

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2006

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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, 2006, 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 the 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2007, 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 assessing the results of our audit.

Honorable Mayor and Members
of the City Council
City of Rochester, Minnesota
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The Management's Discussion and Analysis on pages 3 through 15 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, which consisted principally of inquires 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 combining and individual nonmajor fund financial statements and schedules, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated 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, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. This additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Smith, Schaefer and Associates, Ltd.

Rochester, Minnesota
May 30, 2007

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, 2006, with comparative data for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$955,107,445 (*net assets*). Of this amount, \$137,006,357 (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 \$50,544,098.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$91,314,244. Approximately 9 percent of this total amount, or \$8,410,753, 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 \$19,049,670 representing 41 percent of total general fund expenditures.
- The City of Rochester increased total outstanding debt obligations, including accrued compensated absences, by \$1,458,098 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 16 -18 of this report.

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

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

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

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

The City of Rochester maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided with the *combining statements* on pages 71-80 of this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 23-24) and the special revenue funds (pages 75-80) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 19-24 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 25-32 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 33-68 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds, individual nonmajor fund information, and internal service funds can be found on pages 71-85 of this report.

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 \$955,107,445 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (82 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 145,162,810	\$ 148,252,974	\$ 84,746,910	\$ 116,419,252	\$ 229,909,720	\$ 264,672,226
Capital assets	475,521,443	431,812,464	451,361,666	408,055,052	926,883,109	839,867,516
Total assets	620,684,253	580,065,438	536,108,576	524,474,304	1,156,792,829	1,104,539,742
Long-term liabilities						
outstanding	25,754,782	22,720,432	144,455,947	146,032,199	170,210,729	168,752,631
Other liabilities	14,721,885	14,809,566	16,752,770	16,414,198	31,474,655	31,223,764
Total liabilities	40,476,667	37,529,998	161,208,717	162,446,397	201,685,384	199,976,395
Net assets:						
Invested in capital assets,						
net of related debt	457,540,608	416,574,584	321,774,320	318,365,341	779,314,928	734,939,925
Restricted	35,318,787	41,810,285	3,467,373	660,387	38,786,160	42,470,672
Unrestricted	87,348,191	84,150,571	49,658,166	43,002,179	137,006,357	127,152,750
Total net assets	\$ 580,207,586	\$ 542,535,440	\$ 374,899,859	\$ 362,027,907	\$ 955,107,445	\$ 904,563,347

An additional portion of the City of Rochester's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$137,006,357) 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 increased the City of Rochester's net assets by \$37,672,146. Much of this increase can be found in the capital grants and contributions (primarily roads) while the remainder is due to higher than expected fee revenue and lower than expected operating costs.

Business-type activities. Business-type activities increased the City of Rochester's net assets by \$12,871,952. The majority of this increase is attributable to the capital contribution of sewer and storm sewer infrastructure assets. Operations in the City's electric, water and storm water utilities 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:

