

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2004

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

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

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, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2005 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* and should be considered in conjunction with this report in considering the results of our audit.

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

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, supplementary information, and statistical tables listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and supplementary information have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The information identified in the Table of Contents as the introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
May 16, 2005

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, 2004, with comparative data for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- ? The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$683,037,667 (*net assets*). Of this amount, \$125,419,412 (unrestricted net assets) 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 assets increased by \$58,705,392.
- ? As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$92,168,792. Approximately 8 percent of this total amount, or \$7,507,874 is available for use within the City's designations and policies.
- ? At the end of the current fiscal year, unreserved fund balance for the general fund was \$16,623,301 or 41 percent of total general fund expenditures.
- ? The City of Rochester increased total outstanding debt obligations by \$85,218,084 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Additional explanation of these sections of the financial statements follows.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 assets* presents information on all of the City of Rochester's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 19-21 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 thirteen 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 eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in 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 28-29) and the special revenue funds (pages 84-89) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 24-29 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 30-37 of this report.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-75 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds can be found on pages 80-95 of this report.

IMPORTANT REMINDERS:

Infrastructure Assets. The City of Rochester first implemented GASB statement #34 for its fiscal year ended December 31, 2002. However, the City deferred complete implementation of the retroactive infrastructure portion for general government activities until a final revaluation can be completed. Historically, governmental fixed assets, particularly infrastructure assets, have only been accounted for using the current financial resources (budgeted resources) method, and have not been expensed annually through depreciation or accounted for otherwise. Additionally, significant infrastructure assets have been constructed by developers and contributed to the City over the years but had not been recorded on its financial records prior to January 1, 2003. Valuations of the water and sewer lines, storm water ponds, sidewalk, pedestrian trails, and traffic signal inventory have recently been completed and are included in this December 31, 2004 statement. The remaining systems, primarily road and bridge, are undergoing the same inventory and valuation process over the remaining final year allowable and will be included in next year's report. Nonetheless, the City of Rochester has significant reserves in the capital project funds and an ongoing program for repairs, reconditioning, and replacement of these assets with annual funding sources continually earmarked for these specific purposes. All infrastructure assets acquired since 2002 are properly recorded under the new reporting model.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$683,037,667 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (65 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, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Rochester's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003		2003		2003	
	2004	(As Restated)	2004	(As Restated)	2004	(As Restated)
Current and other assets	\$ 134,001,327	\$ 119,250,770	\$ 139,182,010	\$ 55,715,589	\$ 273,183,337	\$ 174,966,359
Capital assets	<u>244,388,625</u>	<u>300,824,730</u>	<u>354,791,166</u>	<u>247,741,080</u>	<u>599,179,791</u>	<u>548,565,810</u>
Total assets	<u>378,389,952</u>	<u>420,075,500</u>	<u>493,973,176</u>	<u>303,456,669</u>	<u>872,363,128</u>	<u>723,532,169</u>
Long-term liabilities						
outstanding	22,173,109	24,404,260	142,514,080	55,064,845	164,687,189	79,469,105
Other liabilities	<u>12,389,877</u>	<u>9,884,215</u>	<u>12,248,395</u>	<u>9,846,574</u>	<u>24,638,272</u>	<u>19,730,789</u>
Total liabilities	<u>34,562,986</u>	<u>34,288,475</u>	<u>154,762,475</u>	<u>64,911,419</u>	<u>189,325,461</u>	<u>99,199,894</u>
Net assets:						
Invested in capital assets,						
net of related debt	228,736,141	282,414,633	218,331,466	201,388,459	447,067,607	483,803,092
Restricted	32,353,633	31,162,798	78,197,015	462,979	110,550,648	31,625,777
Unrestricted	<u>82,737,192</u>	<u>71,752,797</u>	<u>42,682,220</u>	<u>37,150,609</u>	<u>125,419,412</u>	<u>108,903,406</u>
Total net assets	<u>\$ 343,826,966</u>	<u>\$ 385,330,228</u>	<u>\$ 339,210,701</u>	<u>\$ 239,002,047</u>	<u>\$ 683,037,667</u>	<u>\$ 624,332,275</u>

An additional portion of the City of Rochester's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$125,419,412) 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 assets, both for the government as a whole, as well as for its business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities decreased the City of Rochester's net assets by \$41,503,262. Most all of this decrease can be attributed to the transfer of sewer infrastructure assets to the sewer utility fund.

Business-type activities. Business-type activities increased the City of Rochester's net assets by \$100,208,654. The majority of this increase is attributable to the transfer in of sewer infrastructure assets as noted above. The City's electric utility contributed the majority of the remainder of the increase.

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

A condensed version of the Statement of Activities follows:

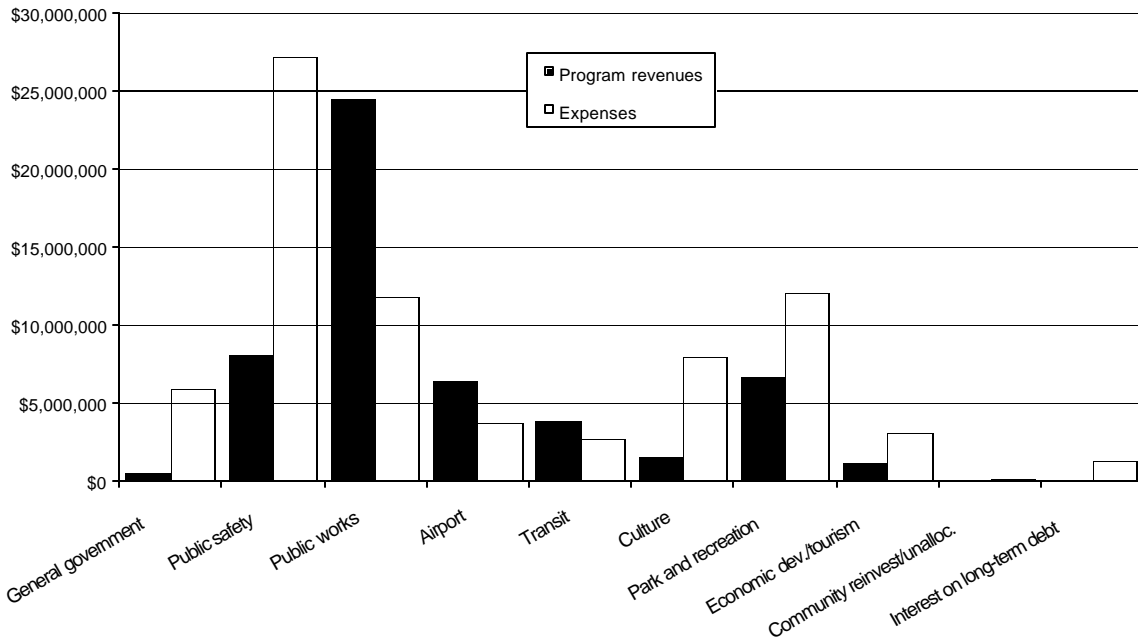
City of Rochester's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003		2003		2003	
	2004	(As Restated)	2004	(As Restated)	2004	(As Restated)
Revenue:						
Program revenues:						
Charges for services	\$ 14,757,361	\$ 12,955,723	\$ 125,005,326	\$ 118,491,568	\$ 139,762,687	\$ 131,447,291
Operating grants and contributions	7,107,431	5,454,108			7,107,431	5,454,108
Capital grants and contributions	31,083,644	32,661,685	16,514,378	3,231,367	47,598,022	35,893,052
General revenues:						
Property taxes	26,767,245	22,420,404	98	235,464	26,767,343	22,655,868
Other taxes	14,575,255	15,894,809			14,575,255	15,894,809
Grants and contributions not restricted to specific programs	9,044,063	10,416,306	9,796	31,509	9,053,859	10,447,815
Other	<u>(981,749)</u>	<u>4,855,252</u>	<u>2,856,295</u>	<u>1,264,234</u>	<u>1,874,546</u>	<u>6,119,486</u>
Total revenues	<u>102,353,250</u>	<u>104,658,287</u>	<u>144,385,893</u>	<u>123,254,142</u>	<u>246,739,143</u>	<u>227,912,429</u>
Expenses:						
General government	5,903,311	5,734,481			5,903,311	5,734,481
Public safety	27,197,802	27,005,418			27,197,802	27,005,418
Public works	11,869,756	10,830,561			11,869,756	10,830,561
Airport	3,691,508	3,909,745			3,691,508	3,909,745
Transit	2,736,558	2,421,656			2,736,558	2,421,656
Culture	7,910,173	7,133,775			7,910,173	7,133,775
Park and recreation	12,095,905	11,132,117			12,095,905	11,132,117
Economic development/tourism	3,149,558	3,583,394			3,149,558	3,583,394
Community reinvestment/unallocated	198,911	413,928			198,911	413,928
Interest on long-term debt	1,333,511	1,652,179			1,333,511	1,652,179
Parking			2,963,261	2,978,908	2,963,261	2,978,908
Electric			92,520,009	90,481,982	92,520,009	90,481,982
Water			5,731,981	5,395,691	5,731,981	5,395,691
Sewer			8,831,583	8,296,896	8,831,583	8,296,896
Storm water			<u>1,899,924</u>	<u>1,899,924</u>	<u>1,899,924</u>	<u>1,899,924</u>
Total expenses	<u>76,086,993</u>	<u>73,817,254</u>	<u>111,946,758</u>	<u>107,153,477</u>	<u>188,033,751</u>	<u>180,970,731</u>
Increase in net assets before transfers	26,266,257	30,841,033	32,439,135	16,100,665	58,705,392	46,941,698
Transfers	<u>(67,769,519)</u>	<u>(32,179,691)</u>	<u>67,769,519</u>	<u>32,179,691</u>		
Increase in net assets	(41,503,262)	(1,338,658)	100,208,654	48,280,356	58,705,392	46,941,698
Net assets, beginning of year	385,330,228	329,112,947	239,002,047	190,721,691	624,332,275	519,834,638
Prior period adjustment		57,555,939				57,555,939
Net assets, beginning restated	<u>385,330,228</u>	<u>386,668,886</u>	<u>239,002,047</u>	<u>190,721,691</u>	<u>624,332,275</u>	<u>577,390,577</u>
Net assets, end of year	<u>\$ 343,826,966</u>	<u>\$ 385,330,228</u>	<u>\$ 339,210,701</u>	<u>\$ 239,002,047</u>	<u>\$ 683,037,667</u>	<u>\$ 624,332,275</u>

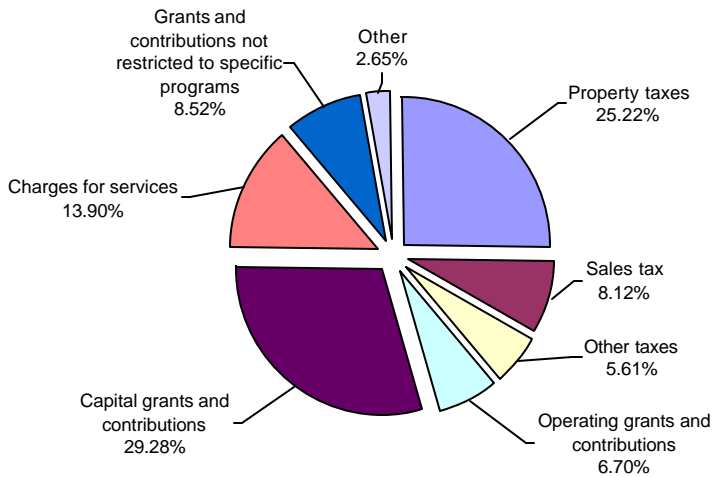
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Expenses and Program Revenues - Governmental Activities



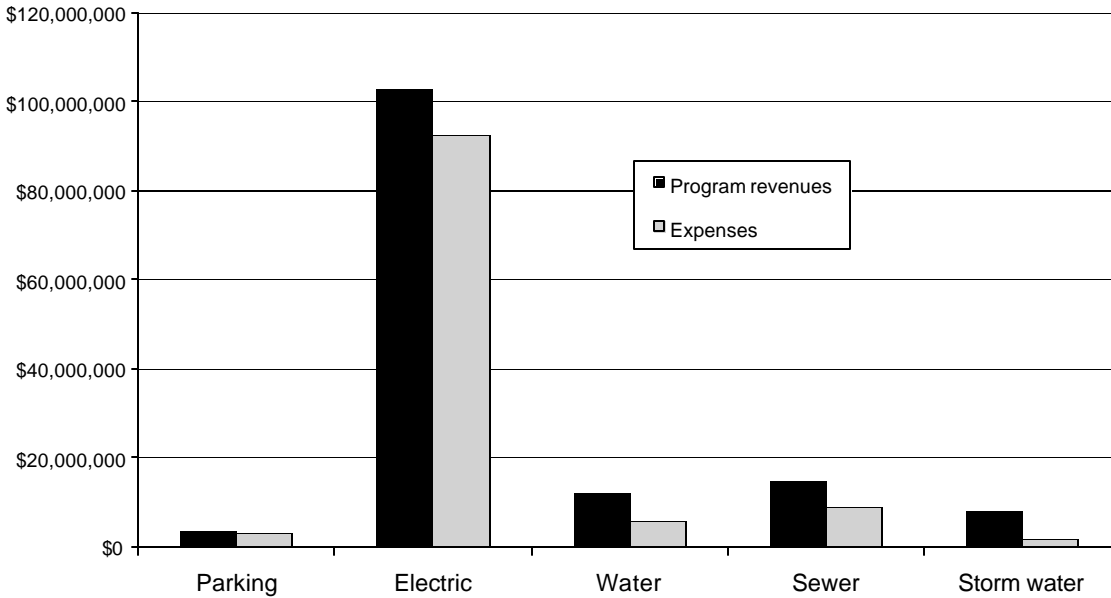
Revenues by Source - Governmental Activities



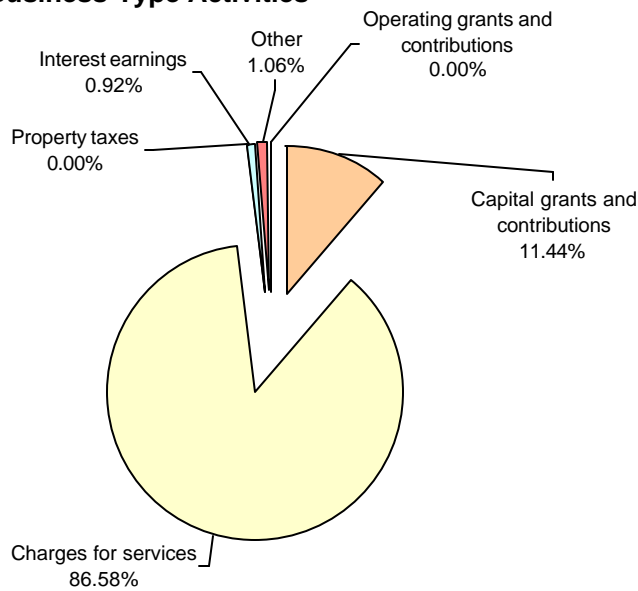
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$92,168,792, an increase of \$10,765,557 from the prior year primarily as a result of a decrease in expenditures. Approximately 62 percent of the total fund balance, or \$57,186,954, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$7,030,539), 2) to repay interfund advances or other debt (\$1,469,963), or 3) to fund specific capital projects or programs as obligated by statute or other regulation (\$26,481,336).

The general fund is the chief operating fund of the City of Rochester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$16,623,301 while total fund balance amounted to \$16,827,964. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 40 percent of total general fund expenditures, while total fund balance represents 41 percent of that same amount.

The general fund increased its fund balance by \$2.3 million during the year which reflects higher than anticipated revenues, primarily building permit revenues, and lower than anticipated expenditures in the police and street and alley divisions. The Police division received an appropriation from the State of Minnesota for a Financial Crimes Grant while the street division saw significant savings due to lower total snowfall and some planned maintenance projects that were delayed due to weather.

The library fund (page 84) decreased its fund balance by \$56,457 for the year as it utilized prior year gift appropriations to purchase additional library materials in the current year. The municipal recreation fund increased its fund balance by \$248,504 as it received a transfer from the general fund in recognition of extraordinary expenses for mold removal and energy improvements. The airport fund increased its total fund balance by \$19,973 for the year to \$2,912,554. The transit fund saw an increase in fund balance of \$263,913 as intergovernmental revenues increased and repairs were less than expected for the year.

Debt service fund balances remained essentially unchanged for the year, as transfers in from other funds provided monies for all debt service payments.

The construction improvement fund increased fund balance by \$8 million reflecting the transfer in of \$7.3 million to cover new projects and the receipt of sales tax revenues that outpaced sales tax project construction.

CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City of Rochester's proprietary funds statements found on pages 30 - 37 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets in the respective proprietary funds are Parking - \$10,235,635, Electric - \$19,450,483, Water - \$1,333,526, Sewer - \$11,590,818 and Storm water - \$1,003,812. All had increases in total net assets for the year.

