	Facility Energy Improvements Loan	Economic Development Authority Bond	Public Works and Transit Operation Center Bond		
\$ 11,171,460	\$ 1,009,128	\$	\$	\$	\$ 1,601,876	\$ 1,601,876	\$ 12,773,336
1,009,668						1,009,128	1,009,128
6,185,195					357,937	357,937	6,543,132
10,583,384							10,583,384
47,508			1,110		2,953	4,063	51,571
(62,600)							(62,600)
4,103,280							4,103,280
<u>33,037,895</u>	<u>1,009,128</u>		<u>1,110</u>		<u>1,962,766</u>	<u>2,973,004</u>	<u>36,010,899</u>
6,653,996							6,653,996
13,101,852							13,101,852
54,030							54,030
3,418,210							3,418,210
6,832,839							6,832,839
1,855,449				5,552		5,552	1,861,001
	1,009,128	26,394	595,619	1,158,250	1,893,999	4,683,390	4,683,390
<u>31,916,376</u>	<u>1,009,128</u>	<u>26,394</u>	<u>595,619</u>	<u>1,163,802</u>	<u>1,893,999</u>	<u>4,688,942</u>	<u>36,605,318</u>
1,121,519		(26,394)	(594,509)	(1,163,802)	68,767	(1,715,938)	(594,419)
248,243		26,394	566,967	1,163,438		1,756,799	2,005,042
<u>(2,283,771)</u>							<u>(2,283,771)</u>
<u>(2,035,528)</u>		<u>26,394</u>	<u>566,967</u>	<u>1,163,438</u>		<u>1,756,799</u>	<u>(278,729)</u>
(914,009)			(27,542)	(364)	68,767	40,861	(873,148)
8,361,782		2,200	215,645	1,492	1,277,151	1,496,488	9,858,270
<u>\$ 7,447,773</u>	<u>\$</u>	<u>\$ 2,200</u>	<u>\$ 188,103</u>	<u>\$ 1,128</u>	<u>\$ 1,345,918</u>	<u>\$ 1,537,349</u>	<u>\$ 8,985,122</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$5,374,326	\$5,374,326	\$5,385,789	\$ 11,463	\$5,158,956
Intergovernmental	823,327	843,937	845,040	1,103	887,113
Charges for services	159,350	159,350	172,618	13,268	166,985
Interest earnings	10,000	13,406	12,907	(499)	15,525
Net decrease in the fair value of investments	(5,000)	(5,000)	(22,000)	(17,000)	(4,800)
Miscellaneous					
Contributions		389,580	389,580		264,854
Other	7,450	7,710	1,264	(6,446)	4,300
Total Revenues	<u>6,369,453</u>	<u>6,783,309</u>	<u>6,785,198</u>	<u>1,889</u>	<u>6,492,933</u>
EXPENDITURES					
Public Library	6,347,007	6,353,301	6,239,906	113,395	6,061,556
Gifts appropriations		968,153	414,090	554,063	131,006
Total Expenditures	<u>6,347,007</u>	<u>7,321,454</u>	<u>6,653,996</u>	<u>667,458</u>	<u>6,192,562</u>
Excess (deficiency) of revenues over (under) expenditures	22,446	(538,145)	131,202	669,347	300,371
OTHER FINANCING USES					
Transfers out	(22,446)	(52,446)	(52,446)		(94,997)
Total Other Financing Sources (Uses)	<u>(22,446)</u>	<u>(52,446)</u>	<u>(52,446)</u>		<u>(94,997)</u>
Net change in fund balance		(590,591)	78,756	669,347	205,374
Fund Balance - beginning	<u>2,187,610</u>	<u>2,187,610</u>	<u>2,187,610</u>		<u>1,982,236</u>
Fund Balance - ending	<u>\$2,187,610</u>	<u>\$1,597,019</u>	<u>\$2,266,366</u>	<u>\$ 669,347</u>	<u>\$2,187,610</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, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 5,550,796	\$ 5,550,796	\$ 5,567,321	\$ 16,525	\$ 5,348,893
Nonproperty taxes	820,737	829,396	1,009,668	180,272	843,831
Intergovernmental	29,459	29,459	36,297	6,838	56,765
Charges for services	6,978,378	6,994,244	6,822,568	(171,676)	6,647,200
Interest earnings	30,225	30,225	14,419	(15,806)	14,930
Net decrease in the fair value of investments	(15,000)	(15,000)	(24,600)	(9,600)	(4,400)
Miscellaneous					
Contributions	6,250	16,047	16,197	150	12,810
Other	130,750	133,287	133,677	390	154,756
Total Revenues	<u>13,531,595</u>	<u>13,568,454</u>	<u>13,575,547</u>	<u>7,093</u>	<u>13,074,785</u>
EXPENDITURES					
Administration	560,272	560,272	475,271	85,001	473,181
Recreation Department	742,886	755,677	690,673	65,004	644,459
Golf	1,413,855	1,431,470	1,308,118	123,352	1,429,042
Tennis Center	46,373	46,373	45,529	844	44,214
Volleyball Center	320,569	320,569	311,558	9,011	302,728
Swimming Pools	191,110	191,110	184,257	6,853	197,590
Graham Arenas	671,197	673,146	696,767	(23,621)	700,393
Park	4,312,802	4,328,946	4,268,093	60,853	4,161,386
Plummer House	57,918	57,918	72,819	(14,901)	67,522
Recreation Center	1,284,403	1,284,403	1,270,822	13,581	1,216,563
Mayo Civic Center	3,679,142	3,710,647	3,777,945	(67,298)	3,414,467
Total Expenditures	<u>13,280,527</u>	<u>13,360,531</u>	<u>13,101,852</u>	<u>258,679</u>	<u>12,651,545</u>
Excess (deficiency) of revenues over (under) expenditures	<u>251,068</u>	<u>207,923</u>	<u>473,695</u>	<u>265,772</u>	<u>423,240</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	10,000	20,825	248,243	227,418	80,535
Transfers out	(292,133)	(292,133)	(529,551)	(237,418)	(366,277)
Total Other Financing Sources (Uses)	<u>(282,133)</u>	<u>(271,308)</u>	<u>(281,308)</u>	<u>(10,000)</u>	<u>(285,742)</u>
Net change in fund balance	<u>(31,065)</u>	<u>(63,385)</u>	<u>192,387</u>	<u>255,772</u>	<u>137,498</u>
Fund Balance - beginning	<u>2,374,108</u>	<u>2,374,108</u>	<u>2,374,108</u>		<u>2,236,610</u>
Fund Balance - ending	<u>\$ 2,343,043</u>	<u>\$ 2,310,723</u>	<u>\$ 2,566,495</u>	<u>\$ 255,772</u>	<u>\$ 2,374,108</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$	\$	\$ 54,030	\$ 54,030	\$ 20,822
Total Revenues			54,030	54,030	20,822
EXPENDITURES					
Law enforcement block grant			54,030	(54,030)	20,822
Total Expenditures			54,030	(54,030)	20,822
Excess (deficiency) of revenues over (under) expenditures					
Fund Balance - beginning					
Fund Balance - ending	\$	\$	\$	\$	\$

