

CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

DEPARTMENT OF FINANCE

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CITY OF ROCHESTER, MINNESOTA

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For the Fiscal Year Ended December 31, 2011**

TABLE OF CONTENTS

	<u>REFERENCE</u>	<u>PAGE</u>
INTRODUCTORY SECTION		
Letter of Transmittal		i
Certificate of Achievement		vi
Organizational Chart		vii
List of Elected and Appointed Officials		viii
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
Basic Financial Statements		
Government-wide Financial Statements		
Statement of Net Assets	FORM A-1	17
Statement of Activities	FORM A-2	18
Fund Financial Statements		
Balance Sheet - Governmental Funds	FORM B-1	20
Reconciliation of Net Assets in the Government-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	FORM B-2	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	FORM B-3	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	FORM B-4	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	FORM B-5	24
Statement of Net Assets - Proprietary Funds	FORM C-1	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	FORM C-2	28
Statement of Cash Flows - Proprietary Funds	FORM C-3	30
Notes to the Financial Statements		34
Required Supplementary Information		
Schedule of Funding Progress - Other Post-Employment Benefits		71
Combining and Individual Nonmajor Fund Statements and Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds	FORM D-1	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	FORM D-2	76
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Library Fund	FORM D-3	78
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Municipal Recreation System Fund	FORM D-4	79
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Edward Byrne Memorial JAG Fund	FORM D-5	80

CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2011

TABLE OF CONTENTS (CONTINUED)

	<u>REFERENCE</u>	<u>PAGE</u>
FINANCIAL SECTION (CONTINUED)		
Combining and Individual Nonmajor Fund Statements and Schedules (continued)		
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Airport Operations Fund	FORM D-6	81
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - F.E. Williams Estate Fund	FORM D-7	82
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Transit Fund	FORM D-8	83
Combining Statement of Net Assets - Internal Service Funds	FORM E-1	85
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	FORM E-2	86
Combining Statement of Cash Flows - Internal Service Funds	FORM E-3	87
SUPPLEMENTARY INFORMATION		
Schedule of Debt Maturities		89
Schedule of Personnel Expenditures - All Funds		101
STATISTICAL SECTION		
Changes in Net Assets	Schedule 1	103
Net Assets by Component	Schedule 2	107
Fund Balances, Governmental Funds	Schedule 3	108
Changes in Fund Balances, Governmental Funds	Schedule 4	109
Tax Capacity and Estimated Actual Value of Taxable Property	Schedule 5	110
Property Tax Rates and Tax Levies - Direct and Overlapping		
Property Tax Rates	Schedule 6	111
Principal Property Taxpayers	Schedule 7	112
Schedule of Property Tax Levies and Collections	Schedule 8	113
Electric, Water and Sanitary Sewer Charges by Customer	Schedule 9	114
Ratios of Outstanding Debt by Type	Schedule 10	115
Ratios of General Bonded Debt Outstanding	Schedule 11	117
Computation of Direct and Indirect General Obligation Bonded Debt and Legal Debt Margin	Schedule 12	118
Legal Debt Margin Information	Schedule 13	119
Pledged Revenue Coverage	Schedule 14	120
Demographic and Economic Statistics	Schedule 15	121
Principal Employers	Schedule 16	122
Full-Time Equivalent Employees by Function	Schedule 17	123
Operating Indicators by Function/Program	Schedule 18	124
Capital Assets Statistics by Function/Program	Schedule 19	125

CITY OF ROCHESTER, MINNESOTA
INTRODUCTORY SECTION
DECEMBER 31, 2011

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June 20, 2012

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, 2011.

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, 2011, 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, 2011, 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 54.73 square miles and serves a population of 108,100. 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 24-25 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 78.