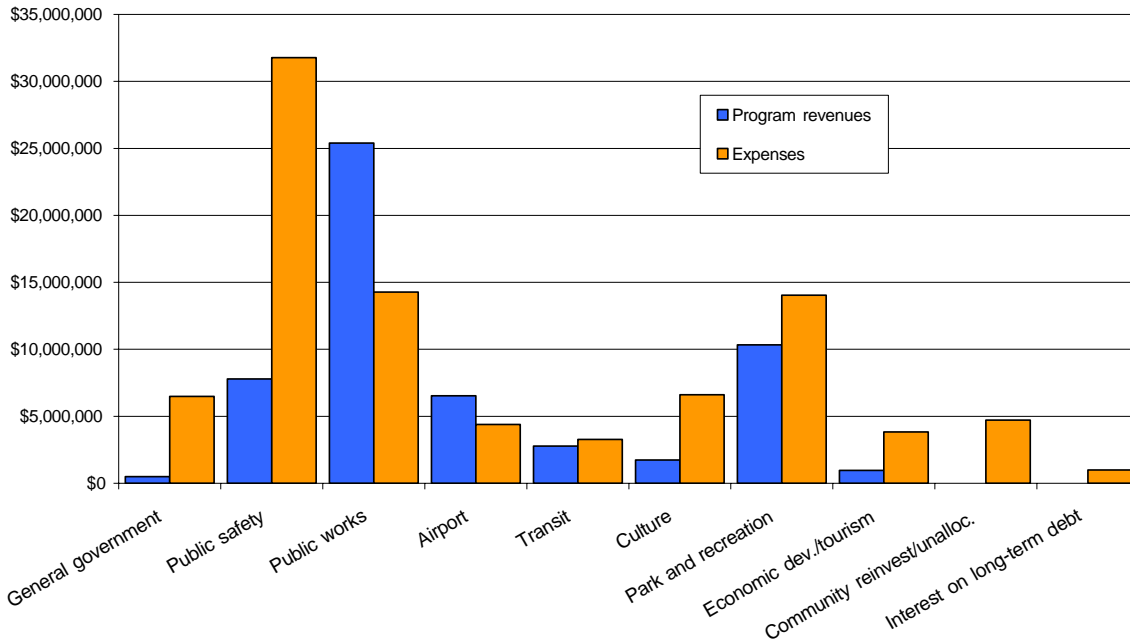
City of Rochester's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$ 14,810,527	\$ 15,022,722	\$ 157,961,164	\$ 137,180,715	\$ 172,771,691	\$ 152,203,437
Operating grants and contributions	6,797,593	7,059,210			6,797,593	7,059,210
Capital grants and contributions	34,407,050	37,406,085	5,510,770	13,946,513	39,917,820	51,352,598
General revenues:						
Property taxes	32,917,358	29,975,840			32,917,358	29,975,840
Other taxes	14,778,958	14,029,753			14,778,958	14,029,753
Grants and contributions not restricted to specific programs	7,166,725	7,909,168	9,796	9,796	7,176,521	7,918,964
Other	6,739,245	3,123,716	4,971,134	3,183,839	11,710,379	6,307,555
Total revenues	<u>117,617,456</u>	<u>114,526,494</u>	<u>168,452,864</u>	<u>154,320,863</u>	<u>286,070,320</u>	<u>268,847,357</u>
Expenses:						
General government	6,487,386	6,064,465			6,487,386	6,064,465
Public safety	31,767,951	28,164,368			31,767,951	28,164,368
Public works	14,268,684	12,249,412			14,268,684	12,249,412
Airport	4,387,112	5,457,037			4,387,112	5,457,037
Transit	3,270,811	3,297,701			3,270,811	3,297,701
Culture	6,611,227	6,443,821			6,611,227	6,443,821
Park and recreation	14,034,860	14,436,903			14,034,860	14,436,903
Economic development/tourism	3,834,472	3,560,176			3,834,472	3,560,176
Community reinvestment/unallocated	4,708,895	939,928			4,708,895	939,928
Interest on long-term debt	988,639	870,516			988,639	870,516
Parking			3,088,091	3,138,080	3,088,091	3,138,080
Electric			117,966,938	97,352,275	117,966,938	97,352,275
Water			6,765,775	6,096,397	6,765,775	6,096,397
Sewer			14,313,983	14,067,892	14,313,983	14,067,892
Storm water			3,031,398	2,524,057	3,031,398	2,524,057
Total expenses	<u>90,360,037</u>	<u>81,484,327</u>	<u>145,166,185</u>	<u>123,178,701</u>	<u>235,526,222</u>	<u>204,663,028</u>
Increase in net assets before transfers	27,257,419	33,042,167	23,286,679	31,142,162	50,544,098	64,184,329
Transfers	10,414,727	8,324,956	(10,414,727)	(8,324,956)		
Increase in net assets	37,672,146	41,367,123	12,871,952	22,817,206	50,544,098	64,184,329
Net assets, beginning of year	542,535,440	501,168,317	362,027,907	339,210,701	904,563,347	840,379,018
Net assets, end of year	<u>\$ 580,207,586</u>	<u>\$ 542,535,440</u>	<u>\$ 374,899,859</u>	<u>\$ 362,027,907</u>	<u>\$ 955,107,445</u>	<u>\$ 904,563,347</u>

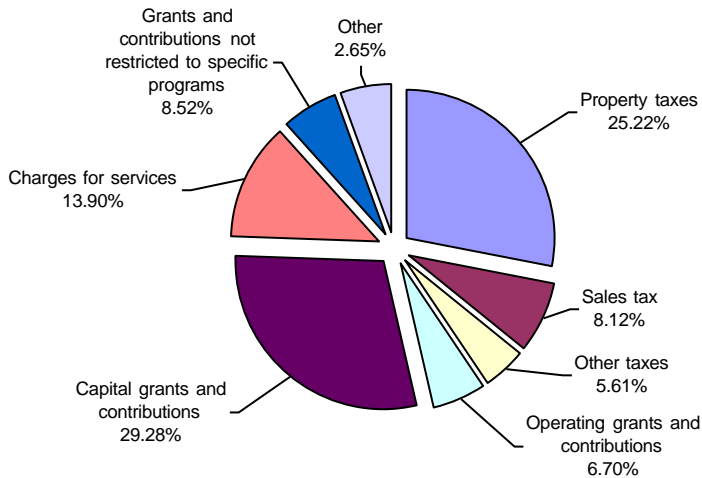
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