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

For the Year Ended December 31, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$	\$	\$ 227	\$ 227	\$ 576
Intergovernmental	198,752	198,752	259,770	61,018	223,929
Charges for services	1,622,248	1,622,248	1,484,241	(138,007)	1,565,040
Interest earnings	55,300	50,000	5,635	(44,365)	20,865
Net decrease in the fair value of investments	(20,000)	(20,000)	(1,700)	18,300	(7,400)
Miscellaneous	1,070,123	1,070,123	1,243,151	173,028	1,028,746
Total Revenues	<u>2,926,423</u>	<u>2,921,123</u>	<u>2,991,324</u>	<u>70,201</u>	<u>2,831,756</u>
EXPENDITURES					
Airport operations	2,918,705	2,918,705	3,260,811	(342,106)	3,327,737
US customs operations	164,500	164,500	157,399	7,101	157,761
Total Expenditures	<u>3,083,205</u>	<u>3,083,205</u>	<u>3,418,210</u>	<u>(335,005)</u>	<u>3,485,498</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(156,782)</u>	<u>(162,082)</u>	<u>(426,886)</u>	<u>(264,804)</u>	<u>(653,742)</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(528,894)</u>	<u>(528,894)</u>	<u>(528,894)</u>		<u>(1,050,394)</u>
Total Other Financing Sources (Uses)	<u>(528,894)</u>	<u>(528,894)</u>	<u>(528,894)</u>		<u>(1,050,394)</u>
Net change in fund balance	(685,676)	(690,976)	(955,780)	(264,804)	(1,704,136)
Fund Balance - beginning	<u>1,514,238</u>	<u>1,514,238</u>	<u>1,514,238</u>		<u>3,218,374</u>
Fund Balance - ending	<u>\$ 828,562</u>	<u>\$ 823,262</u>	<u>\$ 558,458</u>	<u>\$ (264,804)</u>	<u>\$ 1,514,238</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, 2013