The water utility's rates were increased an average of 4 percent again in January of 2004 as the utility continued to spend cash on all maintenance and repair of existing water lines and water usage was down for the second year due to high summer precipitation. In 2002 the City ended its practice of using special assessments to recover these costs.

The sewer utility's rates were adjusted in September of 2004 reflecting recommendations of a recent rate study. Some categories were increased and some reduced based on service costing completed in the study. In addition, a new "plant investment fee" was established to be charged to new development at the time of building permit issuance. These monies will help to pay debt service on bonds issued for the plant expansion currently underway.

The electric utility rates were increased an average of 3 percent in January of 2004, while the parking utility rates increased somewhat as well, but varied widely by space and type.

The storm water utility realized its first year of operations in 2004 and began to accumulate cash reserves for needed pond and waterway construction. New fees for this utility were effective January 1, 2004 based upon lot size and percentage of impervious surface for commercial and industrial properties. All residential parcels paid a flat rate.

General Fund Budgetary Highlights

The City approved the 2004 general fund budget anticipating a "balanced budget" or slight growth in fund balance after drawing down fund reserves in the prior year due to State aid cuts.

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

- ? Increase in intergovernmental revenues due to various grant appropriations.
- ? Increase in the Mayor and Council budget and Police Department budget to cover unplanned expenditures for legal consultants and appropriations for private security contracting with City police officers respectively.
- ? Reduction in engineering budget as these costs were capitalized into various assessable construction projects.

At the close of the year, general fund total expenditures were \$1,864,200 below final budget while actual revenues surpassed the final budget by \$1,104,523.

**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, 2004, amounts to \$599,179,791 (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 \$108,169,920, or 22 percent. Most of this increase within the governmental activities can be found in the addition of sidewalks, pedestrian trails, and traffic signals. Within the business-type activities the most significant increases occurred with the addition of retroactive sewer lines and storm water ponds in the sewer and storm water utilities.

Again, it should be noted that with the exception of the water distribution system added in 2003 and the items noted above, these totals do not include "retroactive infrastructure" acquired prior to 2002. Under the new reporting guidelines, these assets will be included in the City's financial statements during the coming year.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2004	2003 (As Restated)	2004	2003 (As Restated)	2004	2003 (As Restated)
Land	\$ 47,150,013	\$ 45,965,244	\$ 5,829,574	\$ 5,721,046	\$ 52,979,587	\$ 51,686,290
Buildings	76,228,348	78,581,469	148,777,219	62,719,662	225,005,567	141,301,131
Improvements other than buildings	7,160,125	6,573,194			7,160,125	6,573,194
Machinery and equipment	20,052,512	18,727,369	178,618,146	159,609,573	198,670,658	178,336,942
Infrastructure	51,284,763	109,234,450			51,284,763	109,234,450
Construction in progress	42,512,864	41,743,004	21,566,227	19,690,799	64,079,091	61,433,803
Total	\$ 244,388,625	\$ 300,824,730	\$ 354,791,166	\$ 247,741,080	\$ 599,179,791	\$ 548,565,810

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 54-56 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$150,576,839 in bonds and notes outstanding. Of this amount, \$105,526,839 comprises debt backed by the full faith and credit of the government and \$45,050,000 represents bonds secured solely by specified revenue sources. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds and Notes Payable

	Governmental		Business-Type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 2,603,879	\$ 5,206,761	\$	\$	\$ 2,603,879	\$ 5,206,761
General obligation revenue bonds	10,458,673	10,458,673	89,855,000	6,890,000	100,313,673	17,348,673
Revenue bonds			45,050,000	46,315,000	45,050,000	46,315,000
Notes payable	<u>2,609,287</u>	<u>2,770,822</u>			<u>2,609,287</u>	<u>2,770,822</u>
Total	<u>\$ 15,671,839</u>	<u>\$ 18,436,256</u>	<u>\$ 134,905,000</u>	<u>\$ 53,205,000</u>	<u>\$ 150,576,839</u>	<u>\$ 71,641,256</u>

The City of Rochester's total bonds and notes payable increased by \$78,935,583 during the current fiscal year. The City issued a \$83,735,000 revenue bond during 2004 for construction of a new addition to the water reclamation plant. The remaining 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 60.

The City of Rochester maintains an AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has received an Aa3 rating from Moody's and an A+ on its Utility Revenue Bonds.

Economic Factors and Next Year's Budgets and Rates

- ? The unemployment rate for the City of Rochester ended the first quarter of 2005 at 4.4 percent, which is only slightly higher than a year ago. This compares favorably to the state's average unemployment rate of 5.0 percent and the national average rate of 5.4 percent. Total number of jobs continued their ten-year trend of growth with this year's increase 2.5 times that of last year's growth.
- ? Rochester continues to see new construction growth, not only in residential, but also in commercial construction with record or near record levels each month. The City's total market valuation increased by 4.2 percent due to new construction for taxes payable in 2005.
- ? Property tax reforms and budget deficits at the state level continue to significantly impact government aid payments made to the City. Rochester's has sustained state aid reductions of nearly \$4.4 million, or 41% since 2002 when we received over \$10.7 million per year. Under current law, these reductions will continue into the future until Rochester's state aid bottoms out at \$2.5 million. Present legislative battles do not indicate any near-term improvement in this situation.
- ? Interest rates have continued to fall over the past few years such that the City's investment portfolio return has been reduced significantly, though most recent trends have provided slight improvement in this area.

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

All of these factors were considered in preparing the City of Rochester's budget for the 2005 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources. The City's tax levy was increased for pay 2005 in expectation that state aid will continue to dwindle while the City continues its growth trends and resulting demands for service.

Requests for Information

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

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2004

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET ASSETS

December 31, 2004
 With Comparative Totals for December 31, 2003

	Governmental Activities	Business-Type Activities	Totals	
			2004	2003 (As Restated)
ASSETS				
Cash and cash equivalents	\$ 17,813,640	\$ 20,643,049	\$ 38,456,689	\$ 27,916,200
Investments	92,813,737	20,944,528	113,758,265	98,493,306
Receivables (net of allowance for uncollectibles)	17,375,514	7,267,540	24,643,054	23,964,180
Internal balances	1,727,992	(1,727,992)		
Due from other governmental units	4,127,913	1,490	4,129,403	7,212,183
Accrued utility revenues		2,995,289	2,995,289	3,160,131
Restricted cash and investments	29,770	81,250,487	81,280,257	6,563,837
Restricted assets		241,608	241,608	240,591
Inventory	84,808	6,856,078	6,940,886	6,686,135
Prepaid items	27,953	704	28,657	21,009
Deferred charges and other assets		709,229	709,229	708,787
Capital assets:				
Nondepreciable	89,662,877	27,395,801	117,058,678	113,120,093
Depreciable, net	154,725,748	327,395,365	482,121,113	435,445,717
Total Assets	<u>378,389,952</u>	<u>493,973,176</u>	<u>872,363,128</u>	<u>723,532,169</u>
LIABILITIES				
Accounts and contracts payable	2,025,045	8,830,543	10,855,588	9,613,114
Deposits payable	1,272,510	465,580	1,738,090	1,797,286
Accrued interest payable	359,845	884,310	1,244,155	586,934
Accrued compensation and payroll taxes	1,506,269	458,371	1,964,640	2,867,305
Accrued claims	2,811,576	149,000	2,960,576	2,708,498
Due to other governmental units	4,414,632	363,798	4,778,430	836,142
Unearned revenue		1,096,793	1,096,793	1,321,510
Noncurrent liabilities:				
Due within one year	5,064,535	3,730,543	8,795,078	7,242,503
Due in more than one year	17,108,574	138,783,537	155,892,111	72,226,602
Total Liabilities	<u>34,562,986</u>	<u>154,762,475</u>	<u>189,325,461</u>	<u>99,199,894</u>
NET ASSETS				
Invested in capital assets, net of related debt	228,736,141	218,331,466	447,067,607	483,803,092
Restricted for:				
Airport	2,912,554		2,912,554	3,085,928
CDBG loans	2,987,696		2,987,696	2,940,864
Library				100,528
Civic music endowment	29,770		29,770	26,356
Debt service		8,569,378	8,569,378	222,388
Bond requirements		69,386,029	69,386,029	
Service territory acquisitions		241,608	241,608	240,591
Flood control	21,124,782		21,124,782	20,121,222
Sales tax authorized projects	5,298,831		5,298,831	4,887,900
Unrestricted	<u>82,737,192</u>	<u>42,682,220</u>	<u>125,419,412</u>	<u>108,903,406</u>
Total Net Assets	<u>\$ 343,826,966</u>	<u>\$ 339,210,701</u>	<u>\$ 683,037,667</u>	<u>\$ 624,332,275</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 5,903,311	\$ 508,946	\$ 42,128	\$ 34,937
Public safety	27,197,802	5,787,232	1,849,997	499,083
Public works	11,869,756	254,291	29,773	24,301,767
Airport	3,691,508	2,392,001	285,003	3,814,013
Transit	2,736,558	65,675	2,448,065	1,332,978
Culture	7,910,173	323,362	1,174,836	100
Park and recreation	12,095,905	5,415,854	408,233	800,102
Economic development/tourism	3,149,558	10,000	869,396	300,664
Community reinvestment/unallocated	198,911			
Interest on long-term debt	1,333,511			
Total governmental activities	<u>76,086,993</u>	<u>14,757,361</u>	<u>7,107,431</u>	<u>31,083,644</u>
Business-Type activities:				
Parking	2,963,261	3,700,360		7,805
Electric utility	92,520,009	102,339,632		358,142
Water utility	5,731,981	6,475,669		5,824,158
Sewer utility	8,831,583	9,407,148		5,575,413
Storm water utility	1,899,924	3,082,517		4,748,860
Total business-type activities	<u>111,946,758</u>	<u>125,005,326</u>		<u>16,514,378</u>
Total	<u>\$ 188,033,751</u>	<u>\$ 139,762,687</u>	<u>\$ 7,107,431</u>	<u>\$ 47,598,022</u>

General revenues:

- General property taxes
- Tax increments
- Sales tax
- Nonproperty taxes
- Grants and contributions not restricted to specific programs
- Interest earnings
- Net decrease in the fair value of investments
- Miscellaneous
- Refund of unused tax increment
- Transfers
- Total general revenues and transfers

Change in net assets

- Net assets - beginning
- Prior period adjustment
- Net assets - beginning as restated
- Net assets - ending

See Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-Type Activities	Totals	
		2004	2003 (As Restated)
\$ (5,317,300)		\$ (5,317,300)	\$ (5,257,200)
(19,061,490)		(19,061,490)	(20,678,651)
12,716,075		12,716,075	17,538,256
2,799,509		2,799,509	139,307
1,110,160		1,110,160	1,582,894
(6,411,875)		(6,411,875)	(5,985,381)
(5,471,716)		(5,471,716)	(5,510,099)
(1,969,498)		(1,969,498)	(2,508,757)
(198,911)		(198,911)	(413,928)
<u>(1,333,511)</u>		<u>(1,333,511)</u>	<u>(1,652,179)</u>
<u>(23,138,557)</u>		<u>(23,138,557)</u>	<u>(22,745,738)</u>
	\$ 744,904	744,904	566,315
	10,177,765	10,177,765	9,808,953
	6,567,846	6,567,846	3,003,540
	6,150,978	6,150,978	1,190,650
	<u>5,931,453</u>	<u>5,931,453</u>	
	<u>29,572,946</u>	<u>29,572,946</u>	<u>14,569,458</u>
<u>(23,138,557)</u>	<u>29,572,946</u>	<u>6,434,389</u>	<u>(8,176,280)</u>
26,767,245	98	26,767,343	22,655,868
2,203,915		2,203,915	4,055,894
8,614,955		8,614,955	8,220,946
3,756,385		3,756,385	3,617,969
9,044,063	9,796	9,053,859	10,447,815
3,387,331	1,325,304	4,712,635	5,169,450
(569,493)	(207,523)	(777,016)	(1,002,275)
	1,738,514	1,738,514	1,952,311
(3,799,587)		(3,799,587)	
<u>(67,769,519)</u>	<u>67,769,519</u>		
<u>(18,364,705)</u>	<u>70,635,708</u>	<u>52,271,003</u>	<u>55,117,978</u>
(41,503,262)	100,208,654	58,705,392	<u>46,941,698</u>
385,330,228	239,002,047	624,332,275	519,834,638
			<u>57,555,939</u>
<u>385,330,228</u>	<u>239,002,047</u>	<u>624,332,275</u>	<u>577,390,577</u>
<u>\$ 343,826,966</u>	<u>\$ 339,210,701</u>	<u>\$ 683,037,667</u>	<u>\$ 624,332,275</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2004

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2004

With Comparative Totals for December 31, 2003

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2004	2003
ASSETS					
Cash and cash equivalents	\$ 4,637,862	\$ 8,938,393	\$ 1,407,437	\$ 14,983,692	\$ 9,603,011
Investments	13,111,164	58,819,969	5,672,217	77,603,350	67,533,174
Accrued interest receivable	172,312	266,300	33,000	471,612	514,568
Accounts receivable (net of allowance for uncollectibles)	454,439	956,074	1,307,435	2,717,948	2,421,478
Loans receivable		1,387,125	2,987,696	4,374,821	4,712,209
Taxes receivable delinquent	136,265	42,787	81,108	260,160	390,889
Special assessments receivable:					
Deferred		9,357,524		9,357,524	8,662,628
Delinquent	17,009	35,318	1,374	53,701	54,864
Utility connection charges receivable:					
Deferred		51,248		51,248	86,273
Due from other funds	620,272	697,273	20,815	1,338,360	1,484,228
Due from other governmental units	862,666	2,950,930	314,317	4,127,913	7,201,397
Advances to other funds		1,469,963		1,469,963	1,641,110
Prepaid items	17,568		10,385	27,953	17,323
Restricted cash	29,770			29,770	126,884
Inventory	84,808			84,808	61,695
TOTAL ASSETS	\$ 20,144,135	\$ 84,972,904	\$ 11,835,784	\$ 116,952,823	\$ 104,511,731
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 512,865	\$ 553,807	\$ 583,588	\$ 1,650,260	\$ 3,081,129
Deposits payable	632,995	4,300	149,491	786,786	826,568
Accrued compensation and payroll taxes	1,185,896		302,497	1,488,393	2,019,705
Accrued compensated absences	308,713		41,168	349,881	391,335
Due to other funds	304,521	1,332	236,569	542,422	795,339
Due to other governmental units	217,907	4,021,258	159,707	4,398,872	446,449
Advances from other funds			1,469,963	1,469,963	1,641,110
Deferred revenue	153,274	10,874,002	3,070,178	14,097,454	13,906,861
Total Liabilities	<u>3,316,171</u>	<u>15,454,699</u>	<u>6,013,161</u>	<u>24,784,031</u>	<u>23,108,496</u>
Fund Balance:					
Reserved for:					
Restricted assets	29,770			29,770	126,884
Prepaid items	17,568		10,385	27,953	17,323
Interfund advances		1,469,963		1,469,963	1,641,110
Encumbrances	157,325	6,825,555	47,659	7,030,539	4,899,612
Airport					193,347
Flood control		21,124,782		21,124,782	20,121,222
Sales tax authorized projects		5,298,831		5,298,831	4,887,900
Unreserved, designated, reported in:					
General fund	5,913,265			5,913,265	4,789,632
Special revenue funds			1,594,609	1,594,609	1,353,003
Unreserved, undesignated, reported in:					
General fund	10,710,036			10,710,036	9,566,277
Capital projects fund		34,799,074		34,799,074	29,901,889
Special revenue funds			4,169,970	4,169,970	3,905,036
Total Fund Balance	<u>16,827,964</u>	<u>69,518,205</u>	<u>5,822,623</u>	<u>92,168,792</u>	<u>81,403,235</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 20,144,135	\$ 84,972,904	\$ 11,835,784	\$ 116,952,823	\$ 104,511,731

See Notes to the Financial Statements

CITY OF ROCHESTER, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS

December 31, 2004

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

Total governmental fund balances (page 24)		\$ 92,168,792
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 313,700,094	
Less: Accumulated depreciation	<u>(77,216,499)</u>	
		236,483,595
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 313,861	
Deferred special assessments and utility connection agreements	9,408,772	
Loans receivable	<u>4,374,821</u>	
		14,097,454
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 assets.		
		23,260,198
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	\$ (15,671,839)	
Compensated absences	(6,170,744)	
Accrued interest	(359,845)	
Unamortized bond issuance costs	<u>19,355</u>	
		<u>(22,183,073)</u>
Net assets of governmental activities (page 19)		<u>\$ 343,826,966</u>

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

For the Year Ended December 31, 2004
 With Comparative Totals for the Year Ended December 31, 2003