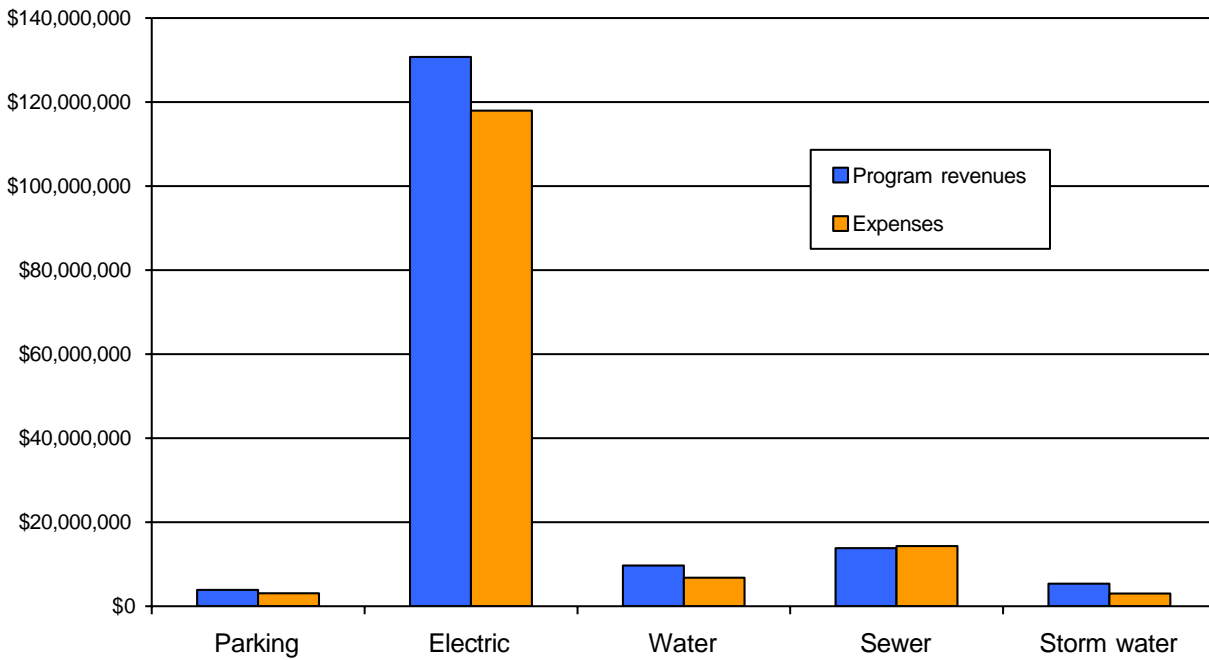
Revenues by Source - Governmental Activities



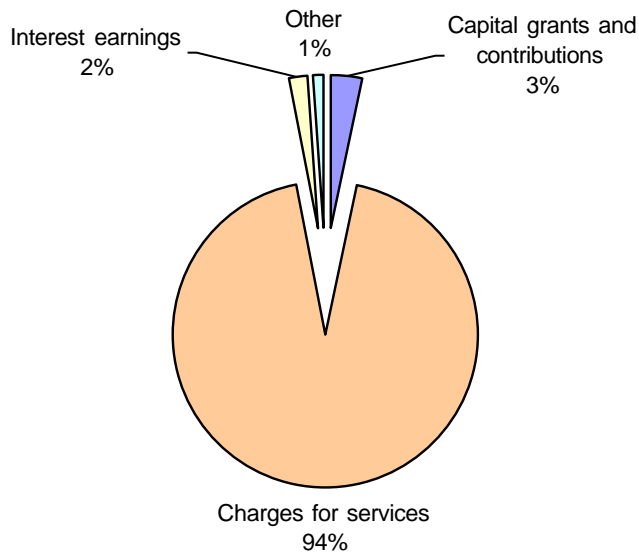
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$91,314,244, a decrease of \$6,936,819 from the prior year primarily reflecting the planned spend down of reserves in the capital projects funds on approved construction projects. Approximately 52 percent of the total fund balance, or \$47,550,642, 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. The primary reservations of fund balance are 1) to liquidate contracts and purchase orders of the prior period (\$13,866,114), 2) to repay interfund advances or other debt (\$1,100,952), or 3) to fund specific capital projects or programs as obligated by statute or other regulation (\$28,633,015).

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 \$19,049,670 while total fund balance amounted to \$19,327,903. 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 40.7 percent of total general fund expenditures, while total fund balance represents 41.3 percent of that same amount.

The general fund increased its fund balance by \$557,610 during the year which reflects higher than anticipated revenues, primarily building permit revenues, lodging taxes and investment returns, as well as lower than anticipated expenditures in the police, street, and engineering divisions. Police experienced savings in employee services due to attrition and some delays in filling open positions, while the street budget benefited from a low amount of snowfall during the winter months. Engineering charges to capital projects for employee services exceeded the budgeted amount due to increased project activity.