With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 11,500	\$ 11,500	\$ 5,428	\$ (6,072)	\$ 7,301
Net decrease in the fair value of investments	(4,000)	(4,000)	(5,800)	(1,800)	(1,000)
Total Revenues	<u>7,500</u>	<u>7,500</u>	<u>(372)</u>	<u>(7,872)</u>	<u>6,301</u>
Net change in fund balance	7,500	7,500	(372)	(7,872)	6,301
Fund Balance - beginning	<u>669,104</u>	<u>669,104</u>	<u>669,104</u>		<u>662,803</u>
Fund Balance - ending	<u>\$ 676,604</u>	<u>\$ 676,604</u>	<u>\$ 668,732</u>	<u>\$ (7,872)</u>	<u>\$ 669,104</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Budgeted Amounts		2013 Actual Amounts	Variance with Final Budget - Positive (Negative)	2012 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 217,681	\$ 217,681	\$ 218,123	\$ 442	\$ 232,576
Intergovernmental revenues	4,348,826	4,348,826	4,333,086	(15,740)	4,217,428
Charges for services	2,062,341	2,138,166	2,103,957	(34,209)	2,009,402
Interest earnings	4,000	4,000	7,115	3,115	4,055
Net increase (decrease) in the fair value of investments			(4,100)	(4,100)	(3,300)
Miscellaneous	62,600	68,943	79,606	10,663	117,154
Total Revenues	<u>6,695,448</u>	<u>6,777,616</u>	<u>6,737,787</u>	<u>(39,829)</u>	<u>6,577,315</u>
EXPENDITURES					
Employee services	13,789	13,789	9,956	3,833	12,688
Contractual services	5,605,589	5,755,452	5,348,836	406,616	5,696,231
Materials and supplies	1,052,608	1,053,425	1,458,251	(404,826)	819,628
Other charges	23,462	23,462	15,796	7,666	15,740
Total Expenditures	<u>6,695,448</u>	<u>6,846,128</u>	<u>6,832,839</u>	<u>13,289</u>	<u>6,544,287</u>
Net change in fund balance		(68,512)	(95,052)	(26,540)	33,028
Fund Balance - beginning	<u>817,738</u>	<u>817,738</u>	<u>817,738</u>		<u>784,710</u>
Fund Balance - ending	<u>\$ 817,738</u>	<u>\$ 749,226</u>	<u>\$ 722,686</u>	<u>\$ (26,540)</u>	<u>\$ 817,738</u>

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2013

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, 2013
With Comparative Totals as of December 31, 2012