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2004	2003
REVENUES					
General property taxes	\$ 15,437,135	\$ 3,863,607	\$ 7,597,229	\$ 26,897,971	\$ 22,507,887
Tax increments		892,907	1,311,008	2,203,915	4,055,894
Sales tax		8,443,063	171,892	8,614,955	8,220,946
Special assessments		2,278,962		2,278,962	2,941,526
Utility connection and availability		3,403,538		3,403,538	2,747,797
Nonproperty taxes	3,756,385			3,756,385	3,617,969
Licenses and permits	3,383,898	2,400		3,386,298	2,284,715
Fines and forfeits	489,227			489,227	489,804
Intergovernmental revenues	10,554,316	9,708,991	4,680,705	24,944,012	25,216,442
Charges for services	2,859,920	519,465	8,021,916	11,401,301	10,714,301
Contributions in aid of construction		3,237,156		3,237,156	2,086,774
Interest earnings	204,442	2,693,386	123,015	3,020,843	3,543,879
Net decrease in the fair value of investments	(108,093)	(319,800)	(37,700)	(465,593)	(699,075)
Miscellaneous revenues	142,794	842,495	432,288	1,417,577	1,876,140
Total Revenues	36,720,024	35,566,170	22,300,353	94,586,547	89,604,999
EXPENDITURES					
General government	5,100,229			5,100,229	5,018,922
Public safety	25,950,329		52,514	26,002,843	25,530,479
Public works	7,394,724			7,394,724	8,794,145
Airport operations			2,569,762	2,569,762	2,486,053
Transit			2,275,346	2,275,346	2,078,501
Culture	768,322		4,851,851	5,620,173	5,097,913
Park and recreation			9,308,479	9,308,479	8,628,398
Economic development/tourism	1,396,397		866,536	2,262,933	2,046,331
Community reinvestment and unallocated	196,943			196,943	411,960
Debt service			3,808,938	3,808,938	20,729,371
Capital outlay		27,672,306		27,672,306	39,032,035
Total Expenditures	40,806,944	27,672,306	23,733,426	92,212,676	119,854,108
Excess (deficiency) of revenues over (under) expenditures	(4,086,920)	7,893,864	(1,433,073)	2,373,871	(30,249,109)
OTHER FINANCING					
SOURCES (USES)					
Refund of unused tax increment		(3,799,587)		(3,799,587)	
Transfers in	9,018,494	7,340,322	2,712,029	19,070,845	29,737,413
Transfers out	(2,627,625)	(3,412,354)	(839,593)	(6,879,572)	(20,331,062)
Total other financing sources (uses)	6,390,869	128,381	1,872,436	8,391,686	9,406,351
Net change in fund balances	2,303,949	8,022,245	439,363	10,765,557	(20,842,758)
Fund Balance - beginning	14,524,015	61,495,960	5,383,260	81,403,235	102,245,993
Fund Balance - ending	<u>\$ 16,827,964</u>	<u>\$ 69,518,205</u>	<u>\$ 5,822,623</u>	<u>\$ 92,168,792</u>	<u>\$ 81,403,235</u>

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, 2004

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

Net change in fund balances - total governmental funds (page 26)	\$	10,765,557
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay-construction improvement	\$	27,672,306
Capital outlay-other governmental funds		653,088
Depreciation expense		<u>(6,900,726)</u>
		21,424,668
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
		(77,019,570)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2004	\$	14,097,454
Deferred revenue, December 31, 2003		<u>(13,906,861)</u>
		190,593
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		(567,917)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal retirement on long-term debt	\$	2,764,417
Change in accrued interest		20,299
Amortization of bond issuance costs		<u>6,804</u>
		2,791,520
<p>Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p>		
		<u>911,887</u>
Change in net assets of governmental activities (pages 20 and 21)	\$	<u><u>(41,503,262)</u></u>

CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended December 31, 2004

With Comparative Totals for the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>2004 Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>2003 Actual Amounts</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
General property taxes	\$ 14,826,537	\$ 15,387,787	\$ 15,437,135	\$ 49,348	\$ 12,307,808
Nonproperty taxes	3,500,000	3,609,025	3,756,385	147,360	3,617,969
Licenses and permits	2,459,102	2,709,102	3,383,898	674,796	2,284,715
Fines and forfeits	467,500	532,933	489,227	(43,706)	489,804
Intergovernmental	8,842,431	10,218,172	10,554,316	336,144	10,634,425
Charges for services	2,619,362	2,664,853	2,859,920	195,067	2,796,843
Interest earnings	336,025	336,022	204,442	(131,580)	300,980
Net decrease in the fair value of investments			(108,093)	(108,093)	(121,775)
Miscellaneous	132,757	157,607	142,794	(14,813)	165,298
Total Revenues	<u>33,183,714</u>	<u>35,615,501</u>	<u>36,720,024</u>	<u>1,104,523</u>	<u>32,476,067</u>
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	590,767	681,267	647,759	33,508	604,965
City Administrator	454,553	454,553	448,365	6,188	425,667
Development District Administration	118,801	191,023	202,248	(11,225)	108,441
City Clerk	232,939	232,939	238,924	(5,985)	232,727
Elections and Voter Registration	128,731	128,731	107,234	21,497	19,992
Finance Department	918,118	918,864	915,851	3,013	884,583
Information Systems	656,823	666,823	621,400	45,423	633,933
City Attorney	829,824	850,274	843,893	6,381	916,172
Human Resources	691,515	691,907	640,807	51,100	736,190
Planning and Zoning	114,700	139,700	84,537	55,163	110,109
City Hall Maintenance	374,388	378,588	349,211	29,377	346,143
Total General Government	<u>5,111,159</u>	<u>5,334,669</u>	<u>5,100,229</u>	<u>234,440</u>	<u>5,018,922</u>
Public Safety:					
Police Department	13,119,440	13,428,379	13,172,196	256,183	13,011,868
Drug Enforcement Administration		54,242	13,578	40,664	3,050
Fire Department	9,624,135	9,722,553	9,648,084	74,469	9,518,768
Fire Hazmat Response Team	45,000	118,872	112,630	6,242	143,863
Building Safety	2,154,029	2,154,029	2,201,989	(47,960)	2,030,220
Animal Control	222,916	222,916	226,024	(3,108)	214,476
Police Reserve	8,100	9,202	7,121	2,081	6,215
Flood Control	396,625	405,677	405,677		368,517
Emergency Mgmt/Safety Council	163,030	163,030	163,030		155,168
Total Public Safety	<u>25,733,275</u>	<u>26,278,900</u>	<u>25,950,329</u>	<u>328,571</u>	<u>25,452,145</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, 2004

With Comparative Totals for the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>2004 Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>2003 Actual Amounts</u>
	<u>Original</u>	<u>Final</u>			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,724,814	\$ 1,931,360	\$ 1,900,341	\$ 31,019	\$ 2,959,246
Traffic Engineer	1,002,024	1,006,327	910,149	96,178	910,987
Street and Alley	4,282,620	4,294,552	3,728,938	565,614	4,117,052
City Lighting	<u>839,025</u>	<u>839,025</u>	<u>855,296</u>	<u>(16,271)</u>	<u>806,860</u>
Total Public Works	<u>8,848,483</u>	<u>8,071,264</u>	<u>7,394,724</u>	<u>676,540</u>	<u>8,794,145</u>
Culture:					
Art Center/Theatre	170,000	176,000	176,000		132,893
Music Department	<u>545,056</u>	<u>623,787</u>	<u>592,322</u>	<u>31,465</u>	<u>496,993</u>
Total Culture	<u>715,056</u>	<u>799,787</u>	<u>768,322</u>	<u>31,465</u>	<u>629,886</u>
Economic Development/Tourism	<u>1,285,000</u>	<u>1,587,229</u>	<u>1,396,397</u>	<u>190,832</u>	<u>1,398,584</u>
Community Reinvestment and Unallocated	<u>683,235</u>	<u>599,295</u>	<u>196,943</u>	<u>402,352</u>	<u>411,960</u>
Total Expenditures	<u>42,376,208</u>	<u>42,671,144</u>	<u>40,806,944</u>	<u>1,864,200</u>	<u>41,705,642</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,192,494)</u>	<u>(7,055,643)</u>	<u>(4,086,920)</u>	<u>2,968,723</u>	<u>(9,229,575)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	9,192,494	9,287,481	9,018,494	(268,987)	8,650,002
Transfers out		<u>(2,610,000)</u>	<u>(2,627,625)</u>	<u>(17,625)</u>	<u>(1,005,382)</u>
Total other financing sources (uses)	<u>9,192,494</u>	<u>6,677,481</u>	<u>6,390,869</u>	<u>(286,612)</u>	<u>7,644,620</u>
Net change in fund balances		(378,162)	2,303,949	2,682,111	(1,584,955)
Fund Balance - beginning	<u>14,524,015</u>	<u>14,524,015</u>	<u>14,524,015</u>		<u>16,108,970</u>
Fund Balance - ending	<u>\$14,524,015</u>	<u>\$14,145,853</u>	<u>\$16,827,964</u>	<u>\$ 2,682,111</u>	<u>\$14,524,015</u>

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

December 31, 2004

With Comparative Totals for December 31, 2003

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,454,262	\$ 15,493,309	\$ 1,707,859
Investments	8,837,033		
Accrued interest receivable	51,400	110,055	
Accounts receivable	41,890	5,898,838	587,903
Accrued utility revenues		2,929,686	65,603
Inventory, material, supplies and fuel		6,638,280	206,836
Due from other funds			
Due from other governmental units	764		
Restricted assets		241,608	
Restricted cash		3,517,468	
Other assets			
Total Current Assets	<u>10,385,349</u>	<u>34,829,244</u>	<u>2,568,201</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	3,954,563	10,039,734	2,544,773
Depreciable	25,797,616	194,502,486	90,892,812
Less: Accumulated depreciation	<u>(11,266,130)</u>	<u>(76,171,916)</u>	<u>(20,354,723)</u>
Net capital assets	18,486,049	128,370,304	73,082,862
Deferred charges and other assets		<u>709,229</u>	
Total Noncurrent Assets	<u>18,486,049</u>	<u>129,079,533</u>	<u>73,082,862</u>
Total Assets	<u>28,871,398</u>	<u>163,908,777</u>	<u>75,651,063</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	42,585	6,890,701	227,185
Deposits payable	27,152	353,818	
Accrued interest payable		181,477	
Accrued compensation and payroll taxes	6,233	314,765	35,160
Accrued compensated absences	43,180	1,083,180	138,589
Due to other funds	545	1,144,904	724,473
Due to other governmental units	30,019	319,695	2,480
Accrued claims			
Unearned revenue		150,597	25,882
Bonds payable		<u>1,310,000</u>	
Total Current Liabilities	<u>149,714</u>	<u>11,749,137</u>	<u>1,153,769</u>
Noncurrent Liabilities:			
Bonds payable		43,740,000	
Unamortized bond (discount) premium and issue costs		(342,194)	
Accrued compensated absences		828,463	72,906
Accrued claims		141,000	8,000
Unearned lease revenues		<u>920,314</u>	
Total Noncurrent Liabilities		<u>45,287,583</u>	<u>80,906</u>
Total Liabilities	<u>149,714</u>	<u>57,036,720</u>	<u>1,234,675</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,486,049	87,179,966	73,082,862
Restricted for:			
Debt service			
Bond requirements			
Service territory acquisitions		241,608	
Unrestricted	<u>10,235,635</u>	<u>19,450,483</u>	<u>1,333,526</u>
Total Net Assets	<u>\$ 28,721,684</u>	<u>\$ 106,872,057</u>	<u>\$ 74,416,388</u>

Amounts reported by business-type activities in the statement of net assets (page 19) are different because:

Certain internal service fund assets and liabilities are included in business-type activities.

Net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2004	2003
		2004	2003		
\$ 1,838,032	\$ 149,587	\$ 20,643,049	\$ 16,269,949	\$ 2,829,948	\$ 2,043,240
11,470,592	636,903	20,944,528	17,055,892	15,210,387	13,904,240
523,850	3,700	689,005	239,102	88,500	89,800
1,462	48,442	6,578,535	6,791,634		735
		2,995,289	3,160,131		
10,962		6,856,078	6,624,440		
967,526	231,605	1,199,131	1,089,684		801
726		1,490	10,786		
		241,608	240,591		
77,733,019		81,250,487	6,436,953		
704		704	3,686		
<u>92,546,873</u>	<u>1,070,237</u>	<u>141,399,904</u>	<u>57,922,848</u>	<u>18,128,835</u>	<u>16,038,816</u>
10,724,745	131,986	27,395,801	25,411,845		
172,212,611	23,186,430	506,591,955	375,420,211	17,804,219	17,310,562
(70,038,316)	(1,365,505)	(179,196,590)	(153,090,976)	(9,899,189)	(8,550,722)
112,899,040	21,952,911	354,791,166	247,741,080	7,905,030	8,759,840
		709,229	708,787		
<u>112,899,040</u>	<u>21,952,911</u>	<u>355,500,395</u>	<u>248,449,867</u>	<u>7,905,030</u>	<u>8,759,840</u>
<u>205,445,913</u>	<u>23,023,148</u>	<u>496,900,299</u>	<u>306,372,715</u>	<u>26,033,865</u>	<u>24,798,656</u>
1,631,416	38,656	8,830,543	6,523,451	374,785	8,534
84,610		465,580	430,374	485,724	540,344
702,833		884,310	206,790		
91,738	10,475	458,371	829,696	17,876	17,904
353,856	16,738	1,635,543	1,450,968		
124,640	507	1,995,069	1,779,374		
11,555	49	363,798	374,753	15,760	14,940
				1,748,018	1,544,708
		176,479	364,776		
<u>785,000</u>		<u>2,095,000</u>	<u>2,035,000</u>		
<u>3,785,648</u>	<u>66,425</u>	<u>16,904,693</u>	<u>13,995,182</u>	<u>2,642,163</u>	<u>2,126,430</u>
89,070,000		132,810,000	51,170,000		
5,414,362		5,072,168	(415,425)		
		901,369	824,302		
		149,000	160,000	1,063,558	1,003,790
		920,314	956,734		
<u>94,484,362</u>		<u>139,852,851</u>	<u>52,695,611</u>	<u>1,063,558</u>	<u>1,003,790</u>
<u>98,270,010</u>	<u>66,425</u>	<u>156,757,544</u>	<u>66,690,793</u>	<u>3,705,721</u>	<u>3,130,220</u>
17,629,678	21,952,911	218,331,466	201,388,459	7,905,030	8,759,840
8,569,378		8,569,378	222,388		
69,386,029		69,386,029			
		241,608	240,591		
11,590,818	1,003,812	43,614,274	37,830,484	14,423,114	12,908,596
<u>\$ 107,175,903</u>	<u>\$ 22,956,723</u>	<u>340,142,755</u>	<u>239,681,922</u>	<u>\$ 22,328,144</u>	<u>\$ 21,668,436</u>
		(932,054)	(679,875)		
		<u>\$ 339,210,701</u>	<u>\$ 239,002,047</u>		

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

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 3,700,360	\$	\$ 6,008,928
Sales and charges for services, pledged as security for revenue bonds		99,769,827	
Miscellaneous		2,569,805	466,741
Total Operating Revenues	<u>3,700,360</u>	<u>102,339,632</u>	<u>6,475,669</u>
Operating Expenses:			
Purchased power		53,787,320	
Maintenance and operations	2,036,341	30,492,494	3,939,806
Depreciation	921,439	5,943,226	1,771,686
Total Operating Expenses	<u>2,957,780</u>	<u>90,223,040</u>	<u>5,711,492</u>
Operating Income (Loss)	<u>742,580</u>	<u>12,116,592</u>	<u>764,177</u>
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	577		
Interest earnings	212,490	464,665	37,303
Net decrease in the fair value of investments	(60,500)		
Interest and fiscal charges		(2,120,360)	
Gain (loss) on disposal of property			
Other income (expense)	3,778	716,950	(59,884)
Total Nonoperating Revenues (Expenses)	<u>156,345</u>	<u>(938,745)</u>	<u>(22,581)</u>
Income (Loss) Before Transfers and Contributions	898,925	11,177,847	741,596
Capital contributions	7,805	358,142	9,228,286
Transfers in			
Transfers out	(275,302)	(6,976,896)	(324,878)
Change in net assets	631,428	4,559,093	9,645,004
Net Assets - Beginning of Year	<u>28,090,256</u>	<u>102,312,964</u>	<u>64,771,384</u>
Net Assets - End of Year	<u>\$ 28,721,684</u>	<u>\$ 106,872,057</u>	<u>\$ 74,416,388</u>