The library fund increased its fund balance by \$16,976 for the year after transferring \$15,000 to the capital projects fund for future equipment purchases. The municipal recreation fund increased its fund balance by \$77,870 despite reduced golf revenues this year as it received a transfer from the general fund in recognition of extraordinary expenses for energy improvements. The airport fund increased its total fund balance by \$310,132 for the year to \$3,749,001. This increase was a result of increased air passenger traffic and continued strong cargo shipments. The transit fund saw an increase in fund balance of \$176,799 as ridership continued to increase.

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 decreased fund balance by \$8.1 million as expenditures on sales tax projects outpaced sales tax revenues and airport improvement costs were paid from airport capital project reserves.

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

Proprietary funds. The City of Rochester's proprietary funds statements found on pages 25 - 32 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 - \$11,473,116, Electric - \$23,740,729, Water - \$1,040,685, Sewer - \$11,959,259 and Storm water - \$880,412. All, except the sewer fund, had increases in total net assets for the year.

The water utility's rates were increased 5 percent for 2006 and another 5 percent in January of 2007 as the utility continued to spend cash on maintenance and repair of existing water lines as well as expansion to meet new development demand.

The sewer utility's rates were adjusted 6 percent in 2006 and 8.5 percent effective January of 2007 based upon an update to the service costing study completed during 2005. In addition, a new "plant investment fee" was instituted in 2005 and 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 that is just now coming online.

The electric utility rates were increased a total of 13.5 percent during 2006 and another 8 percent effective January 2007 as the wholesale cost of purchased power continues to climb.

Parking utility rates were held relatively stable after the prior year increases. The storm water utility rates were also held to the same level as the prior year as it completed its second full year of operation. The storm water utility is beginning a formal rate study to address revenue requirements needed to meet both current and long term needs for this function.

General Fund Budgetary Highlights

The City approved the 2006 general fund budget anticipating a "balanced budget" or slight growth in fund balance.

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

- Increase in revenues due to various appropriations not anticipated at budget time.
- Increase in the Mayor and Council, City Attorney, Police and Fire Department budgets to cover unplanned expenditures for legal consultants, appropriations for private security contracting with City police officers, grant appropriations and payouts of accrued compensation to retiring employees.

At the close of the year, general fund total expenditures were \$2,947,758 below final budget while actual revenues surpassed the final budget by \$1,418,242. Much of the lower expenses can be traced to savings in the snowplowing budget, delay in hiring of approved positions in police, greater charge-back of engineering costs to projects, and remaining contingency budget. Higher than expected revenues are primarily the result of higher building permit revenue, lodging tax revenue, and returns on investment activities.

**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, 2006, amounts to \$926,883,109 (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 \$87,015,593, or 10 percent. Most of this increase within the governmental activities can be found in the addition of airport improvements and street network additions. Within the business-type activities the most significant increases occurred with the expansion of the wastewater treatment plant.

All infrastructure is included in the City's capital asset records.

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

	Governmental		Business-Type		Total	
	Activities	Activities	Activities	Activities	2006	2005
	2006	2005	2006	2005	2006	2005
Land	\$ 49,256,745	\$ 47,799,275	\$ 8,411,780	\$ 6,911,822	\$ 57,668,525	\$ 54,711,097
Buildings	71,362,668	72,912,147	170,385,066	160,815,810	241,747,734	233,727,957
Improvements other than buildings	24,920,896	7,210,309			24,920,896	7,210,309
Machinery and equipment	22,588,131	23,057,690	187,532,463	186,052,837	210,120,594	209,110,527
Infrastructure	243,330,659	236,157,970			243,330,659	236,157,970
Construction in progress	64,062,344	44,675,073	85,032,357	54,274,583	149,094,701	98,949,656
Total	\$ 475,521,443	\$ 431,812,464	\$ 451,361,666	\$ 408,055,052	\$ 926,883,109	\$ 839,867,516

Additional information on the City of Rochester's capital assets can be found in Note 3:D. on pages 49-51 of this report.