CITY OF ROCHESTER, MINNESOTA

FACTORS AFFECTING FINANCIAL CONDITION

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

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

Recent indicators of Rochester's economic climate include:

- **Jobs.** The goods producing sector gained 404 jobs during the last 12 months ending March of 2012, however, this was more than offset by a loss of 1,102 jobs in the service sector. Most of this loss came in the retail trade. Total employment for the year was down 0.7% to 99,467 at the end of March.
- **Unemployment.** Rochester's unemployment rate was reported at 5.6 percent in March of 2012, an improvement from the 6.1 percent posted a year earlier and the 6.7 percent in 2010. While still higher than Rochester's norm, the improving trend is encouraging. Rochester's unemployment rate continues to be well below State and U.S. averages of 6.5 and 8.4 percent respectively. During the past 12 months, the average unemployment rate for Rochester was an even better 5.3 percent.
- **Home Sales.** Home sales for the first quarter of 2012 rose to \$55.2 million from \$41.7 million the year before, an increase of 32.4% from the prior year. The average home sold for \$165,629 during this first quarter with 333 units being sold and the average time on the market was 157 days. Mortgage rates continue to remain low on a historical basis.
- **Building Activity.** Building activity continued its rebound in 2011 and into the first quarter of 2012. Total permit value of \$205.6 million in 2011 exceed the \$199.8 million of 2010. The first quarter of 2012 alone reflect a total of \$93.3 million in permit value. Most of this growth is, for the second year, in the commercial sector with much of that coming from expansion and renovation by the Mayo Foundation. Residential activity continued to lag with only 208 new single family home permits issued for all of 2011 compared to 200 in 2010.

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 final phase (phase 5) of the construction of this new multi-departmental vehicle maintenance and storage campus is underway with the \$8.8 million construction of the bus storage facility at this 20-acre site. Public works moved their operations to these facilities in November of 2011 and the transit system move is scheduled for July 1st, 2012. Ultimately, this facility will house and maintain our street maintenance equipment and transit fleet, and will provide service for the sewer utility, storm water utility, fire, police and other departmental vehicles. The total project, estimated at \$43 million, is planned for final completion in November of 2012.
- Downtown Development – University of Minnesota Rochester (UMR / GH Holdings). The University of Minnesota continues to develop its targeted health sciences campus in Rochester's downtown area. Projected classroom shortage in the near future and growing demands for student housing prompted them to invest in a new 9-story housing and office/classroom space facility with GH Holdings of Rochester. This \$15.9 million project, connected by skyway to their other downtown facilities, opened in 2011 with 98 dwelling units as well as additional classroom space for UMR. UMR stated long-term plan is for a 5,000-student campus in the downtown area, building off synergies with the Mayo Clinic and IBM.
- Cascade Lake / Trail Development. The City has purchased properties, provided for the relocation of power lines, obtained easements and accepted development plans for the gravel mining and eventual development of what will become the largest lake in the area. Plans are proceeding for adjacent public parkland and a public bike trail surrounding the lake is now complete. This project has already become a significant attraction for new residential development, and will eventually be a wonderful asset for all the citizens of Rochester to enjoy. During 2011, work continued on the four-phase bike trail and bridge system going into to the park. This total \$5.8 million four-year project is funded by federal, state and City dollars. The final phase, linking the well-traveled Douglas Trail from Pine Island to this new Cascade Lake Park is soon under contract with completion scheduled for early summer of 2013.
- National Volleyball Center Expansion. After several attempts, the City secured funding from the State for a \$4.0 million, three-court expansion of the City's National Volleyball Center. Completed in the first quarter of 2012, this added to the existing eight courts plus three more in the attached Century High School and have made this facility able to host larger camps, more adult recreation leagues, and most importantly, larger tournaments. A joint use agreement with the school district makes the facility available to the senior high students during the school hours.
- Turn back of Highway 63. The City is finalizing an agreement with the State of Minnesota during early 2012 to turn back maintenance and control of the highway 63 corridor, a major road in the heart of the City linking Rochester to Lake City in 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.

CITY OF ROCHESTER, MINNESOTA

Long-term financial planning (continued).

- Sales Tax Extension Projects. The City obtained authorization for extension of its 1/2-cent sales tax from the 2011 State Legislature, subject to voter referendum. In November of 2012, Local voters will be asked to approve \$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, economic development incentive funding in Rochester and \$5 million for economic development in surrounding communities.

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, 2010. This was the forty-first 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, 2010

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.



