

CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

DEPARTMENT OF FINANCE

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

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CITY OF ROCHESTER, MINNESOTA

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CITY OF ROCHESTER, MINNESOTA
INTRODUCTORY SECTION
DECEMBER 31, 2012

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ROCHESTER

Minnesota

FIRST CLASS CITY • FIRST CLASS SERVICE



FINANCE DEPARTMENT
201 4th Street SE, Room 204
Rochester, MN 55904-3779
(507) 328-2850
FAX (507) 328-2876

June 10, 2013

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA

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

PROFILE OF THE GOVERNMENT

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

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

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

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

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FACTORS AFFECTING FINANCIAL CONDITION

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

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

Recent indicators of Rochester's economic climate include:

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

CITY OF ROCHESTER, MINNESOTA

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

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

CITY OF ROCHESTER, MINNESOTA

AWARDS AND ACKNOWLEDGEMENTS

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

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

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

Respectfully submitted,



Dale R. Martinson
Director of Finance



Stevan E. Kvenvold
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester
Minnesota

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

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



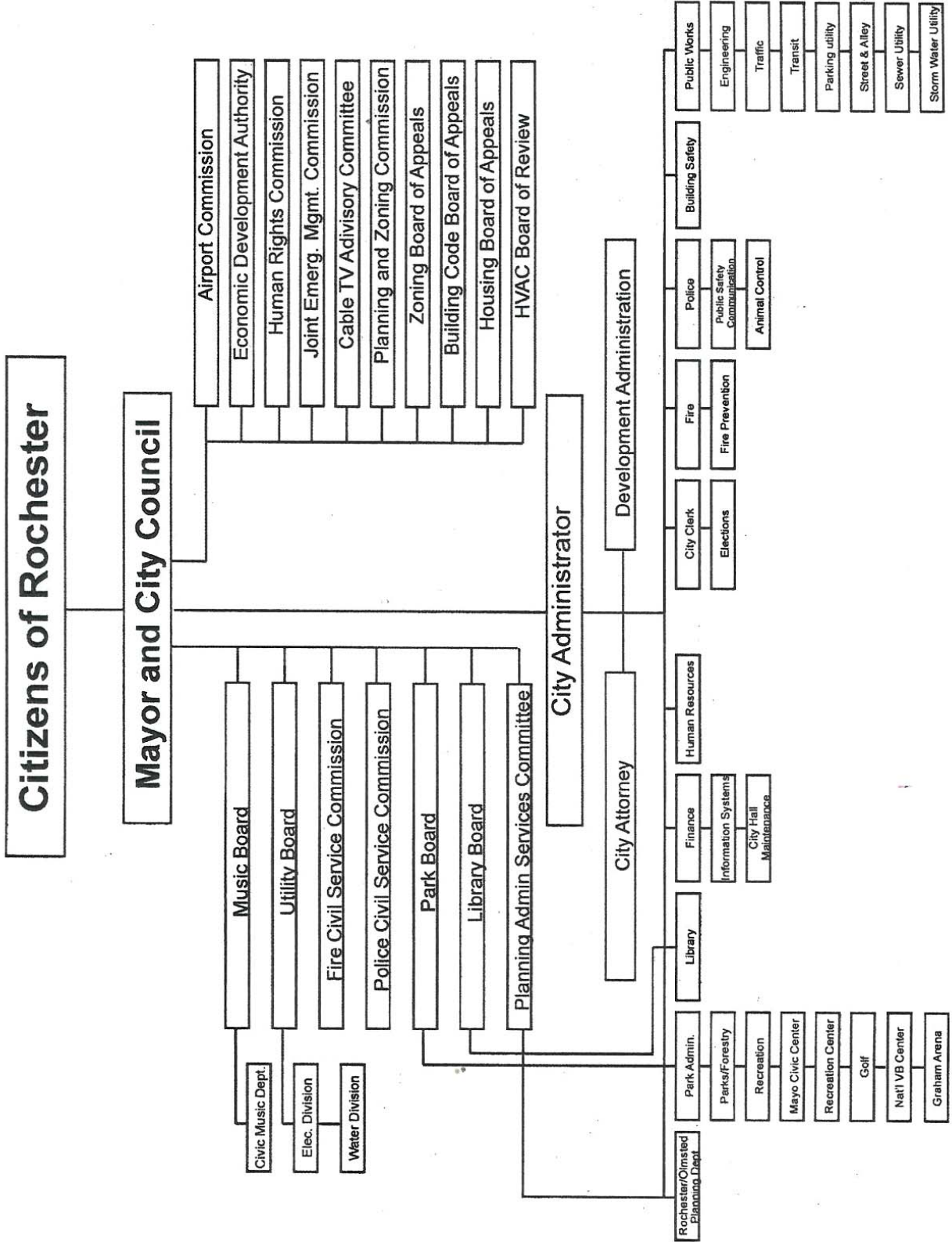
Christopher P. Moirice

President

Jeffrey R. Emer

Executive Director

**CITY OF ROCHESTER, MINNESOTA
ORGANIZATIONAL CHART**



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

MAYOR - COUNCIL

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

CITY ADMINISTRATOR

Stevan E. Kvenvold

DIRECTOR OF FINANCE – TREASURER

Dale R. Martinson

OTHER CITY OFFICIALS

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