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$154,847,951 in bonds and notes outstanding. Of this amount, \$99,738,394 comprises debt backed by the full faith and credit of the government, \$49,393,762 represents bonds secured solely by specified revenue sources and \$5,715,795 represents an energy loan payable through savings in costs from energy improvements. 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			
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 2,465,264	\$ 2,547,435	\$	\$	\$ 2,465,264	\$ 2,547,435
General obligation revenue bonds	7,275,130	10,258,673	87,920,000	89,070,000	95,195,130	99,328,673
General obligation revenue notes	2,078,000	2,188,000			2,078,000	2,188,000
Revenue bonds			42,375,000	43,740,000	42,375,000	43,740,000
Notes payable	458,762	256,752	6,560,000	5,420,000	7,018,762	5,676,752
Energy loan payable	5,715,795				5,715,795	
Total	<u>\$ 17,992,951</u>	<u>\$ 15,250,860</u>	<u>\$ 136,855,000</u>	<u>\$ 138,230,000</u>	<u>\$ 154,847,951</u>	<u>\$ 153,480,860</u>

The City of Rochester's total bonds and notes payable increased by \$1,367,091 during the current fiscal year. The City issued a \$1,525,000 water utility revenue note during 2006 for construction of distribution system assets into expanded service territories. The City completed extensive energy improvement projects across multiple buildings and established an energy loan to be repaid with energy savings of the projects. The combined projects will save sufficient energy costs to repay the loan in 12 years at today's energy rates. The 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:G., beginning on page 55.

The City of Rochester maintains a AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has received notice from Moody's Investors Service in 2006 that it had upgraded their rating from Aa3 to Aa2 reflecting the utility's strong financial performance, good liquidity, and diminishing threat of retail regulation. Fitch had already rated the utility AA- on its outstanding bonds.

In March 2007, the City's municipal utility, Rochester Public Utilities (RPU), issued \$76 million in revenue bonds to finance emissions control improvements at the Silver Lake plant, substation work, and the expansion of the transmission and distribution system, as well as refund the 2000 revenue bonds at a lower interest rate.

In February and May, 2007 the City also issued \$50,380,000 in general obligation bonds to finance sewer infrastructure improvements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Rochester ended the first quarter of 2007 at 4.3 percent, up just slightly from 4.2 percent a year ago. This compares favorably to the state and national average unemployment rate of 4.9 and 4.5 percent respectively. Total number of jobs continued their twelve-year trend of growth with this year's number up 1.7 percent over last year at 106,161.

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

- Rochester continues to see new construction growth, not only in residential, but also in commercial construction. New construction caused the City's total market valuation to increase by 3.5 percent, or over \$247 million for taxes payable in 2007.
- Property tax reforms at the state level continue to impact government aid payments made to the City. Rochester's has sustained state aid reductions of nearly \$4.4 million, or 41 percent, since 2002 when the City received \$10.7 million annually. Most recent legislation has slightly reversed this downward trend, however this issue remains a concern for the City.
- The establishment of a University of Minnesota presence in the downtown is providing impetus for new development activity and service demands in this area.
- Interest rates have begun to climb, helping to increase average earnings of the City's investment portfolio.

All of these factors were considered in preparing the City of Rochester's budget for the 2007 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 2007 in expectation that state aid will continue to dwindle while the City continues its growth trends and resulting demands for service.

Other Matters

Government Accounting Standards Board Opinion No. 45 (GASB 45) "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" will be effective for the City in 2007 and will require the City to calculate the implicit rate subsidy provided to retirees participating in the City's group health plan. The implicit rate subsidy will result in the recording of a liability for post retirement benefits and is the result of the City allowing retirees to participate in the City's group health plan. No estimate of the amount of the liability is available.

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.

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CITY OF ROCHESTER, MINNESOTA
GOVERNMENT -WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2006