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

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2004	2003
		2004	2003		
\$	\$	\$ 9,709,288	\$ 9,510,974	\$ 11,231,026	\$ 9,705,107
9,373,094	3,082,517	112,225,438	106,240,831		
34,054		3,070,600	2,739,763		
<u>9,407,148</u>	<u>3,082,517</u>	<u>125,005,326</u>	<u>118,491,568</u>	<u>11,231,026</u>	<u>9,705,107</u>
		53,787,320	53,999,389		
5,344,214	1,874,741	43,687,596	40,533,609	10,622,547	9,717,565
<u>2,540,400</u>	<u>23,043</u>	<u>11,199,794</u>	<u>9,802,907</u>	<u>1,612,654</u>	<u>1,794,561</u>
<u>7,884,614</u>	<u>1,897,784</u>	<u>108,674,710</u>	<u>104,335,905</u>	<u>12,235,201</u>	<u>11,512,126</u>
<u>1,522,534</u>	<u>1,184,733</u>	<u>16,330,616</u>	<u>14,155,663</u>	<u>(1,004,175)</u>	<u>(1,807,019)</u>
98		98	235,464		
9,219		9,796	31,509		
562,433	48,413	1,325,304	1,172,064	366,488	454,840
(141,623)	(5,400)	(207,523)	(167,200)	(103,900)	(136,000)
(899,509)		(3,019,869)	(2,360,775)		
			2,405	13,520	7,399
<u>360,401</u>	<u>717,269</u>	<u>1,738,514</u>	<u>256,965</u>	<u>3,009</u>	<u>3,339</u>
<u>(108,981)</u>	<u>760,282</u>	<u>(153,680)</u>	<u>(829,568)</u>	<u>279,117</u>	<u>329,578</u>
1,413,553	1,945,015	16,176,936	13,326,095	(725,058)	(1,477,441)
66,421,735	21,843,968	97,859,936	44,760,042		106,532
	461,829	461,829	49,376	1,384,766	21,067
<u>(5,166,703)</u>	<u>(1,294,089)</u>	<u>(14,037,868)</u>	<u>(9,398,360)</u>		<u>(94,098)</u>
62,668,585	22,956,723	100,460,833	48,737,153	659,708	(1,443,940)
<u>44,507,318</u>				<u>21,668,436</u>	<u>23,112,376</u>
<u>\$ 107,175,903</u>	<u>\$ 22,956,723</u>			<u>\$ 22,328,144</u>	<u>\$ 21,668,436</u>
		<u>(252,179)</u>	<u>(456,797)</u>		
		<u>\$ 100,208,654</u>	<u>\$ 48,280,356</u>		

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

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 3,682,248	\$ 100,276,269	\$ 6,215,078
Cash received from other City funds		3,444,588	117,026
Cash received from employees			
Cash paid to employees	(245,794)	(14,400,459)	(1,515,170)
Cash paid to suppliers	(1,823,854)	(69,587,466)	(2,871,096)
Other income	3,778		
Net Cash Provided By Operating Activities	<u>1,616,378</u>	<u>19,732,932</u>	<u>1,945,838</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	577		
Transfers in			
Transfers out	(275,302)	(6,938,191)	(324,409)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(274,725)</u>	<u>(6,938,191)</u>	<u>(324,409)</u>
Cash Flows From Capital and Related Financing Activities:			
Capital contributions		179,083	
Proceeds from the sale of property			
Proceeds from issuance of revenue bonds			
Principal payments on bonds		(1,444,059)	
Interest and fiscal charges on bonds		(2,228,236)	
Issuance costs of revenue bonds			
Facilities and service territory acquisition		(596,357)	
Acquisition of capital assets	(391,689)	(8,568,000)	(1,941,249)
Other receipts			
Net Cash (Used In) Capital and Related Financing Activities	<u>(391,689)</u>	<u>(12,657,569)</u>	<u>(1,941,249)</u>
Cash Flows From Investing Activities:			
Investment income	222,990	463,014	37,303
Service territory escrow payments		(1,017)	
Funds released from service territory escrow			
Net (increase) decrease in investments	(825,212)		
Net Cash Provided By (Used In) Invested Activities	<u>(602,222)</u>	<u>461,997</u>	<u>37,303</u>
Net Increase (Decrease) in Cash and Cash Equivalents	347,742	599,169	(282,517)
Cash and Cash Equivalents, Beginning of Year	<u>1,106,520</u>	<u>18,411,608</u>	<u>1,990,376</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,454,262</u>	<u>\$ 19,010,777</u>	<u>\$ 1,707,859</u>
Classified As:			
Cash and Cash Equivalents	\$ 1,454,262	\$ 15,493,309	\$ 1,707,859
Restricted Cash		3,517,468	
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,454,262</u>	<u>\$ 19,010,777</u>	<u>\$ 1,707,859</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2004	2003
		2004	2003		
\$ 9,553,828	\$ 2,802,977	\$ 122,530,400	\$ 114,359,027	\$ 9,693,416	\$ 7,915,497
		3,561,614	3,480,391	1,539,146	1,803,020
(2,469,674)	(223,427)	(18,854,524)	(17,154,477)		
(1,421,734)	(1,585,396)	(77,289,546)	(77,448,935)	(10,047,046)	(9,398,611)
360,401	717,269	1,081,448	89,348		
<u>6,022,821</u>	<u>1,711,423</u>	<u>31,029,392</u>	<u>23,325,354</u>	<u>1,185,516</u>	<u>319,906</u>
98		98	235,464		
9,219		9,796	31,509		
	461,829	461,829	49,376	1,384,766	21,067
<u>(5,166,703)</u>	<u>(1,294,089)</u>	<u>(13,998,694)</u>	<u>(9,406,447)</u>		<u>(78,434)</u>
<u>(5,157,386)</u>	<u>(832,260)</u>	<u>(13,526,971)</u>	<u>(9,090,098)</u>	<u>1,384,766</u>	<u>(57,367)</u>
		179,083	1,207,330		
89,444,438		89,444,438	2,405	17,658	33,737
(770,000)		(2,214,059)	(2,005,000)		
(272,522)		(2,500,758)	(2,707,096)		
(149,832)		(149,832)			
		(596,357)	(1,170,977)		
(8,223,605)	(131,986)	(19,256,529)	(17,662,995)	(761,980)	(1,551,774)
				3,009	3,339
<u>80,028,479</u>	<u>(131,986)</u>	<u>64,905,986</u>	<u>(22,336,333)</u>	<u>(741,313)</u>	<u>(1,514,698)</u>
107,383	44,713	875,403	1,328,238	367,786	499,340
		(1,017)	(2,608)		
(2,628,644)	(642,303)	(4,096,159)	48,676	(1,410,047)	1,619,860
<u>(2,521,261)</u>	<u>(597,590)</u>	<u>(3,221,773)</u>	<u>3,093,108</u>	<u>(1,042,261)</u>	<u>2,119,200</u>
78,372,653	149,587	79,186,634	(3,633,663)	786,708	867,041
<u>1,198,398</u>		<u>22,706,902</u>	<u>26,340,565</u>	<u>2,043,240</u>	<u>1,176,199</u>
<u>\$ 79,571,051</u>	<u>\$ 149,587</u>	<u>\$ 101,893,536</u>	<u>\$ 22,706,902</u>	<u>\$ 2,829,948</u>	<u>\$ 2,043,240</u>
\$ 1,838,032	\$ 149,587	\$ 20,643,049	\$ 16,269,949	\$ 2,829,948	\$ 2,043,240
<u>77,733,019</u>		<u>81,250,487</u>	<u>6,436,953</u>		
<u>\$ 79,571,051</u>	<u>\$ 149,587</u>	<u>\$ 101,893,536</u>	<u>\$ 22,706,902</u>	<u>\$ 2,829,948</u>	<u>\$ 2,043,240</u>

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

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 742,580	\$ 12,116,592	\$ 764,177
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	921,439	5,943,226	1,771,686
Other income (expense)	3,778	(17,165)	
Other		861,482	(62,526)
(Increase) Decrease In:			
Accounts receivable	4,397	306,018	(48,456)
Accrued utility revenues		116,625	48,218
Inventory		(286,041)	59,214
Due from other funds			
Due from other governmental units	222		
Other assets		13,242	
Increase (Decrease) In:			
Accounts and contracts payable, operations	(30,959)	908,199	(504,299)
Deposits payable	(23,021)	63,497	(270)
Accrued expenses and other liabilities	15,807	(153,892)	8,510
Unearned revenues		(132,081)	(92,636)
Accrued claims		(11,000)	
Due to other funds	290		
Due to other governmental units	(18,155)	4,230	2,220
Net Cash Provided By Operating Activities	\$ 1,616,378	\$ 19,732,932	\$ 1,945,838
Non Cash Transactions Received (Paid):			
Decrease in fair value of investments	\$ 60,500	\$	\$
Receipt of contributed property	7,805	179,059	9,228,286
Contribution of property			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2004	2003
		2004	2003		
\$ 1,522,534	\$ 1,184,733	\$ 16,330,616	\$ 14,155,663	\$ (1,004,175)	\$ (1,807,019)
2,540,400	23,043	11,199,794	9,802,907	1,612,654	1,794,561
360,401	717,269	1,064,283	89,348		
		798,956	431,947		
(418)	(48,442)	213,099	(1,035,850)	735	(735)
(4,811)		164,843	4,378		
122,158	(231,605)	(231,638)	(1,499,497)		
9,074		(109,447)	(206,523)	801	(43)
2,982		9,296	22,608		14,188
		16,224	28,773		
1,461,255	38,656	1,872,852	1,186,557	366,251	8,389
(5,000)		35,206	23,067	(54,620)	22,090
(7,321)	27,213	(109,683)	75,188	(28)	86
		(224,717)	80,969		
		(11,000)	(30,000)	263,078	274,554
20,866	507	21,663	135,983		
701	49	(10,955)	59,836	820	13,835
<u>\$ 6,022,821</u>	<u>\$ 1,711,423</u>	<u>\$ 31,029,392</u>	<u>\$ 23,325,354</u>	<u>\$ 1,185,516</u>	<u>\$ 319,906</u>
\$ 141,623	\$ 5,400	\$ 207,523	\$ 167,200	\$ 103,900	\$ 136,000
66,421,735	21,843,896	97,680,781	43,559,849		106,532
					(15,644)

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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.

Component units are legally separate entities which are fiscally dependent on the primary government or for which the primary government is financially accountable. As of December 31, 2004, there were no entities that met the requirements to be considered a component unit of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 are 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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.

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

The City reports the following major governmental funds:

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

The *construction improvement fund* accounts for the financial resources to be used for street, sewer and water, and construction other than that financed by proprietary funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables and payables (continued)

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 of 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

3. Inventory

The materials and supplies inventories are valued at moving average cost on a first-in, first-out basis. 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).

4. Restricted assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2004**

NOTE 1: Summary of Significant Accounting Policies (continued)

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

5. Capital assets

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

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

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

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

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

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective January 1, 2002. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation had been reported in the financial statements prior to 2002. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2006. In 2004, the City completed an inventory of its sewer and storm water networks. As a result, the City capitalized the sewer and storm water networks assets acquired by governmental funds and subsequently contributed those assets to the sewer and storm water utility enterprise funds. Additionally in 2004, the City recorded its sidewalks, bike paths, and traffic signals. The City will capitalize the remaining retroactive infrastructure networks before December 31, 2006.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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

6. Utility connection charges

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

7. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liabilities during the year they would normally be liquidated with expendable available financial resources.

The City compensates employees upon termination, for one-third of their unused sick leave, after meeting certain qualifications based upon length of service and a minimum accumulation of hours. The compensation is computed at the employee's rate of pay at the time of termination, and is applied towards the cost of continuing group health and life insurance coverage. The sick leave liability is estimated based on the City's past experience of making termination payments for sick leave.

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

8. Long-term obligations

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (continued)

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

8. Long-term obligations (continued)

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

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

9. Fund equity

In the fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Comparative Data

The financial statements include certain prior year comparative financial information in total. Such information does not include supplement 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, 2003 from which the summarized information was derived.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

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

A. Budgetary Information (continued)

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.
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).

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 3: Detailed Notes on All Funds

A. 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.

Balances at December 31, 2004 are as follows:

	<u>Book Balances</u>	<u>Bank Balances</u>
Insured or collateralized by securities held by the City or its agent in the City's name	\$4,908,754	\$ 5,256,807
Collateralized by securities held by the pledging Institution's trust department in the City's name	-	-
Uncollateralized or collateralized with securities not in the City's name	-	-
Total	<u>\$4,908,754</u>	<u>\$ 5,256,807</u>

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 Section B. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 3: Detailed Notes on All Funds (continued)

B. Investments

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.

Deposit and investment balances as of December 31, 2004 are as follows:

	<u>Credit Risk Category</u>			Carrying Amount
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Governments	\$ 164,321,000	\$	\$	\$ 164,321,000
Municipal Bond	13,062,552			13,062,552
Totals	<u>\$ 177,383,552</u>	<u>\$</u>	<u>\$</u>	177,383,552
Investments in money market fund				<u>51,194,616</u>
				228,578,168
Deposits				4,908,754
Change Funds				<u>8,289</u>
Total Deposits and Investments				<u>\$ 233,495,211</u>

The City investments are categorized above to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the City's name.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 3: Detailed Notes on All Funds (continued)

B. Investments (continued)

A reconciliation of cash and investments as shown on the Statement of Net Assets :

Cash and cash equivalents	\$ 38,456,689
Investments	113,758,265
Restricted cash and investments	<u>81,280,257</u>
Total	<u>\$ 233,495,211</u>

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2004 are as follows:

<u>Fund Type</u>	<u>Federal Government</u>	<u>State of Minnesota</u>	<u>Olmsted County</u>	<u>Other</u>	<u>Total</u>
General	\$ 95,888	\$ 336,707	\$ 311,454	\$ 118,617	\$ 862,666
Special Revenue	143,667	70,610	49,403	50,637	314,317
Capital Project	923,627	1,803,073	164,184	60,046	2,950,930
Enterprise		<u>1,037</u>	<u>453</u>		<u>1,490</u>
Totals	<u>\$1,163,182</u>	<u>\$2,211,427</u>	<u>\$ 525,494</u>	<u>\$ 229,300</u>	<u>\$4,129,403</u>

Amounts due to other governmental units as of December 31, 2004 are as follows:

<u>Fund Type</u>	<u>Federal Government</u>	<u>State of Minnesota</u>	<u>Olmsted County</u>	<u>Other</u>	<u>Total</u>
General	\$	\$ 28,865	\$ 187,358	\$ 1,684	\$ 217,907
Special Revenue	24,881	22,827	80,078	31,921	159,707
Capital Project		4,006,738	14,520		4,021,258
Enterprise		328,680	35,118		363,798
Internal Service		<u>15,760</u>			<u>15,760</u>
Totals	<u>\$ 24,881</u>	<u>\$4,402,870</u>	<u>\$ 317,074</u>	<u>\$ 33,605</u>	<u>\$4,778,430</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts. Balances at December 31, 2004, and descriptions are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment	\$ 29,770
-------------------------------------	-----------

Enterprise Funds

Electric Fund:

Reserve Account	3,517,468
-----------------	-----------

Sewer Fund:

Waste Water Construction Account	69,386,029
----------------------------------	------------

Waste Water Debt Service Account	8,346,990
----------------------------------	-----------

Total	<u>\$ 81,280,257</u>
-------	----------------------

Restricted Assets -

Enterprise Funds

Electric Fund:

Territorial Service Acquisitions Escrow	<u>\$ 241,608</u>
---	-------------------

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements and the sewer utility issued revenue bonds in 2004 to fund the construction of sewer utility improvements. Provisions of these revenue bonds require that the electric and sewer utilities fund debt service accounts in an amount equal to the following years 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 required that \$3,517,468 of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if necessary. Under the terms of the revenue bonds, the bond proceeds, net of accrued interest, bond discount, and the reserve requirement, were deposited into a Construction Account to pay all construction-related costs. Any funds remaining in the Construction Account after the payment of these costs must be transferred to a debt service account.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 45,965,244	\$ 1,210,869	\$ 26,100	\$ 47,150,013
Construction in progress	41,743,004	29,921,356	29,151,496	42,512,864
Total capital assets, not being depreciated	<u>87,708,248</u>	<u>31,132,225</u>	<u>29,177,596</u>	<u>89,662,877</u>
Capital assets, being depreciated:				
Buildings	115,115,540	1,009,295		116,124,835
Improvements other than buildings	13,940,216	1,073,019		15,013,235
Infrastructure	137,614,396	21,197,004	94,916,276	63,895,124
Machinery and equipment	42,726,411	4,942,739	860,908	46,808,242
Total capital assets, being depreciated	<u>309,396,563</u>	<u>28,222,057</u>	<u>95,777,184</u>	<u>241,841,436</u>
Less accumulated depreciation for:				
Buildings	36,534,071	3,362,416		39,896,487
Improvements other than buildings	7,367,022	486,088		7,853,110
Infrastructure	28,379,946	1,103,742	16,873,327	12,610,361
Machinery and equipment	23,999,042	3,561,134	804,446	26,755,730
Total accumulated depreciation	<u>96,280,081</u>	<u>8,513,380</u>	<u>17,677,773</u>	<u>87,115,688</u>
Total capital assets, being depreciated, net	<u>213,116,482</u>	<u>19,708,677</u>	<u>78,099,411</u>	<u>154,725,748</u>
Governmental activities capital assets, net	<u>\$ 300,824,730</u>	<u>\$ 50,840,902</u>	<u>\$ 107,277,007</u>	<u>\$ 244,388,625</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

<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	\$ 5,721,046	\$ 132,559	\$ 24,031	\$ 5,829,574
Construction in progress	19,690,799	16,050,056	14,174,628	21,566,227
Total capital assets, not being depreciated	<u>25,411,845</u>	<u>16,182,615</u>	<u>14,198,659</u>	<u>27,395,801</u>
Capital assets, being depreciated:				
Buildings and improvements	129,444,758	106,836,425	564,796	235,716,387
Machinery and equipment	245,975,453	26,982,280	2,082,165	270,875,568
Total capital assets, being depreciated	<u>375,420,211</u>	<u>133,818,705</u>	<u>2,646,961</u>	<u>506,591,955</u>
Less accumulated depreciation for:				
Buildings and improvements	66,725,096	20,611,647	397,575	86,939,168
Machinery and equipment	86,365,880	7,450,679	1,559,137	92,257,422
Total accumulated depreciation	<u>153,090,976</u>	<u>28,062,326</u>	<u>1,956,712</u>	<u>179,196,590</u>
Total capital assets, being depreciated, net	<u>222,329,235</u>	<u>105,756,379</u>	<u>690,249</u>	<u>327,395,365</u>
Business-type activities capital assets, net	<u>\$ 247,741,080</u>	<u>\$ 121,938,994</u>	<u>\$ 14,888,908</u>	<u>\$ 354,791,166</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 575,001
Public safety	424,320
Public works	1,143,750
Airport operations	1,115,663
Transit	452,893
Culture	863,980
Park and recreation	2,322,589
Economic development/tourism	562
Community reinvestment/unallocated	1,968
Internal Service Funds:	
Equipment revolving	1,537,610
Information technology	<u>75,044</u>

Total depreciation expense - governmental activities \$ 8,513,380

Business-Type Activities:

Parking	\$ 921,439
Electric utility	5,943,226
Water utility	1,771,686
Sewer utility	2,540,400
Storm water utility	<u>23,043</u>

Total depreciation expense - business-type activities \$11,199,794

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

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. These balances also include the amount of working capital loans made to internal service funds that the general fund expects to collect in the subsequent year.