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2013	2012
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 97,661	\$ 51,016	\$ 543,521	\$ 692,198	\$ 2,583,660
Investments	6,888,900	3,598,900	31,866,300	42,354,100	39,082,500
Accrued interest receivable	16,863	8,810	75,557	101,230	90,851
Taxes receivable delinquent	1,681	2,717		4,398	5,137
Due from other governmental units	2,497	2,489		4,986	4,675
Total Current Assets	<u>7,007,602</u>	<u>3,663,932</u>	<u>32,485,378</u>	<u>43,156,912</u>	<u>41,766,823</u>
Noncurrent Assets:					
Capital assets:					
Construction in process	458,583			458,583	76,196
Machinery and equipment	28,857,137	1,836,427		30,693,564	28,400,308
Less: Accumulated depreciation	(18,387,004)	(1,225,658)		(19,612,662)	(18,214,689)
Total capital assets (net of accumulated depreciation)	<u>10,928,716</u>	<u>610,769</u>		<u>11,539,485</u>	<u>10,261,815</u>
Total Assets	<u>17,936,318</u>	<u>4,274,701</u>	<u>32,485,378</u>	<u>54,696,397</u>	<u>52,028,638</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	7,662	13,715	37,027	58,404	69,163
Accrued interest payable	10,458			10,458	11,583
Deposits payable			81,750	81,750	85,177
Accrued compensation and payroll taxes			10,930	10,930	10,267
Due to other governmental units	366	92	11,779	12,237	11,048
Accrued claims			924,201	924,201	1,188,623
Bonds payable	125,000			125,000	120,000
Total Current Liabilities	<u>143,486</u>	<u>13,807</u>	<u>1,065,687</u>	<u>1,222,980</u>	<u>1,495,861</u>
Noncurrent Liabilities:					
Bonds payable	725,000			725,000	850,000
Accrued claims			849,291	849,291	734,815
Post employment benefit obligation			3,197,806	3,197,806	2,569,553
Total Noncurrent Liabilities	<u>725,000</u>		<u>4,047,097</u>	<u>4,772,097</u>	<u>4,154,368</u>
Total Liabilities	<u>868,486</u>	<u>13,807</u>	<u>5,112,784</u>	<u>5,995,077</u>	<u>5,650,229</u>
NET POSITION					
Net investment in capital assets	10,078,716	610,769		10,689,485	9,291,815
Unrestricted	6,989,116	3,650,125	27,372,594	38,011,835	37,086,594
Total Net Position	<u>\$ 17,067,832</u>	<u>\$ 4,260,894</u>	<u>\$ 27,372,594</u>	<u>\$ 48,701,320</u>	<u>\$ 46,378,409</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, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2013	2012
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 2,072,269	\$ 832,856	\$	\$ 2,905,125	\$ 2,590,581
Copy center charges	29,251			29,251	26,331
Departmental workers' compensation charges			399,487	399,487	371,952
Departmental insurance charges	12,859		13,734,965	13,747,824	13,091,066
Departmental flex charges			19,352	19,352	18,297
Employee insurance charges			634,053	634,053	1,067,366
Employee flex benefit contributions			683,817	683,817	682,233
Total Operating Revenues	<u>2,114,379</u>	<u>832,856</u>	<u>15,471,674</u>	<u>18,418,909</u>	<u>17,847,826</u>
Operating Expenses:					
Copy center	18,701			18,701	19,859
Minor equipment		148,809		148,809	390,942
Workers' compensation benefits			321,316	321,316	535,830
Workers' compensation insurance premiums			72,275	72,275	92,344
Health insurance claims			12,923,544	12,923,544	14,007,418
Flex benefits			695,458	695,458	708,961
Property and liability insurance			508,683	508,683	437,036
Property and liability claims			301,880	301,880	22,883
Other	1,492	329,868		331,360	314,317
Depreciation	2,079,936	171,376		2,251,312	2,222,833
Total Operating Expenses	<u>2,100,129</u>	<u>650,053</u>	<u>14,823,156</u>	<u>17,573,338</u>	<u>18,752,423</u>
Operating Income (Loss)	<u>14,250</u>	<u>182,803</u>	<u>648,518</u>	<u>845,571</u>	<u>(904,597)</u>
Nonoperating Revenues (Expenses):					
General property taxes	141,513	295,851		437,364	416,331
Interest earnings	57,815	28,591	250,595	337,001	451,703
Net decrease in the fair value of investments	(62,200)	(32,000)	(272,500)	(366,700)	(83,800)
Interest and fiscal charges	(25,325)			(25,325)	(27,981)
Gain on disposal of property	65,952			65,952	283,656
Intergovernmental revenues	2,959			2,959	2,581
Total Nonoperating Revenues	<u>180,714</u>	<u>292,442</u>	<u>(21,905)</u>	<u>451,251</u>	<u>1,042,490</u>
Income Before Transfers and Contributions	194,964	475,245	626,613	1,296,822	137,893
Transfers in		113,459	1,000,000	1,113,459	128,800
Transfers out		(87,370)		(87,370)	(74,717)
Change in Net Position	194,964	501,334	1,626,613	2,322,911	191,976
Total Net Position - beginning	<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>
Total Net Position - ending	<u>\$ 17,067,832</u>	<u>\$ 4,260,894</u>	<u>\$ 27,372,594</u>	<u>\$ 48,701,320</u>	<u>\$ 46,378,409</u>