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CITY OF ROCHESTER, MINNESOTA
STATEMENT OF NET ASSETS

December 31, 2006

With Comparative Totals as of December 31, 2005

	Governmental Activities	Business-Type Activities	Totals	
			2006	2005
ASSETS				
Cash and cash equivalents	\$ 13,200,422	\$ 18,385,873	\$ 31,586,295	\$ 27,959,494
Investments	100,608,447	27,116,080	127,724,527	129,986,650
Receivables (net of allowance for uncollectibles)	25,353,519	10,297,397	35,650,916	32,776,927
Internal balances	573,002	(573,002)		
Due from other governmental units	5,271,012	5,302	5,276,314	7,594,161
Accrued utility revenues		3,175,803	3,175,803	2,754,244
Restricted cash and investments	37,034	13,373,581	13,410,615	53,387,871
Restricted assets		1,944,564	1,944,564	660,387
Inventory	100,356	9,468,939	9,569,295	8,284,654
Prepaid items	19,018	68,953	87,971	78,198
Deferred charges and other assets		1,483,420	1,483,420	1,189,640
Capital assets:				
Nondepreciable	113,319,089	93,444,137	206,763,226	153,660,753
Depreciable, net	362,202,354	357,917,529	720,119,883	686,206,763
Total Assets	<u>620,684,253</u>	<u>536,108,576</u>	<u>1,156,792,829</u>	<u>1,104,539,742</u>
LIABILITIES				
Accounts and contracts payable	4,563,855	12,176,963	16,740,818	14,603,553
Deposits payable	1,402,979	646,216	2,049,195	1,664,339
Accrued interest payable	135,594	1,892,591	2,028,185	2,255,742
Accrued compensation and payroll taxes	1,715,358	502,993	2,218,351	2,120,892
Accrued claims	2,266,937	110,000	2,376,937	2,657,996
Due to other governmental units	4,637,162	397,952	5,035,114	6,954,706
Unearned revenue		1,026,055	1,026,055	966,536
Noncurrent liabilities:				
Due within one year	5,361,480	5,398,921	10,760,401	9,278,527
Due in more than one year	20,393,302	139,057,026	159,450,328	159,474,104
Total Liabilities	<u>40,476,667</u>	<u>161,208,717</u>	<u>201,685,384</u>	<u>199,976,395</u>
NET ASSETS				
Invested in capital assets, net of related debt	457,540,608	321,774,320	779,314,928	734,939,925
Restricted for:				
Airport	4,564,777		4,564,777	4,015,170
CDBG loans	2,899,737		2,899,737	3,270,151
Civic music endowment	37,034		37,034	32,565
Service territory acquisitions		1,944,564	1,944,564	660,387
Construction fund		1,522,809	1,522,809	
Flood control	21,641,027		21,641,027	22,345,524
Sales tax authorized projects	6,176,212		6,176,212	12,146,875
Unrestricted	<u>87,348,191</u>	<u>49,658,166</u>	<u>137,006,357</u>	<u>127,152,750</u>
Total Net Assets	<u>\$ 580,207,586</u>	<u>\$ 374,899,859</u>	<u>\$ 955,107,445</u>	<u>\$ 904,563,347</u>

See Notes to the Financial Statements

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

For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

<u>Functions/Programs</u>	<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	\$ 6,487,386	\$ 445,062	\$ 45,450	\$
Public safety	31,767,951	5,729,159	2,047,116	10,357
Public works	14,268,684	212,015	38,465	25,152,126
Airport	4,387,112	2,647,146	269,146	3,612,034
Transit	3,270,811	150,853	2,610,434	10,400
Culture	6,611,227	350,637	1,364,453	18,754
Park and recreation	14,034,860	5,212,280	418,609	4,707,903
Economic development/tourism	3,834,472	63,375	3,920	895,476
Community reinvestment/unallocated	4,708,895			
Interest on long-term debt	988,639			
Total governmental activities	<u>90,360,037</u>	<u>14,810,527</u>	<u>6,797,593</u>	<u>34,407,050</u>
Business-Type activities:				
Parking	3,088,091	3,876,103		
Electric utility	117,966,938	130,723,369		
Water utility	6,765,775	7,747,854		1,945,877
Sewer utility	14,313,983	11,394,102		2,403,736
Storm water utility	3,031,398	4,219,736		1,161,157
Total business-type activities	<u>145,166,185</u>	<u>157,961,164</u>		<u>5,510,770</u>
Total	<u>\$ 235,526,222</u>	<u>\$ 172,771,691</u>	<u>\$ 6,797,593</u>	<u>\$ 39,917,820</u>

General revenues:
 General property taxes
 Tax increments collection
 Sales tax
 Nonproperty taxes
 Grants and contributions not restricted to specific programs
 Interest earnings
 Gain on disposition of property
 Net increase (decrease) in the fair value of investments
 Miscellaneous
Transfers
 Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2006	2005
\$ (5,996,874)		\$ (5,996,874)	\$ (5,793,553)
(23,981,319)		(23,981,319)	(19,801,176)
11,133,922		11,133,922	9,962,015
2,141,214		2,141,214	8,981,785
(499,124)		(499,124)	1,619,349
(4,877,383)		(4,877,383)	(4,763,610)
(3,696,068)		(3,696,068)	(8,392,011)
(2,871,701)		(2,871,701)	(2,268,879)
(4,708,895)		(4,708,895)	(939,928)
(988,639)		(988,639)	(870,516)
<u>(34,344,867)</u>		<u>(34,344,867)</u>	<u>(22,266,524)</u>
	\$ 788,012	788,012	532,306
	12,756,431	12,756,431	15,086,448
	2,927,956	2,927,956	2,800,033
	(516,145)	(516,145)	2,733,361
	<u>2,349,495</u>	<u>2,349,495</u>	<u>6,796,379</u>
	18,305,749	18,305,749	27,948,527
<u>(34,344,867)</u>	<u>18,305,749</u>	<u>(16,039,118)</u>	<u>5,682,003</u>
32,917,358		32,917,358	29,975,840
1,191,508		1,191,508	1,234,488
9,196,080		9,196,080	8,767,156
4,391,370		4,391,370	4,028,109
7,166,725	9,796	7,176,521	7,918,964
5,623,033	3,292,735	8,915,768	6,984,343
108,549		108,549	
883,248	326,437	1,209,685	(894,403)
124,415	1,351,962	1,476,377	487,829
<u>10,414,727</u>	<u>(10,414,727)</u>		
<u>72,017,013</u>	<u>(5,433,797)</u>	<u>66,583,216</u>	<u>58,502,326</u>
37,672,146	12,871,952	50,544,098	64,184,329
<u>542,535,440</u>	<u>362,027,907</u>	<u>904,563,347</u>	<u>840,379,018</u>
<u>\$ 580,207,586</u>	<u>\$ 374,899,859</u>	<u>\$ 955,107,445</u>	<u>\$ 904,563,347</u>