The amounts due to and due from other funds as of December 31, 2004, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Governmental Funds:		
General	\$ 620,272	\$ 304,521
Construction improvements	697,273	1,332
Subtotal	1,317,545	305,853
Other Governmental Funds:		
Special Revenue -		
Library	20,815	10,686
Municipal recreation system		166,562
Airport operations		38,506
Community development projects		20,815
Subtotal	20,815	236,569
Total Governmental Funds	1,338,360	542,422
Proprietary Funds:		
Enterprise -		
Parking		545
Electric utility		1,144,904
Water utility		724,473
Sewer utility	967,526	124,640
Storm water utility	231,605	507
Total Proprietary Funds	1,199,131	1,995,069
Total All Funds	\$ 2,537,491	\$ 2,537,491

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2004, at the individual fund level are summarized below:

<u>Funds</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Governmental Funds:		
Capital Project -		
Construction improvements	\$ 1,469,963	\$
Other Governmental Funds:		
Special Revenue -		
Municipal recreation system		1,469,963
Total Governmental Funds	<u>\$ 1,469,963</u>	<u>\$ 1,469,963</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.

Transfers during the year ended December 31, 2004 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 9,018,494	\$ 2,627,625
Special Revenue	385,991	839,593
Debt Service	2,326,038	
Capital Project	7,340,322	3,412,354
Enterprise	461,829	14,037,868
Internal Service	1,384,766	
Totals	<u>\$ 20,917,440</u>	<u>\$ 20,917,440</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

In the government-wide statement of net assets, transfers in/out of \$67,769,519 are comprised of the sewer and storm water utility networks assets and developer contributions of \$81,345,558 transferred from governmental activities to business-type activities net of \$13,576,039 in transfers from business-type activities to governmental activities.

G. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Lease expenditures for the year ended December 31, 2004 totaled \$150,077.

Following is a schedule by years of future minimum rental payments 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:	
2005	\$ 32,504
2006	33,479
2007	34,483
2008	35,518
2009	36,583
2010 - 2011	76,492

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2004, is as follows:

	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/04</u>
General Obligation Bonds:			
Taxable Tax Increment Bonds			
District 7, Series 1997	5.5%	2024	\$ 2,603,879
General Obligation Revenue Bonds:			
Taxable Sales Tax Revenue			
Bond of 2000	6.35%	2010	10,458,673
Wastewater Treatment Plant			
Refunding Bonds, Series 2001A	3.5-4.0%	2011	6,120,000
Wastewater Treatment Plant			
Revenue Bonds, Series 2004A	3.0-5.0%	2026	83,735,000
Revenue Bonds:			
Electric Utility Revenue			
Bonds, Series 2000	4.75-5.25%	2030	34,825,000
Electric Utility Revenue			
Bonds, Series 2002	3.0-4.5%	2017	10,225,000
Notes Payable:			
GO Sales Tax Revenue Note of 2001	2.83%	2021	2,295,000
Airport Hangar - 1998	0%	2008	56,859
Airport Hangar - 1999	0%	2010	92,364
Airport Hangar - 2001	0%	2012	165,064
Compensated absences			9,057,537
Less: Unamortized premium and issuance costs			<u>5,052,813</u>
Total Long-term Debt			<u>\$ 164,687,189</u>

Liquidation of the compensated absences liability occurs within the department and fund for which the corresponding employees are assigned.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

In 1997, the City authorized Taxable Tax Increment Bonds, District 7 of \$2,768,500. 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.

General Obligation Taxable Sales Tax Revenue Bonds

In 2000, the City authorized Taxable Sales Tax Revenue Bonds of \$10,458,673. These bonds are structured without fixed principal maturities. The bonds are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by a Debt Service Fund.

General Obligation Revenue Refunding and Revenue Bonds

General Obligation Revenue Refunding and 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.

Revenue Bonds

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

General Obligation Sales Tax Revenue Note

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

Notes Payable

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in substantial compliance with these requirements. The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Tax Increment Bonds Series 1985	\$ 2,575,000	\$	\$ 2,575,000	\$	\$
Taxable Tax Increment Bonds, District 7, Series 1997	2,631,761		27,882	2,603,879	
Taxable Sales Tax Revenue Bonds, Series 2000	10,458,673			10,458,673	
Note Payable -					
Airport Hangar 1998	74,391		17,532	56,859	17,532
Airport Hangar 1999	110,837		18,473	92,364	18,473
Airport Hangar 2001	186,594		21,530	165,064	21,530
GO Sales Tax Revenue Note of 2001	2,399,000		104,000	2,295,000	107,000
Less: Unamortized Issuance Costs	(26,159)		(6,804)	(19,355)	
Other Liabilities:					
Compensated Absences	5,994,163	4,189,788	3,663,326	6,520,625	4,900,000
Governmental Activities Long-term Liabilities	<u>24,404,260</u>	<u>4,189,788</u>	<u>6,420,939</u>	<u>22,173,109</u>	<u>5,064,535</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant - Revenue Refunding Bonds, Series 2001A	6,890,000		770,000	6,120,000	785,000
Revenue Bonds, Series 2004A		83,735,000		83,735,000	
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2000	35,485,000		660,000	34,825,000	690,000
Series 2002	10,830,000		605,000	10,225,000	620,000
Less: Unamortized (Discount) Premium	(415,425)	5,536,810	49,217	5,072,168	
Other Liabilities:					
Compensated Absences	2,275,270	261,642		2,536,912	1,635,543
Business-type Activities Long-term Liabilities	<u>55,064,845</u>	<u>89,533,452</u>	<u>2,084,217</u>	<u>142,514,080</u>	<u>3,730,543</u>
Total	<u>\$ 79,469,105</u>	<u>\$93,723,240</u>	<u>\$ 8,505,156</u>	<u>\$ 164,687,189</u>	<u>\$ 8,795,078</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

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, 2004, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue Bonds*		Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2005					\$ 164,535	\$ 64,948
2006					167,535	61,920
2007					170,535	58,808
2008					160,266	55,610
2009					177,535	52,326
2010-2014					552,881	174,470
2015-2019					728,000	132,019
2020-2022					488,000	27,876
Totals					<u>\$ 2,609,287</u>	<u>\$ 627,977</u>
<u>Business-Type Activities</u>						
2005	\$ 785,000	\$ 227,300	\$ 1,310,000	\$ 2,177,718		
2006	1,150,000	5,329,013	1,365,000	2,126,344		
2007	1,770,000	4,264,575	1,415,000	2,072,706		
2008	1,815,000	4,207,325	1,480,000	2,015,394		
2009	1,865,000	4,146,820	1,540,000	1,953,657		
2010-2014	11,690,000	19,615,270	6,870,000	7,113,461		
2015-2019	25,690,000	15,229,000	9,525,000	6,979,520		
2020-2024	31,670,000	8,244,000	7,405,000	4,916,744		
2025-2029	13,420,000	980,750	9,575,000	2,757,564		
2030			4,565,000	362,512		
Totals	<u>\$ 89,855,000</u>	<u>\$ 62,244,053</u>	<u>\$ 45,050,000</u>	<u>\$ 32,475,620</u>		

*Does not include the General Obligation Taxable Tax Increment Bonds, District No. 7, Series 1997 and the General Obligation Taxable Sales Tax Revenue Bond of 2000 which are structured without fixed principal maturities.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2004, the City had not utilized any of its net legal debt margin which totaled \$128,386,726.

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 \$1,107,083,000 and the balance outstanding at December 31, 2004 totals \$1,097,675,934.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Pursuant to Minnesota Statutes (Section 273.74, Subd. 6) the City is required to disclose information related to its tax increment districts. These districts represent legal boundaries that allow the City to retain all incremental growth in assessed values.

District No.	Development District	Type of District	Date Created	Duration of District
2	2	Redevelopment	March 13, 1979	Decertified 9/8/04
2-2	2	Redevelopment	May 6, 2002	25 Years following receipt of first increment
3-1	3	Redevelopment	February 14, 1988	25 Years following receipt of first increment
3-2	3	Housing	June 5, 1989	25 Years following receipt of first increment
6-1	6	Housing	September 7, 1994	To February 1, 2014
7-1	7	Redevelopment	January 22, 1997	25 Years following receipt of first increment
8-1	8	Economic	April 7, 1997	11 Years from approval of TIF plan
11-1	11	Housing	July 19, 1999	25 Years following receipt of first increment
12-1	12	Housing	August 16, 1999	25 Years following receipt of first increment
13-1	13	Housing	October 18, 1999	25 Years following receipt of first increment
14-1	14	Housing	November 1, 1999	25 Years following receipt of first increment
15-1	15	Housing	April 17, 2000	25 Years following receipt of first increment
16-1	16	Redevelopment	July 17, 2000	25 Years following receipt of first increment
17-1	17	Housing	September 6, 2000	25 Years following receipt of first increment
18-1	18	Housing	September 6, 2000	25 Years following receipt of first increment
19-1	19	Housing	September 6, 2000	25 Years following receipt of first increment
20-1	20	Housing	October 1, 2001	25 Years following receipt of first increment
21-1	21	Housing	October 15, 2001	25 Years following receipt of first increment
22-1	22	Housing	November 5, 2001	25 Years following receipt of first increment
23-1	23	Housing	June 3, 2002	25 Years following receipt of first increment
24-1	24	Housing	July 15, 2002	25 Years following receipt of first increment
25-1	25	Housing	October 21, 2002	25 Years following receipt of first increment
26-1	26	Housing	July 21, 2003	25 Years following receipt of first increment
27-1	27	Housing	July 21, 2003	25 Years following receipt of first increment
28-1	28	Housing	October 20, 2003	25 Years following receipt of first increment
29-1	29	Housing	February 2, 2004	25 Years following receipt of first increment
30-1	30	Housing	May 17, 2004	25 Years following receipt of first increment
31-1	31	Housing	November 1, 2004	25 Years following receipt of first increment

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Tax Increment District No. 2 was created pursuant to Minnesota Statutes Chapter 472A. All other Tax Increment Districts were created pursuant to Minnesota Statutes Chapter 469.

	Tax Increment District			
	No. 2	No. 2-2	No. 3-1	No. 3-2
Original net tax capacity	Decertified	\$ 18,190	\$ 39,538	\$ 833
Current net tax capacity	9/8/2004	35,872	90,184	15,569
Captured net tax capacity:				
Retained by authority	-	17,682	50,646	14,736
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-

	Tax Increment District			
	No. 6-1	No. 7-1	No. 8-1	No. 11-1
Original net tax capacity	\$ 139	\$ 3,921	\$ 1,208	\$ 3,344
Current net tax capacity	16,766	218,534	24,058	20,117
Captured net tax capacity:				
Retained by authority	16,627	214,613	22,850	16,773
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	2,669,380	-	-
Amounts redeemed	-	65,501	-	-
Outstanding bonds at December 31, 2004	-	\$ 2,603,879	-	-

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	Tax Increment District			
	No. 12-1	No. 13-1	No. 14-1	No. 15-1
Original net tax capacity	\$ 181	\$ 249	\$ 335	\$ 206
Current net tax capacity	11,658	82,105	79,143	48,299
Captured net tax capacity:				
Retained by authority	11,477	81,856	78,808	48,093
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-
	Tax Increment District			
	No. 16-1	No. 17-1	No. 18-1	No. 19-1
Original net tax capacity	\$ 410	\$ 75	\$ 179	\$ 96
Current net tax capacity	144,798	33,185	37,571	31,385
Captured net tax capacity:				
Retained by authority	144,388	33,110	37,392	31,289
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	Tax Increment District			
	No. 20-1	No. 21-1	No. 22-1	No. 23-1
Original net tax capacity	\$ 134	\$ 542	\$ 450	\$ 24
Current net tax capacity	27,786	15,653	31,798	7,137
Captured net tax capacity:				
Retained by authority	27,652	15,111	31,348	7,113
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-

	Tax Increment District			
	No. 24-1	No. 25-1	No. 26-1	No. 27-1
Original net tax capacity	\$ 2,008	\$ 291	\$ 1,184	\$ 564
Current net tax capacity	24,461	3,984	1,184	564
Captured net tax capacity:				
Retained by authority	22,453	3,693	-	-
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	Tax Increment District			
	No. 28-1	No. 29-1	No. 30-1	No. 31-1
Original net tax capacity	\$ 38	\$ 1,608	\$ 401	\$ 1,851
Current net tax capacity	38	1,608	401	1,851
Captured net tax capacity:				
Retained by authority	-	-	-	-
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2004	-	-	-	-

I. Designated Fund Balance

Designated fund balance represents the portion which is based on tentative future spending plans. Fund balance has been designated at December 31, 2004 in the following funds:

General Fund

Designated:	
Subsequent years' appropriations	\$ 925,522
General contingency for future compensated absences	<u>4,987,743</u>
Totals	<u>\$ 5,913,265</u>

Special Revenue Funds

	Library	Municipal Recreation	Law Enforcement	Totals
			Block Grants	
Designated:				
Subsequent years' appropriations	\$ 333,079	\$ 53,384	\$ 25,145	\$ 411,608
General contingency for future compensated absences	<u>398,651</u>	<u>784,350</u>	<u> </u>	<u>1,183,001</u>
Totals	<u>\$ 731,730</u>	<u>\$ 837,734</u>	<u>\$ 25,145</u>	<u>\$ 1,594,609</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 3: Detailed Notes on All Funds (continued)

J. Restricted Net Assets

	Restricted Net Assets Imposed By			
	Creditors	Grantors	Contributors	Law
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$	\$ 29,770	\$
Construction Improvement Fund:				
Flood Control		21,124,782		
Sales Tax Authorized Projects				5,298,831
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
CDBG Loans		2,987,696		
Airport Operations				2,912,554
Total Governmental Activities		<u>24,112,478</u>	<u>29,770</u>	<u>8,211,385</u>
<u>Major Proprietary Funds:</u>				
Sewer Utility Fund:				
Debt Service	8,569,378			
Bond Requirements	69,386,029			
Electric Utility Fund:				
Service Territory Acquisitions				241,608
Total Business-Type Activities	<u>77,955,407</u>			<u>241,608</u>
Total Restricted Net Assets	<u>\$ 77,955,407</u>	<u>\$ 24,112,478</u>	<u>\$ 29,770</u>	<u>\$ 8,452,993</u>

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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004**

NOTE 4: Other Information (continued)

A. Risk Management (continued)

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 \$225,000 per group health claim (with a variable annual aggregate) and \$720,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$2,811,576 reported in the Fund at December 31, 2004 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, 2004 and 2003 were as follows:

<u>Year Ended</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes to Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2004	\$2,548,498	\$ 9,374,439	\$(9,111,361)	\$2,811,576
2003	2,273,944	8,418,620	(8,144,066)	\$2,548,498

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 4: Other Information (continued)

B. 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, 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, 2004, 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.

C. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("Utility") has entered into a power purchase agreement with Southern Minnesota Municipal Power Agency ("Agency"). Under the terms of the agreement the Agency provided virtually all Utility power requirements through 1999. In 1999, the Utility and Agency agreed to a contract rate of delivery (CROD) beginning in 2000. The CROD caps the amount of power the Agency must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The contract expires in the year 2030.

Power Generation Agreement:

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

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, 2004. At year end the City's commitments with contractors and vendors is as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Major Street Projects	\$ 793,711
Sewer and Water Projects	721,578
Sidewalk Projects	241,638
Traffic Projects	68,058
Storm Water Projects	292,114
Storm Water / Storm Sewer Projects	6,682
Water Reclamation Projects	24,582,990
Airport Projects	2,754,039
Parks Projects - Mayo Field	12,600
Recreation Projects - Soldiers Field	15,850
Recreation Center Projects - Air Quality Improvement	1,645
Parking Projects	644,524
Total Construction Projects	\$ 30,135,429
<u>Equipment Purchase Commitments</u>	
General Government Land and Buildings - Incident Command Vehicle	\$ 95,660
Mass Transit Projects - UMTA New Bus and Equip. Acquisition	1,680,575
Total Equipment Purchase Commitments	\$ 1,776,235

D. Deferred Compensation

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

The City participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA). PERA is the administrator of two cost-sharing multiple-employer retirement plans, the Public Employees Retirement Fund (PERF) 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 PERF and PEPFF. That report may be obtained on the web at 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. The following disclosures are made in accordance with Statement No. 27 of the Governmental Accounting Standards Board:

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 Public Employees Retirement Fund (PERF) 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.

PERF 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 PERF'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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

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. 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 PERF 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 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

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. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10% respectively, of their annual covered salary. PEPFF members are required to contribute 6.20% of their annual covered salary. The City of Rochester is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.30% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2004, 2003, and 2002 were \$1,782,126, \$1,742,618, and \$1,693,144, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2004, 2003, and 2002 were \$1,289,118, \$1,311,160, and \$1,184,732, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

F. Prior Period Adjustment

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The City implemented GASB 34 with their financial statements for the fiscal period ended December 31, 2002. For the fiscal year ended December 31, 2004 the City is retroactively reporting the sewer network, storm water network, and sidewalk, bike paths, and traffic signals assets as required by this statement. The City will capitalize the remaining infrastructure assets, before December 31, 2006.

Prior period adjustments for the governmental activities include \$57,555,939 for the sewer network, storm water network, and sidewalk, bike paths, and traffic signals assets.

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2004

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2004

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.

Law Enforcement Block Grants 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.

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.

Sales Tax Revenue Bonds Fund:

This fund is used to account for the accumulation of revenue (sales tax revenue) for payment of the General Obligation Sales Tax Revenue Bonds of 2000.

Transportation Sales Tax Note Fund:

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

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

December 31, 2004

With Comparative Totals for December 31, 2003

	Special Revenue					
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Estate	Transit
ASSETS						
Cash and cash equivalents	\$ 213,905	\$ 682,145	\$ 27,305	\$ 306,204	\$ 46,550	\$ 130,779
Investments	1,274,912	1,954,235		1,699,514	254,721	488,835
Accrued interest receivable	7,400	11,400		9,900	1,500	2,800
Accounts receivable (net of allowance for uncollectibles)	100	323,466		964,549		19,320
Loans and notes receivable						
Taxes receivable delinquent	37,219	37,024		6,677		188
Special assessments receivable delinquent		1,374				
Due from other funds	20,815					
Due from other governmental units	22,634	115,197		49,580		24,456
Restricted cash						
Prepaid items	6,459	3,926				
TOTAL ASSETS	\$ 1,583,444	\$ 3,128,767	\$ 27,305	\$ 3,036,424	\$ 302,771	\$ 666,378
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	\$ 147,919	\$ 115,275	\$ 1,793	\$ 78,145		\$ 177,840
Deposits payable	6,816	142,675				
Accrued compensation and payroll taxes	124,998	177,499				
Accrued compensated absences	12,398	28,770				
Due to other funds	10,686	166,562		38,506		
Due to other governmental units	12,394	100,298	367	542		26,538
Advances from other funds		1,469,963				
Deferred revenue	37,219	38,398		6,677		188
Total Liabilities	352,430	2,239,440	2,160	123,870		204,566
Fund Balance:						
Reserved for restricted assets						
Reserved for prepaid items	6,459	3,926				
Reserved for encumbrances		47,659				
Unreserved:						
Designated for future compensated absences	398,651	784,350				
Designated for subsequent years' appropriations	333,079	53,384	25,145			
Undesignated	492,825	8		2,912,554	302,771	461,812
Total Fund Balance	1,231,014	889,327	25,145	2,912,554	302,771	461,812
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,583,444	\$ 3,128,767	\$ 27,305	\$ 3,036,424	\$ 302,771	\$ 666,378

Community Development Projects	Total	Debt Service				Total	Total Nonmajor Governmental Funds 2004
		Tax Increment Bonds	Airport Hangar Construction Notes	Sales Tax Revenue Bonds	Transportation Sales Tax Note		
\$	\$ 1,406,888	\$ 549	\$	\$	\$	\$ 549	\$ 1,407,437
	5,672,217						5,672,217
	33,000						33,000
	1,307,435						1,307,435
2,987,696	2,987,696						2,987,696
	81,108						81,108
	1,374						1,374
	20,815						20,815
102,450	314,317						314,317
	10,385						10,385
<u>\$ 3,090,146</u>	<u>\$ 11,835,235</u>	<u>\$ 549</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 549</u>	<u>\$ 11,835,784</u>
\$ 62,067	\$ 583,039	\$ 549	\$	\$	\$	\$ 549	\$ 583,588
	149,491						149,491
	302,497						302,497
	41,168						41,168
20,815	236,569						236,569
19,568	159,707						159,707
	1,469,963						1,469,963
<u>2,987,696</u>	<u>3,070,178</u>						<u>3,070,178</u>
<u>3,090,146</u>	<u>6,012,612</u>	<u>549</u>				<u>549</u>	<u>6,013,161</u>
	10,385						10,385
	47,659						47,659
	1,183,001						1,183,001
	411,608						411,608
	4,169,970						4,169,970
	5,822,623						5,822,623
<u>\$ 3,090,146</u>	<u>\$ 11,835,235</u>	<u>\$ 549</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 549</u>	<u>\$ 11,835,784</u>

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

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	Special Revenue					Transit
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Estate	
REVENUES						
General property taxes	\$ 3,555,104	\$ 3,345,145	\$	\$ 678,334	\$	\$ 18,646
Tax increments						
Sales tax						
Intergovernmental revenues	957,140	311,369	17,916	267,003		2,384,775
Charges for services	148,386	5,415,854		2,392,001		65,675
Interest earnings	16,006	40,611	572	48,542	6,912	10,372
Net decrease in the fair value of investments	(8,500)	(13,300)		(11,000)	(1,400)	(3,500)
Miscellaneous revenues	127,258	83,888		18,000	12,977	63,291
Total Revenues	4,795,394	9,183,567	18,488	3,392,880	18,489	2,539,259
EXPENDITURES						
Culture	4,851,851					
Park and recreation		9,308,479				
Public safety			52,514			
Airport operations				2,569,762		
Transit						2,275,346
Economic development/tourism						
Debt service						
Total Expenditures	4,851,851	9,308,479	52,514	2,569,762		2,275,346
Excess (deficiency) of revenues over (under) expenditures	(56,457)	(124,912)	(34,026)	823,118	18,489	263,913
OTHER FINANCING SOURCES (USES)						
Transfers in		384,000	1,991			
Transfers out		(10,584)		(803,145)	(23,024)	
Total Other Financing Sources (Uses)		373,416	1,991	(803,145)	(23,024)	
Net change in fund balances	(56,457)	248,504	(32,035)	19,973	(4,535)	263,913
Fund Balances - beginning	1,287,471	640,823	57,180	2,892,581	307,306	197,899
Fund Balances - ending	\$ 1,231,014	\$ 889,327	\$ 25,145	\$ 2,912,554	\$ 302,771	\$ 461,812

Community Development Projects	Debt Service						Total Nonmajor Governmental Funds 2004
	Total	Tax Increment Bonds	Airport Hangar Construction Notes	Sales Tax Revenue Bonds	Transportation Sales Tax Note	Total	
\$	\$7,597,229	\$ 1,311,008	\$	\$	\$	\$	\$7,597,229
					171,892	1,311,008	1,311,008
742,502	4,680,705					171,892	4,680,705
	8,021,916						8,021,916
	123,015						123,015
	(37,700)						(37,700)
126,874	432,288						432,288
869,376	20,817,453	1,311,008			171,892	1,482,900	22,300,353
	4,851,851						4,851,851
	9,308,479						9,308,479
	52,514						52,514
	2,569,762						2,569,762
	2,275,346						2,275,346
866,536	866,536						866,536
		2,915,385	57,535	664,126	171,892	3,808,938	3,808,938
866,536	19,924,488	2,915,385	57,535	664,126	171,892	3,808,938	23,733,426
2,840	892,965	(1,604,377)	(57,535)	(664,126)		(2,326,038)	(1,433,073)
(2,840)	385,991	1,604,377	57,535	664,126		2,326,038	2,712,029
(2,840)	(839,593)						(839,593)
(2,840)	(453,602)	1,604,377	57,535	664,126		2,326,038	1,872,436
	439,363						439,363
	5,383,260						5,383,260
\$	\$5,822,623	\$	\$	\$	\$	\$	\$5,822,623

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	Budgeted Amounts		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 3,833,048	\$ 3,538,598	\$ 3,555,104	\$ 16,506	\$ 3,259,856
Intergovernmental	666,252	960,702	957,140	(3,562)	982,665
Charges for services	143,800	152,652	148,386	(4,266)	162,803
Interest earnings		4,464	16,006	11,542	22,043
Net decrease in the fair value of investments			(8,500)	(8,500)	(12,200)
Miscellaneous					
Contributions		118,025	118,025		71,055
Other	6,900	6,900	9,233	2,333	8,962
Total Revenues	4,650,000	4,781,341	4,795,394	14,053	4,495,184
EXPENDITURES					
Public Library	4,650,000	4,672,852	4,598,337	74,515	4,428,698
Library - SELCO		80,980	26,866	54,114	30,629
Gifts appropriations		447,411	226,648	220,763	8,700
Total Expenditures	4,650,000	5,201,243	4,851,851	349,392	4,468,027
Excess (deficiency) of revenues over (under) expenditures		(419,902)	(56,457)	363,445	27,157
OTHER FINANCING SOURCES (USES)					
Transfers in					1,129
Transfers out					(100,000)
Total Other Financing Sources (Uses)					(98,871)
Net change in fund balances		(419,902)	(56,457)	363,445	(71,714)
Fund Balances - beginning	1,287,471	1,287,471	1,287,471		1,359,185
Fund Balances - ending	\$ 1,287,471	\$ 867,569	\$ 1,231,014	\$ 363,445	\$ 1,287,471

**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, 2004
With Comparative Totals for the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES					
General property taxes	\$ 3,596,780	\$ 3,320,499	\$3,345,145	\$ 24,646	\$3,441,060
Intergovernmental	18,562	308,015	311,369	3,354	407,687
Charges for services	5,353,868	5,608,798	5,415,854	(192,944)	4,828,790
Interest earnings	50,000	50,000	40,611	(9,389)	63,675
Net decrease in the fair value of investments			(13,300)	(13,300)	(25,600)
Miscellaneous					
Contributions	7,500	42,340	59,313	16,973	27,601
Other	4,000	4,201	24,575	20,374	10,769
Total Revenues	<u>9,030,710</u>	<u>9,333,853</u>	<u>9,183,567</u>	<u>(150,286)</u>	<u>8,753,982</u>
EXPENDITURES					
Administration	370,321	370,321	375,699	(5,378)	353,820
Recreation Department	529,195	529,195	550,471	(21,276)	521,517
Golf	1,277,904	1,282,740	1,317,079	(34,339)	1,292,888
Tennis Center	42,738	42,738	37,898	4,840	46,977
Volleyball Center	228,199	241,371	256,077	(14,706)	214,667
Swimming Pools	98,268	142,775	178,223	(35,448)	181,270
Graham Arenas	422,962	429,835	420,145	9,690	415,406
Park	2,868,429	2,885,107	2,779,317	105,790	2,560,154
Plummer House	58,933	60,244	60,664	(420)	45,089
Recreation Center	1,058,230	1,138,230	1,138,193	37	1,041,903
UCR Field House	106,600	112,005	112,005		90,493
Mayo Civic Center	1,975,193	2,126,125	2,082,708	43,417	1,863,703
Total Expenditures	<u>9,036,972</u>	<u>9,360,686</u>	<u>9,308,479</u>	<u>52,207</u>	<u>8,627,887</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,262)</u>	<u>(26,833)</u>	<u>(124,912)</u>	<u>(98,079)</u>	<u>126,095</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	15,000	15,000	384,000	369,000	9,400
Transfers out	<u>(8,738)</u>	<u>(8,738)</u>	<u>(10,584)</u>	<u>(1,846)</u>	<u>(605,000)</u>
Total Other Financing Sources (Uses)	<u>6,262</u>	<u>6,262</u>	<u>373,416</u>	<u>367,154</u>	<u>(595,600)</u>
Net change in fund balances		(20,571)	248,504	269,075	(469,505)
Fund Balances - beginning	<u>640,823</u>	<u>640,823</u>	<u>640,823</u>		<u>1,110,328</u>
Fund Balances - ending	<u>\$ 640,823</u>	<u>\$ 620,252</u>	<u>\$ 889,327</u>	<u>\$ 269,075</u>	<u>\$ 640,823</u>

**CITY OF ROCHESTER, MINNESOTA
LAW ENFORCEMENT BLOCK GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

For the Year Ended December 31, 2004

With Comparative Totals for the Year Ended December 31, 2003

	Budgeted Amounts		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$	\$ 17,916	\$17,916	\$	\$ 39,512
Interest earnings		572	572		1,334
Total Revenues		<u>18,488</u>	<u>18,488</u>		<u>40,846</u>
EXPENDITURES					
Law enforcement block grant VI					34,022
Law enforcement block grant VII	12,962	12,989	12,989		44,312
Law enforcement block grant VIII	44,218	44,594	39,525	5,069	
Law enforcement block grant IX		20,076		20,076	
Total Expenditures	<u>57,180</u>	<u>77,659</u>	<u>52,514</u>	<u>25,145</u>	<u>78,334</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(57,180)</u>	<u>(59,171)</u>	<u>(34,026)</u>	<u>25,145</u>	<u>(37,488)</u>
OTHER FINANCING SOURCES					
Transfers in		1,991	1,991		4,390
Net change in fund balances	(57,180)	(57,180)	(32,035)	25,145	(33,098)
Fund Balances - beginning	<u>57,180</u>	<u>57,180</u>	<u>57,180</u>		<u>90,278</u>
Fund Balances - ending	<u>\$</u>	<u>\$</u>	<u>\$25,145</u>	<u>\$ 25,145</u>	<u>\$ 57,180</u>

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

For the Year Ended December 31, 2004

With Comparative Totals for the Year Ended December 31, 2003

	Budgeted Amounts		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 733,060	\$ 676,676	\$ 678,334	\$ 1,658	\$ 594,911
Intergovernmental	185,840	257,378	267,003	9,625	234,013
Charges for services	2,143,500	2,150,020	2,392,001	241,981	2,305,849
Interest earnings	50,000	50,000	48,542	(1,458)	59,806
Net decrease in the fair value of investments			(11,000)	(11,000)	(17,600)
Miscellaneous	18,000	18,000	18,000		18,000
Total Revenues	<u>3,130,400</u>	<u>3,152,074</u>	<u>3,392,880</u>	<u>240,806</u>	<u>3,194,979</u>
EXPENDITURES					
Airport operations	2,170,560	2,188,614	2,433,394	(244,780)	2,352,054
US customs operations	132,138	138,658	136,368	2,290	133,999
Total Expenditures	<u>2,302,698</u>	<u>2,327,272</u>	<u>2,569,762</u>	<u>(242,490)</u>	<u>2,486,053</u>
Excess (deficiency) of revenues over (under) expenditures	<u>827,702</u>	<u>824,802</u>	<u>823,118</u>	<u>(1,684)</u>	<u>708,926</u>
OTHER FINANCING USES					
Transfers out	<u>(678,000)</u>	<u>(678,000)</u>	<u>(803,145)</u>	<u>(125,145)</u>	<u>(585,236)</u>
Net change in fund balances	149,702	146,802	19,973	(126,829)	123,690
Fund Balances - beginning	<u>2,892,581</u>	<u>2,892,581</u>	<u>2,892,581</u>		<u>2,768,891</u>
Fund Balances - ending	<u>\$3,042,283</u>	<u>\$3,039,383</u>	<u>\$2,912,554</u>	<u>\$ (126,829)</u>	<u>\$2,892,581</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, 2004
 With Comparative Totals for the Year Ended December 31, 2003