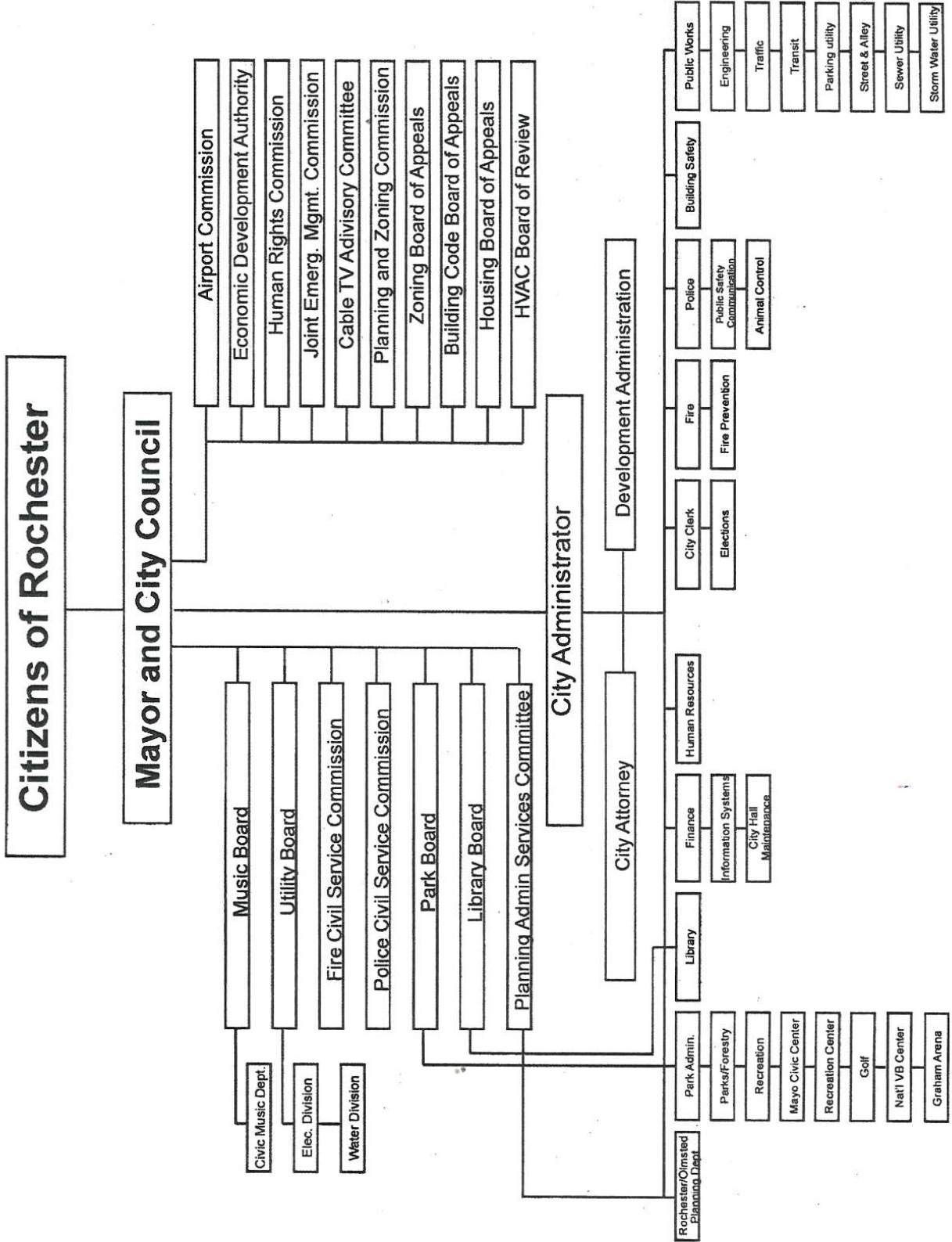
Linda C. Davison

President

Jeffrey R. Enser

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, Dennis L. Hanson	1999	2012
Councilmember First Ward, Ed Hruska	2007	2014
Councilmember Second Ward, Michael Wojcik	2009	2012
Councilmember Third Ward, Bruce Snyder	2006	2014
Councilmember Fourth Ward, Mark Bilderback	2009	2012
Councilmember Fifth Ward, Bob Nowicki	2003	2014
Councilmember Sixth Ward, Sandra Means	2003	2012

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