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2006

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2006

With Comparative Totals as of December 31, 2005

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2006	2005 (As Restated)
ASSETS					
Cash and cash equivalents	\$ 10,572,261	\$ 1,758,669	\$ 569,276	\$ 12,900,206	\$ 7,352,853
Investments	9,407,895	62,344,052	6,763,900	78,515,847	90,206,750
Accrued interest receivable	398,416	471,500	66,500	936,416	697,453
Accounts receivable (net of allowance for uncollectibles)	674,654	2,165,559	1,599,437	4,439,650	3,117,197
Loans receivable		1,950,388	2,899,737	4,850,125	5,763,215
Taxes receivable delinquent	249,366	62,290	123,508	435,164	265,459
Special assessments receivable:					
Deferred		14,090,807		14,090,807	12,754,630
Delinquent	892	309,228	762	310,882	25,141
Utility connection charges receivable:					
Deferred		73,375		73,375	36,521
Due from other funds	768,502	799,381	229,125	1,797,008	1,150,887
Due from other governmental units	1,053,885	3,625,941	591,186	5,271,012	7,583,315
Advances to other funds		1,100,952		1,100,952	1,290,060
Prepaid items	1,932		17,086	19,018	25,713
Restricted cash	37,034			37,034	32,565
Inventory	100,356			100,356	165,557
TOTAL ASSETS	\$ 23,265,193	\$ 88,752,142	\$ 12,860,517	\$ 124,877,852	\$ 130,467,316
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts and contracts payable	\$ 786,622	\$ 3,227,115	\$ 538,591	\$ 4,552,328	\$ 2,585,062
Deposits payable	772,268	43,650	346,128	1,162,046	773,589
Accrued compensation and payroll taxes	1,346,979		354,329	1,701,308	1,614,166
Due to other funds	414,526	107	245,408	660,041	578,368
Due to other governmental units	366,637	4,069,820	190,125	4,626,582	6,530,041
Advances from other funds			1,100,952	1,100,952	1,290,060
Deferred revenue	250,258	16,486,086	3,024,007	19,760,351	18,844,967
Total Liabilities	<u>3,937,290</u>	<u>23,826,778</u>	<u>5,799,540</u>	<u>33,563,608</u>	<u>32,216,253</u>
Fund Balance:					
Reserved for:					
Restricted assets	37,034			37,034	32,565
Prepaid items	1,932		17,086	19,018	25,713
Debt service			107,469	107,469	
Interfund advances		1,100,952		1,100,952	1,290,060
Encumbrances	239,267	13,571,706	55,141	13,866,114	19,617,161
Airport		815,776		815,776	576,301
Flood control		21,641,027		21,641,027	22,345,524
Sales tax authorized projects		6,176,212		6,176,212	12,146,875
Unreserved, designated, reported in:					
General fund	6,590,001			6,590,001	6,983,185
Special revenue funds			1,820,752	1,820,752	1,808,493
Unreserved, undesignated, reported in:					
General fund	12,459,669			12,459,669	11,539,822
Capital projects fund		21,619,691		21,619,691	17,265,911
Special revenue funds			5,060,529	5,060,529	4,619,453
Total Fund Balance	<u>19,327,903</u>	<u>64,925,364</u>	<u>7,060,977</u>	<u>91,314,244</u>	<u>98,251,063</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 23,265,193	\$ 88,752,142	\$ 12,860,517	\$ 124,877,852	\$ 130,467,316

See Notes to the Financial Statements

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

For the Year Ended December 31, 2006
 With Comparative Totals for the Year Ended December 31, 2005