	Budgeted Amounts		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 5,000	\$ 5,000	\$ 6,912	\$ 1,912	\$ 8,389
Net decrease in fair value of investments			(1,400)	(1,400)	(3,400)
Miscellaneous					
Contributions		3,657	3,657		
Rental of real property	9,600	9,600	9,320	(280)	9,600
Total Revenues	<u>14,600</u>	<u>18,257</u>	<u>18,489</u>	<u>232</u>	<u>14,589</u>
EXPENDITURES					
Contractual services	16,748	20,405		20,405	238
Materials and supplies					273
Total Expenditures	<u>16,748</u>	<u>20,405</u>		<u>20,405</u>	<u>511</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,148)</u>	<u>(2,148)</u>	<u>18,489</u>	<u>20,637</u>	<u>14,078</u>
OTHER FINANCING USES					
Transfers out			(23,024)	(23,024)	
Net change in fund balances	(2,148)	(2,148)	(4,535)	(2,387)	14,078
Fund Balances - beginning	<u>307,306</u>	<u>307,306</u>	<u>307,306</u>		<u>293,228</u>
Fund Balances - ending	<u>\$ 305,158</u>	<u>\$ 305,158</u>	<u>\$ 302,771</u>	<u>\$ (2,387)</u>	<u>\$ 307,306</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, 2004
With Comparative Totals for the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		2004 Actual Amounts	Variance with Final Budget - Positive (Negative)	2003 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES					
General property taxes	\$ 20,000	\$ 18,538	\$ 18,646	\$ 108	\$ 27,084
Intergovernmental revenues	2,237,496	2,238,958	2,384,775	145,817	2,084,137
Charges for services	53,350	53,350	65,675	12,325	86,919
Interest earnings			10,372	10,372	2,832
Net decrease in the fair value of investments			(3,500)	(3,500)	
Miscellaneous		77,561	63,291	(14,270)	20,874
Total Revenues	<u>2,310,846</u>	<u>2,388,407</u>	<u>2,539,259</u>	<u>150,852</u>	<u>2,221,846</u>
EXPENDITURES					
Contractual services	455,130	533,536	353,245	180,291	265,512
Materials and supplies	1,550	1,550	713	837	891
Other charges	1,854,166	1,854,166	1,921,388	(67,222)	1,812,098
Total Expenditures	<u>2,310,846</u>	<u>2,389,252</u>	<u>2,275,346</u>	<u>113,906</u>	<u>2,078,501</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(845)</u>	263,913	264,758	143,345
Net change in fund balances		(845)	263,913	264,758	143,345
Fund Balances - beginning	<u>197,899</u>	<u>197,899</u>	<u>197,899</u>		<u>54,554</u>
Fund Balances - ending	<u>\$ 197,899</u>	<u>\$ 197,054</u>	<u>\$ 461,812</u>	<u>\$ 264,758</u>	<u>\$ 197,899</u>

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2004

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 was established in 1998 to provide 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 ASSETS
December 31, 2004
With Comparative Totals for December 31, 2003

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2004	2003
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 974,602	\$ 439,164	\$1,416,182	\$ 2,829,948	\$ 2,043,240
Investments	5,353,164	2,548,618	7,308,605	15,210,387	13,904,240
Accrued interest receivable	31,200	14,800	42,500	88,500	89,800
Accounts receivable					735
Due from other funds					801
Total Current Assets	<u>6,358,966</u>	<u>3,002,582</u>	<u>8,767,287</u>	<u>18,128,835</u>	<u>16,038,816</u>
Noncurrent Assets:					
Capital assets:					
Machinery and equipment	17,416,663	387,556		17,804,219	17,310,562
Less: Accumulated depreciation	(9,763,393)	(135,796)		(9,899,189)	(8,550,722)
Total capital assets (net of accumulated depreciation)	<u>7,653,270</u>	<u>251,760</u>		<u>7,905,030</u>	<u>8,759,840</u>
Total Assets	<u>14,012,236</u>	<u>3,254,342</u>	<u>8,767,287</u>	<u>26,033,865</u>	<u>24,798,656</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	144	391	374,250	374,785	8,534
Deposits payable			485,724	485,724	540,344
Accrued compensation and payroll taxes			17,876	17,876	17,904
Due to other governmental units			15,760	15,760	14,940
Accrued claims			1,748,018	1,748,018	1,544,708
Total Current Liabilities	<u>144</u>	<u>391</u>	<u>2,641,628</u>	<u>2,642,163</u>	<u>2,126,430</u>
Noncurrent Liabilities:					
Accrued claims			1,063,558	1,063,558	1,003,790
Total Liabilities	<u>144</u>	<u>391</u>	<u>3,705,186</u>	<u>3,705,721</u>	<u>3,130,220</u>
NET ASSETS					
Invested in capital assets, net of related debt	7,653,270	251,760		7,905,030	8,759,840
Unrestricted	<u>6,358,822</u>	<u>3,002,191</u>	<u>5,062,101</u>	<u>14,423,114</u>	<u>12,908,596</u>
Total Net Assets	<u>\$14,012,092</u>	<u>\$ 3,253,951</u>	<u>\$5,062,101</u>	<u>\$22,328,144</u>	<u>\$21,668,436</u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2004	2003
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 1,528,121	\$ 163,252	\$	\$ 1,691,373	\$ 1,700,726
Copy center charges	23,835			23,835	23,374
Departmental workers' compensation charges			186,200	186,200	160,727
Departmental insurance charges			7,770,051	7,770,051	5,997,777
Departmental flex charges			20,421	20,421	19,483
Employee insurance charges			1,014,430	1,014,430	1,287,290
Employee flex benefit contributions			524,716	524,716	515,730
Total Operating Revenues	<u>1,551,956</u>	<u>163,252</u>	<u>9,515,818</u>	<u>11,231,026</u>	<u>9,705,107</u>
Operating Expenses:					
Copy center	13,276			13,276	12,556
Minor equipment		211,380		211,380	123,503
Workers' compensation benefits			463,267	463,267	294,208
Workers' compensation insurance premiums			58,448	58,448	66,652
Health insurance claims			8,714,752	8,714,752	8,253,281
Flex benefits			537,213	537,213	516,276
Property and liability insurance			546,877	546,877	398,641
Property and liability claims			43,120	43,120	40,551
Other	318	33,896		34,214	11,897
Depreciation	1,537,610	75,044		1,612,654	1,794,561
Total Operating Expenses	<u>1,551,204</u>	<u>320,320</u>	<u>10,363,677</u>	<u>12,235,201</u>	<u>11,512,126</u>
Operating Income (Loss)	<u>752</u>	<u>(157,068)</u>	<u>(847,859)</u>	<u>(1,004,175)</u>	<u>(1,807,019)</u>
Nonoperating Revenues (Expenses):					
Interest earnings	133,029	66,828	166,631	366,488	454,840
Net decrease in the fair value of investments	(36,900)	(17,900)	(49,100)	(103,900)	(136,000)
Gain on disposal of property	13,520			13,520	7,399
Other income			3,009	3,009	3,339
Total Nonoperating Revenues (Expenses)	<u>109,649</u>	<u>48,928</u>	<u>120,540</u>	<u>279,117</u>	<u>329,578</u>
Income (Loss) Before Transfers	110,401	(108,140)	(727,319)	(725,058)	(1,477,441)
Capital contributions					106,532
Transfers in	76,748	108,018	1,200,000	1,384,766	21,067
Transfers out					(94,098)
Change in Net Assets	187,149	(122)	472,681	659,708	(1,443,940)
Total Net Assets - beginning	<u>13,824,943</u>	<u>3,254,073</u>	<u>4,589,420</u>	<u>21,668,436</u>	<u>23,112,376</u>
Total Net Assets - ending	<u>\$ 14,012,092</u>	<u>\$ 3,253,951</u>	<u>\$ 5,062,101</u>	<u>\$ 22,328,144</u>	<u>\$ 21,668,436</u>

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

For the Year Ended December 31, 2004
 With Comparative Totals for the Year Ended December 31, 2003

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2004	2003
Cash Flows From Operating Activities:					
Cash received from other City funds	\$ 1,552,691	\$ 163,252	\$ 7,977,473	\$ 9,693,416	\$ 7,915,497
Cash received from employees			1,539,146	1,539,146	1,803,020
Cash paid to suppliers	<u>(14,312)</u>	<u>(245,276)</u>	<u>(9,787,458)</u>	<u>(10,047,046)</u>	<u>(9,398,611)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,538,379</u>	<u>(82,024)</u>	<u>(270,839)</u>	<u>1,185,516</u>	<u>319,906</u>
Cash Flows From Noncapital Financing Activities:					
Transfers in	76,748	108,018	1,200,000	1,384,766	21,067
Transfers out					<u>(78,434)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>76,748</u>	<u>108,018</u>	<u>1,200,000</u>	<u>1,384,766</u>	<u>(57,367)</u>
Cash Flows From Capital and Related Financing Activities:					
Proceeds from sale of property	17,658			17,658	33,737
Acquisition of capital assets	<u>(698,248)</u>	<u>(63,732)</u>		<u>(761,980)</u>	<u>(1,551,774)</u>
Other receipts			3,009	3,009	3,339
Net Cash Provided By (Used in) Capital and Related Financing Activities	<u>(680,590)</u>	<u>(63,732)</u>	<u>3,009</u>	<u>(741,313)</u>	<u>(1,514,698)</u>
Cash Flows From Investing Activities:					
Investment income	130,127	67,928	169,731	367,786	499,340
Net (increase) decrease in investments	<u>(761,345)</u>	<u>41,233</u>	<u>(689,935)</u>	<u>(1,410,047)</u>	<u>1,619,860</u>
Net Cash Provided By (Used in) Investing Activities	<u>(631,218)</u>	<u>109,161</u>	<u>(520,204)</u>	<u>(1,042,261)</u>	<u>2,119,200</u>
Net Increase in Cash and Cash Equivalents	303,319	71,423	411,966	786,708	867,041
Cash and Cash Equivalents, Beginning of Year	<u>671,283</u>	<u>367,741</u>	<u>1,004,216</u>	<u>2,043,240</u>	<u>1,176,199</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 974,602</u></u>	<u><u>\$ 439,164</u></u>	<u><u>\$ 1,416,182</u></u>	<u><u>\$ 2,829,948</u></u>	<u><u>\$ 2,043,240</u></u>

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

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

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2004	2003
Operating Income (Loss)	\$ 752	\$ (157,068)	\$ (847,859)	\$(1,004,175)	\$(1,807,019)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	1,537,610	75,044		1,612,654	1,794,561
(Increase) Decrease In:					
Accounts receivable	735			735	(735)
Due from other funds			801	801	(43)
Due from other governmental units					14,188
Increase (Decrease) In:					
Accounts payable	(718)		366,969	366,251	8,389
Deposits payable			(54,620)	(54,620)	22,090
Accrued compensation and payroll taxes			(28)	(28)	86
Due to other governmental units			820	820	13,835
Accrued claims			263,078	263,078	274,554
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,538,379</u>	<u>\$ (82,024)</u>	<u>\$ (270,839)</u>	<u>\$ 1,185,516</u>	<u>\$ 319,906</u>
Non Cash Transactions:					
Receipt of contributed property	\$ 36,900	\$ 17,900	\$ 49,100	\$ 103,900	\$ 106,532
Decrease in fair value of investments					136,000
Contribution of property					(15,644)

(This Page is Left Blank Intentionally)

CITY OF ROCHESTER, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2004

(This Page is Left Blank Intentionally)

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS**

December 31, 2004

			<u>Amount</u>	<u>%</u>
Cash and Deposits:				
US Bank - Rochester, Minnesota			\$ 29,770	0.01%
Wells Fargo Bank - Rochester, Minnesota			4,804,401	2.06%
Park National Bank, St. Louis Park, Minnesota			74,583	0.03%
Change Funds			8,289	0.00%
	<u>Yield</u>	<u>Maturity</u>		
Cash Equivalents:				
Commercial Paper	1.76-2.72	2005	36,951,901	15.83%
Guaranteed Investment Contracts	4.94-5.60	2005	3,517,468	1.51%
Short Term Government Trust	1.77	2005	10,725,247	4.59%
Sub-total Cash, Deposits and Cash Equivalents			<u>56,111,659</u>	<u>24.03%</u>
Investments:				
Municipal Bond	5.50	2024	13,062,552	5.59%
US Government and Agency Securities:				
Federal Farm Credit Bank	3.10-3.38	2006-2008	5,413,610	2.32%
Federal Home Loan Bank	2.51-7.07	2005-2009	87,755,514	37.58%
Federal Home Loan Mortgage Corporation	3.13-5.75	2005-2009	29,256,111	12.53%
Federal National Mortgage Association	3.55-6.74	2005-2009	41,787,492	17.90%
US Treasury Notes	3.00-6.50	2005-2007	108,273	0.05%
Sub-total Investments			<u>177,383,552</u>	<u>75.97%</u>
TOTAL			<u>\$ 233,495,211</u>	<u>100.00%</u>

ALLOCATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS - ALL FUNDS

Fund	<u>Cash and Cash Equivalents</u>	<u>Restricted Assets</u>	<u>Investments</u>	<u>Total</u>
General Fund	\$ 4,637,862	\$ 29,770	\$ 13,111,164	\$ 17,778,796
Special Revenue Funds	1,406,888		5,672,217	7,079,105
Debt Service Funds	549			549
Capital Project Funds	8,938,393		58,819,969	67,758,362
Enterprise Funds	20,643,049	81,250,487	20,944,528	122,838,064
Internal Service Funds	2,829,948		15,210,387	18,040,335
TOTAL	<u>\$ 38,456,689</u>	<u>\$ 81,280,257</u>	<u>\$ 113,758,265</u>	<u>\$ 233,495,211</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CASH AND SECURITY FOR DEPOSIT

December 31, 2004

	<u>Wells Fargo Bank</u>	<u>US Bank</u>	<u>Others</u>
Security for Deposits:			
Federal National Mortgage Association	\$ 66,745,500	\$ 8,238,000	
Government National Mortgage Association	43,120,000		
Federal Home Loan Mortgage Corp	24,000,000	190,000	
TOTAL PAR VALUE OF SECURITIES	<u>\$ 133,865,500</u>	<u>\$ 8,428,000</u>	
Market Value of Securities	\$ 26,282,086	\$ 319,911	
90% of security market value applicable to pledge requirement	23,653,877	287,920	
F.D.I.C.	100,000	100,000	\$ 100,000
TOTAL SECURITY	<u>\$ 23,753,877</u>	<u>\$ 387,920</u>	<u>\$ 100,000</u>
Deposits:			
Book Balance	\$ 4,804,401	\$ 29,770	\$ 74,583
TOTAL APPLICABLE TO SECURITY	<u>\$ 4,804,401</u>	<u>\$ 29,770</u>	<u>\$ 74,583</u>

Pursuant to Minnesota law, total deposits cannot exceed F.D.I.C. or F.S.L.I.C. insurance plus ninety percent of the market value of securities pledged as collateral by the bank.

The Federal Deposit Insurance Corporation provides additional security of \$100,000 at each depository bank of demand deposits.