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

For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2013	2012
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 2,114,528	\$ 832,396	\$ 14,153,804	\$ 17,100,728	\$ 16,106,469
Cash received from employees			1,317,870	1,317,870	1,749,599
Cash paid to suppliers	<u>(30,184)</u>	<u>(502,624)</u>	<u>(14,323,245)</u>	<u>(14,856,053)</u>	<u>(15,942,354)</u>
Net Cash Provided by Operating Activities	<u>2,084,344</u>	<u>329,772</u>	<u>1,148,429</u>	<u>3,562,545</u>	<u>1,913,714</u>
Cash Flows From Noncapital Financing Activities:					
General property taxes	142,342	295,761		438,103	411,488
Intergovernmental revenues	2,959			2,959	2,581
Transfers in		113,459	1,000,000	1,113,459	128,800
Transfers out		<u>(87,370)</u>		<u>(87,370)</u>	<u>(74,717)</u>
Net Cash Provided by Noncapital Financing Activities	<u>145,301</u>	<u>321,850</u>	<u>1,000,000</u>	<u>1,467,151</u>	<u>468,152</u>
Cash Flows From Capital and Related Financing Activities:					
Principal and interest payments on bonds	(146,450)			(146,450)	(148,888)
Proceeds from sale of property	85,116			85,116	332,612
Acquisition of capital assets	<u>(3,045,517)</u>	<u>(502,629)</u>		<u>(3,548,146)</u>	<u>(2,448,317)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(3,106,851)</u>	<u>(502,629)</u>		<u>(3,609,480)</u>	<u>(2,264,593)</u>
Cash Flows From Investing Activities:					
Investment income	58,148	27,443	241,031	326,622	498,883
Net (increase) decrease in investments	<u>446,200</u>	<u>(335,100)</u>	<u>(3,749,400)</u>	<u>(3,638,300)</u>	<u>(1,170,800)</u>
Net Cash Provided by (Used in) Investing Activities	<u>504,348</u>	<u>(307,657)</u>	<u>(3,508,369)</u>	<u>(3,311,678)</u>	<u>(671,917)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(372,858)	(158,664)	(1,359,940)	(1,891,462)	(554,644)
Cash and Cash Equivalents, Beginning of Year	<u>470,519</u>	<u>209,680</u>	<u>1,903,461</u>	<u>2,583,660</u>	<u>3,138,304</u>
Cash and Cash Equivalents, End of Year	<u>\$ 97,661</u>	<u>\$ 51,016</u>	<u>\$ 543,521</u>	<u>\$ 692,198</u>	<u>\$ 2,583,660</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2013
With Comparative Totals for the Year Ended December 31, 2012

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2013	2012
Operating Income (Loss)	\$ 14,250	\$ 182,803	\$ 648,518	\$ 845,571	\$ (904,597)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	2,079,936	171,376		2,251,312	2,222,833
(Increase) Decrease In:					
Accounts receivable					9,139
Due from other governmental units	149	(460)		(311)	(897)
Increase (Decrease) In:					
Accounts payable	(10,081)	(23,593)	22,915	(10,759)	47,375
Deposits payable			(3,427)	(3,427)	(11,596)
Accrued compensation and payroll taxes			663	663	495
Due to other governmental units	90	(354)	1,453	1,189	(9,885)
Post employment benefit obligation			628,253	628,253	461,148
Accrued claims			(149,946)	(149,946)	99,699
Net Cash Provided by Operating Activities	<u>\$ 2,084,344</u>	<u>\$ 329,772</u>	<u>\$ 1,148,429</u>	<u>\$ 3,562,545</u>	<u>\$ 1,913,714</u>
Non Cash Transactions:					
Decrease in fair value of investments	\$ (62,200)	\$ (32,000)	\$ (272,500)	\$ (366,700)	\$ (83,800)
Equipment purchases in accounts payable at year end	7,662			7,662	17,743

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