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - ALL FUNDS
 December 31, 2004

Delinquent Taxes by Year:	<u>Total</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Enter- prise Funds</u>
Fiscal Year:					
1992	\$ 32	\$ 19	\$ 10	\$ 3	\$
1993					
1994					
1995					
1996					
1997	442	281	130	27	4
1998	1,500	929	456	101	14
1999	1,399	841	434	112	12
2000	3,903	1,333	1,330	1,206	34
2001	7,083	4,048	2,384	580	71
2002	18,695	9,473	6,548	2,469	205
2003	35,742	16,872	13,438	5,046	386
2004	<u>200,136</u>	<u>106,683</u>	<u>58,887</u>	<u>34,566</u>	<u></u>
Total Delinquent Taxes on Records of the Olmsted County Auditor	268,932	140,479	83,617	44,110	726
Less: Estimated Uncollectible Delinquent Taxes	<u>(8,068)</u>	<u>(4,214)</u>	<u>(2,509)</u>	<u>(1,323)</u>	<u>(22)</u>
Net Delinquent Taxes Receivable	<u>\$ 260,864</u>	<u>\$ 136,265</u>	<u>\$ 81,108</u>	<u>\$ 42,787</u>	<u>\$ 704</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CHANGES IN CAPITAL ASSETS AND DEPRECIATION
EQUIPMENT REVOLVING FUND
For the Year Ended December 31, 2004

	<u>ASSETS</u>				<u>Balance</u> <u>12/31/2004</u>
	<u>Balance</u> <u>1/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	
Trucks, power operated equip- ment and autos:					
General Government:					
City Hall Maintenance	\$ 51,267	\$	\$	\$ 12,683	\$ 63,950
Copy Center	39,981	8,179			48,160
Total General Government	<u>91,248</u>	<u>8,179</u>		<u>12,683</u>	<u>112,110</u>
Public Safety:					
Police	1,162,828	49,964	42,800		1,169,992
Fire	3,821,345	87,449	32,309	35,544	3,912,029
Fire Hazmat Response	35,544			(35,544)	
Building Safety	241,026	13,434			254,460
Animal Control	31,485				31,485
Total Public Safety	<u>5,292,228</u>	<u>150,847</u>	<u>75,109</u>		<u>5,367,966</u>
Public Works:					
Engineering	373,516	38,423	23,944	(12,683)	375,312
Traffic Engineer	397,850	33,961			431,811
Street and Alley	5,289,673	245,772	71,214		5,464,231
Total Public Works	<u>6,061,039</u>	<u>318,156</u>	<u>95,158</u>	<u>(12,683)</u>	<u>6,271,354</u>
Parking	<u>167,562</u>				<u>167,562</u>
Library	<u>180,815</u>				<u>180,815</u>
Municipal Recreation System:					
Administration	15,716				15,716
Recreation	13,479				13,479
Golf	1,017,571	78,412	28,024		1,067,959
Volleyball Center	10,347				10,347
Graham Arena	120,956				120,956
Park	1,970,062	39,154			2,009,216
Recreation Center	46,510				46,510
Flood Control Maintenance	189,879	76,748	36,269		230,358
Mayo Civic Center	71,519	26,751			98,270
Total Municipal Recreation System	<u>3,456,039</u>	<u>221,065</u>	<u>64,293</u>		<u>3,612,811</u>
Sewer Utility Fund:					
Sewer Collection System	617,959				617,959
Water Reclamation Plant	1,086,086				1,086,086
Total Sewer Utility	<u>1,704,045</u>				<u>1,704,045</u>
Total Machinery and Equipment	<u>\$ 16,952,976</u>	<u>\$ 698,247</u>	<u>\$ 234,560</u>	<u>\$</u>	<u>\$ 17,416,663</u>

SCHEDULE 4

ALLOWANCE FOR DEPRECIATION					
Balance 1/1/2004	Depreciation	Retirements	Transfers	Balance 12/31/2004	Remaining Book Value
\$ 36,559	\$ 6,971	\$	\$ 12,683	\$ 56,213	\$ 7,737
24,109	9,496			33,605	14,555
<u>60,668</u>	<u>16,467</u>		<u>12,683</u>	<u>89,818</u>	<u>22,292</u>
647,477	216,335	38,662		825,150	344,842
1,387,073	209,495	32,309	35,544	1,599,803	2,312,226
35,544			(35,544)		
68,725	28,824			97,549	156,911
29,159	2,326			31,485	
<u>2,167,978</u>	<u>456,980</u>	<u>70,971</u>		<u>2,553,987</u>	<u>2,813,979</u>
224,441	31,968	23,945	(12,683)	219,781	155,531
173,699	35,934			209,633	222,178
<u>2,702,756</u>	<u>427,491</u>	<u>71,214</u>		<u>3,059,033</u>	<u>2,405,198</u>
<u>3,100,896</u>	<u>495,393</u>	<u>95,159</u>	<u>(12,683)</u>	<u>3,488,447</u>	<u>2,782,907</u>
<u>64,649</u>	<u>14,183</u>			<u>78,832</u>	<u>88,730</u>
<u>98,674</u>	<u>14,724</u>			<u>113,398</u>	<u>67,417</u>
9,175	2,619			11,794	3,922
13,479				13,479	
470,259	137,989	28,025		580,223	487,736
5,787	1,478			7,265	3,082
50,136	11,932			62,068	58,888
1,127,796	223,341			1,351,137	658,079
32,438	4,122			36,560	9,950
118,601	26,259	36,270		108,590	121,768
<u>28,176</u>	<u>9,722</u>			<u>37,898</u>	<u>60,372</u>
<u>1,855,847</u>	<u>417,462</u>	<u>64,295</u>		<u>2,209,014</u>	<u>1,403,797</u>
381,954	41,569			423,523	194,436
<u>725,542</u>	<u>80,832</u>			<u>806,374</u>	<u>279,712</u>
<u>1,107,496</u>	<u>122,401</u>			<u>1,229,897</u>	<u>474,148</u>
<u>\$8,456,208</u>	<u>\$ 1,537,610</u>	<u>\$ 230,425</u>	<u>\$</u>	<u>\$ 9,763,393</u>	<u>\$ 7,653,270</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE
 December 31, 2004

	<u>INTEREST RATES AND DATES</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>ANNUAL SERIES PAYMENTS</u>	<u>AUTHORIZATION</u>	<u>ISSUED</u>	<u>RETIRED</u>	<u>OUTSTANDING</u>
<u>General Obligation Tax Increment Bonds:</u>								
Tax Increment Bonds Series 1985 - str 12/1/96	6.45, 6.50% (6/1; 12/1)	12/1/1986	12/1/2005		\$13,250,000	\$13,250,000	\$13,250,000	\$
Taxable Tax Increment Bonds District 7, Series 1997	5.50% (2/1; 8/1)	3/4/1997	2/1/2024	(1)	2,768,500	2,669,380	65,501	2,603,879
Total General Obligation Tax Increment Bonds					<u>16,018,500</u>	<u>15,919,380</u>	<u>13,315,501</u>	<u>2,603,879</u>
<u>General Obligation Sales Tax Revenue Bonds:</u>								
General Obligation Taxable Sales Tax Revenue Bonds, Series 2000	6.35% (2/1)	7/6/2001	2/1/2010	(2)	10,458,673	10,458,673		10,458,673
Total General Obligation Sales Tax Revenue Bonds					<u>10,458,673</u>	<u>10,458,673</u>		<u>10,458,673</u>
<u>General Obligation Revenue Bonds:</u>								
Wastewater Treatment Refunding Bonds 2001A dated September 15, 2001-str 12/1/07	3.5, 3.7, 3.8 3.9,4.0% (6/1; 12/1)	9/15/2001	12/1/2011	785,000 (2005) 820,000 (2006) 830,000 (2007) 865,000 (2008) 900,000 (2009) 930,000 (2010) 990,000 (2011)	8,275,000	8,275,000	2,155,000	6,120,000
Subtotal General Obligation Revenue Bonds					<u>8,275,000</u>	<u>8,275,000</u>	<u>2,155,000</u>	<u>6,120,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2004

	<u>INTEREST RATES AND DATES</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>ANNUAL SERIES PAYMENTS</u>	<u>AUTHOR- IZATION</u>	<u>ISSUED</u>	<u>RETIRED</u>	<u>OUTSTANDING</u>
<u>General Obligation</u>								
<u>Revenue Bonds: (continued)</u>								
Wastewater Treatment Revenue Bonds 2004A dated November 1, 2004- str 2/1/11	3.0, 5.0 (2/1)	11/1/2004	2/1/2026	(2005) 330,000 (2006) 940,000 (2007) 950,000 (2008) 965,000 (2009) 985,000 (2010) 1,050,000 (2011) 1,355,000 (2012) 2,560,000 (2013) 3,820,000 (2014) 4,735,000 (2015) 4,930,000 (2016) 5,125,000 (2017) 5,340,000 (2018) 5,560,000 (2019) 5,795,000 (2020) 6,050,000 (2021) 6,320,000 (2022) 6,600,000 (2023) 6,905,000 (2024) 7,225,000 (2025) 6,195,000 (2026)	83,735,000	83,735,000		83,735,000
Total General Obligation Revenue Bonds					<u>92,010,000</u>	<u>92,010,000</u>	<u>2,155,000</u>	<u>89,855,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2004

	<u>INTEREST RATES AND DATES</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>ANNUAL SERIES PAYMENTS</u>	<u>AUTHOR- IZATION</u>	<u>ISSUED</u>	<u>RETIRED</u>	<u>OUTSTANDING</u>
<u>Revenue Bonds:</u>								
Electric Utility Revenue Bonds, Series 2000	4.75, 4.85, 5.0, 5.1, 5.125, 5.20 5.25% (6/1; 12/1)	12/1/2000	12/1/1930	690,000 (2005) 725,000 (2006) 755,000 (2007) 795,000 (2008) 830,000 (2009) 865,000 (2010) 905,000 (2011) 950,000 (2012) 995,000 (2013) 1,045,000 (2014) 1,095,000 (2015) 1,150,000 (2016) 1,210,000 (2017) 1,270,000 (2018) 1,335,000 (2019) 1,405,000 (2020) 1,475,000 (2021) 1,555,000 (2022) 1,635,000 (2023) 1,725,000 (2024) 1,815,000 (2025) 1,910,000 (2026) 2,010,000 (2027) 2,115,000 (2028) 2,225,000 (2029) 2,340,000 (2030)	37,290,000	37,290,000	2,465,000	34,825,000
Subtotal Revenue Bonds					<u>37,290,000</u>	<u>37,290,000</u>	<u>2,465,000</u>	<u>34,825,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2004

	<u>INTEREST RATES AND DATES</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>ANNUAL SERIES PAYMENTS</u>	<u>AUTHOR- IZATION</u>	<u>ISSUED</u>	<u>RETIRED</u>	<u>OUTSTANDING</u>
<u>Revenue Bonds (continued):</u>								
Electric Utility Revenue Bonds, Series 2002A	3.00, 3.25, 3.50, 3.75, 4.00, 4.125 4.25, 4.375, 4.50% (12/1)	8/15/2002	12/1/2017	620,000 (2005) 640,000 (2006) 660,000 (2007) 685,000 (2008) 710,000 (2009) 740,000 (2010) 770,000 (2011) 805,000 (2012) 840,000 (2013) 875,000 (2014) 915,000 (2015) 960,000 (2016) 1,005,000 (2017)	11,275,000	11,275,000	1,050,000	10,225,000
Total Revenue Bonds					<u>48,565,000</u>	<u>48,565,000</u>	<u>3,515,000</u>	<u>45,050,000</u>
TOTAL BONDS PAYABLE					<u>\$167,052,173</u>	<u>\$166,953,053</u>	<u>\$18,985,501</u>	<u>\$ 147,967,552</u>

(1) The Taxable Tax Increment Bonds are structured without fixed principal maturities. The payments are equal to the amount of "Available Tax Increments" received by the City within the six month period preceding each payment date. All payments are applied first to pay accrued and unpaid interest and next to reduction of principal.

(2) The Taxable Sales Tax Revenue Bonds are structured without fixed principal maturities. The payments are equal to the amount of sales and use tax and such other revenues pledged. All payments are applied first to pay accrued and unpaid interest and next to reduction of principal.

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT SERVICE REQUIREMENTS - ALL FUNDS
 December 31, 2004

Year	Total (2)		General Obligation (1) (3) (4)				Sales Tax Revenue Note of 2001		Revenue Bonds Electric Utility Revenue Bonds	
	Principal	Interest	Wastewater Treatment Plant Revenue Refunding Bonds	Wastewater Treatment Plant Revenue Bonds	Wastewater Treatment Plant Revenue Bonds	Interest	Principal	Interest	Principal	Interest
2005	\$ 2,202,000	\$ 2,469,966	\$ 785,000	\$ 227,300	\$	\$	\$ 107,000	\$ 64,948	\$ 1,310,000	\$ 2,177,718
2006	2,625,000	7,517,277	820,000	199,825	330,000	5,129,188	110,000	61,920	1,365,000	2,126,344
2007	3,298,000	6,396,089	830,000	171,125	940,000	4,093,450	113,000	58,808	1,415,000	2,072,706
2008	3,411,000	6,278,329	865,000	142,075	950,000	4,065,250	116,000	55,610	1,480,000	2,015,394
2009	3,525,000	6,152,803	900,000	110,070	965,000	4,036,750	120,000	52,326	1,540,000	1,953,657
2010	3,643,000	6,020,206	930,000	75,870	985,000	4,007,800	123,000	48,930	1,605,000	1,887,606
2011	3,841,000	5,880,218	990,000	39,600	1,050,000	3,978,250	126,000	45,450	1,675,000	1,816,918
2012	3,240,000	5,710,765			1,355,000	3,925,750	130,000	41,884	1,755,000	1,743,131
2013	4,529,000	5,562,011			2,560,000	3,858,000	134,000	38,205	1,835,000	1,665,806
2014	5,878,000	5,348,360			3,820,000	3,730,000	138,000	34,412	1,920,000	1,583,948
2015	6,886,000	5,065,112			4,735,000	3,539,000	141,000	30,508	2,010,000	1,495,604
2016	7,185,000	4,730,735			4,930,000	3,302,250	145,000	26,518	2,110,000	1,401,967
2017	7,490,000	4,380,632			5,125,000	3,055,750	150,000	22,414	2,215,000	1,302,468
2018	6,764,000	4,013,201			5,340,000	2,799,500	154,000	18,168	1,270,000	1,195,533
2019	7,053,000	3,676,755			5,560,000	2,532,500	158,000	13,810	1,335,000	1,130,445
2020	7,363,000	3,324,865			5,795,000	2,254,500	163,000	9,340	1,405,000	1,061,025
2021	7,692,000	2,956,738			6,050,000	1,964,750	167,000	4,726	1,475,000	987,262
2022	7,875,000	2,572,074			6,320,000	1,662,250			1,555,000	909,824
2023	7,910,000	2,174,438			6,600,000	1,346,250			1,310,000	828,188
Thereafter	34,790,000	5,117,076			20,325,000	1,997,000			14,465,000	3,120,076
	<u>\$137,200,000</u>	<u>\$ 95,347,650</u>	<u>\$ 6,120,000</u>	<u>\$ 965,865</u>	<u>\$83,735,000</u>	<u>\$61,278,188</u>	<u>\$ 2,295,000</u>	<u>\$ 627,977</u>	<u>\$45,050,000</u>	<u>\$32,475,620</u>

- (1) The General Obligation Unlimited Tax Levy Bonds are initially payable from sources other than general property tax: Tax Increment Bonds are payable from tax increment revenues; Sales Tax Bonds are payable from sales tax revenue and Wastewater Treatment Bonds are payable from sewer service charges.
- (2) Does not include notes payable of \$314,287.
- (3) Does not include the General Obligation Taxable Tax Increment Bonds 1997, District No. 7 which are structured without fixed principal maturities.
- (4) Does not include the General Obligation Taxable Sales Tax Revenue Bonds 2000 which are structured without fixed principal maturities.

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF PERSONNEL EXPENDITURES-ALL FUNDS
 For the Year Ended December 31, 2004

	Number of Employees		Salaries and Wages Amount	Pension	Employer Contributions				Total Wages and Contributions	
	Full Time	All Other			Social Security	Group Insurance	Workers' Compensation	Unemployment Compensation		Other (1) Contributions
Government and Fiduciary Fund Types										
General Government	54	4	\$ 3,091,920	\$ 166,311	\$ 220,826	\$ 441,226	\$ 2,247	\$ 676	\$ 8,554	\$ 3,931,760
Police	137		8,700,868	771,332	141,234	1,288,274	32,753		22,160	10,956,621
Public Safety										
Communications	25		1,206,565	66,669	90,356	195,599	579		3,922	1,563,690
Fire	100		6,506,963	581,218	84,345	952,156	51,346		4,054	8,180,082
Fire Hazmat Response Team			29,693	2,762	208		159			32,822
Building Safety	24		1,522,228	83,089	113,490	269,471	2,415	858	1,097	1,992,648
Animal Control	3		128,307	7,166	9,692	26,078	1,565			172,808
Flood Control	2		112,015	5,488	8,319	15,356	983	3,492	64	145,717
Public Works	79	2	4,336,900	233,117	320,940	722,946	32,252		7,138	5,653,293
Music	4		219,209	11,760	16,125	37,171	192	(64)	704	285,097
Library	50	64	2,803,944	149,543	210,346	381,389	3,168		9,009	3,557,399
Park and Recreation	68	215	4,336,558	198,490	324,752	580,064	30,278	9,945	2,403	5,482,490
TOTAL	546	285	\$32,995,170	\$2,276,945	\$1,540,633	\$4,909,730	\$ 157,937	\$ 14,907	\$ 59,105	\$41,954,427
Proprietary Fund Types										
Parking	4		\$ 201,302	\$ 10,676	\$ 14,873	\$ 36,741	\$ 971	\$	\$ 364	\$ 264,927
Electric Utility	171	13	11,379,587	614,959	826,865	1,473,523	55,863	4,071	4,953	14,359,821
Water Utility	20		1,211,992	65,252	87,435	167,205	956		385	1,533,225
Sewer Utility	32	3	1,855,360	103,292	133,253	336,343	22,066	10,868	1,199	2,462,381
Storm Water Utility	4	1	201,667	10,398	15,100	22,754	241		480	250,640
TOTAL	231	17	\$14,849,908	\$ 804,577	\$1,077,526	\$2,036,566	\$ 80,097	\$ 14,939	\$ 7,381	\$18,870,994

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

(This Page is Left Blank Intentionally)