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds	
				2006	2005 (As Restated)
REVENUES					
General property taxes	\$ 19,161,492	\$ 4,390,064	\$ 9,196,102	\$ 32,747,658	\$ 29,970,540
Tax increments collections		970,342	221,166	1,191,508	1,234,488
Sales tax		5,172,734	4,023,346	9,196,080	8,767,156
Special assessments		2,837,271		2,837,271	1,906,295
Utility connection and availability		3,157,467		3,157,467	2,954,785
Nonproperty taxes	4,391,370			4,391,370	4,028,109
Licenses and permits	3,289,288			3,289,288	3,570,176
Fines and forfeits	427,241			427,241	402,795
Intergovernmental revenues	9,059,360	8,674,521	4,839,425	22,573,306	32,664,845
Charges for services	2,920,504	588,525	8,173,494	11,682,523	11,595,069
Contributions in aid of construction		4,833,843		4,833,843	2,749,763
Interest earnings	691,808	3,902,331	233,276	4,827,415	3,321,326
Net increase (decrease) in the fair value of investments	167,249	509,400	54,199	730,848	(489,892)
Miscellaneous revenues	238,354	526,439	402,968	1,167,761	1,158,206
Total Revenues	40,346,666	35,562,937	27,143,976	103,053,579	103,833,661
EXPENDITURES					
Current:					
General government	5,964,505			5,964,505	5,403,334
Public safety	29,913,573		41,585	29,955,158	27,667,124
Public works	7,682,125			7,682,125	7,754,287
Airport operations			2,734,471	2,734,471	2,860,315
Transit			2,649,879	2,649,879	2,749,219
Culture	1,026,129		5,364,731	6,390,860	6,004,368
Park and recreation			10,357,189	10,357,189	10,079,101
Economic development/tourism	1,687,862		530,926	2,218,788	2,509,103
Community reinvestment and unallocated	469,416			469,416	284,907
Debt service			4,441,995	4,441,995	1,292,799
Capital outlay		58,045,351		58,045,351	44,461,829
Total Expenditures	46,743,610	58,045,351	26,120,776	130,909,737	111,066,386
Excess (deficiency) of revenues over (under) expenditures	(6,396,944)	(22,482,414)	1,023,200	(27,856,158)	(7,232,725)
OTHER FINANCING SOURCES (USES)					
Loan proceeds		5,979,739		5,979,739	
Transfers in	10,219,591	9,303,414	483,119	20,006,124	16,745,551
Transfers out	(3,265,037)	(889,119)	(912,368)	(5,066,524)	(3,787,385)
Total other financing sources (uses)	6,954,554	14,394,034	(429,249)	20,919,339	12,958,166
Net change in fund balances	557,610	(8,088,380)	593,951	(6,936,819)	5,725,441
Fund Balance - beginning, as originally reported					92,168,792
Prior period adjustment (Note 4F)					356,830
Fund Balance - beginning, as restated	18,770,293	73,013,744	6,467,026	98,251,063	92,525,622
Fund Balance - ending	\$ 19,327,903	\$ 64,925,364	\$ 7,060,977	\$ 91,314,244	\$ 98,251,063

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, 2006

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

Total governmental fund balances (page 19)		\$ 91,314,244
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 619,328,757	
Less: Accumulated depreciation	<u>(152,676,933)</u>	466,651,824
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	\$ 746,044	
Deferred special assessments and utility connection agreements	14,164,182	
Loans receivable	<u>4,850,125</u>	19,760,351
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.		
		28,371,543
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	\$ (17,992,951)	
Compensated absences	(7,773,947)	
Accrued interest	(135,594)	
Unamortized bond issuance costs	<u>12,116</u>	<u>(25,890,376)</u>
Net assets of governmental activities (page 16)		<u><u>\$ 580,207,586</u></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, 2006

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

Net change in fund balances - total governmental funds (page 20)	\$	(6,936,819)
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Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay-construction improvement	\$	58,045,351	
Capital outlay-other governmental funds		752,590	
Depreciation expense		<u>(12,995,393)</u>	
			45,802,548

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.

(2,685,397)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue, December 31, 2006	\$	19,760,351	
Deferred revenue, December 31, 2005		<u>(18,844,967)</u>	
			915,384

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences, December 31, 2006	\$	(7,773,947)	
Compensated absences, December 31, 2005		<u>7,482,552</u>	
			(291,395)

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.

Principal retirement on long-term debt	\$	3,237,648	
Loan proceeds		(5,979,739)	
Change in accrued interest		216,572	
Amortization of bond issuance costs		<u>(864)</u>	
			(2,526,383)

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

3,394,208

Change in net assets of governmental activities (pages 17 and 18)	\$	<u><u>37,672,146</u></u>
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CITY OF ROCHESTER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended December 31, 2006
 With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 (As Restated) Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$20,578,999	\$ 19,284,121	\$19,161,492	\$ (122,629)	\$ 16,671,967
Nonproperty taxes	3,900,000	4,113,091	4,391,370	278,279	4,028,109
Licenses and permits	2,720,756	2,720,756	3,289,288	568,532	3,570,176
Fines and forfeits	449,700	481,849	427,241	(54,608)	402,795
Intergovernmental	7,287,085	8,884,000	9,059,360	175,360	9,716,896
Charges for services	2,689,732	2,838,389	2,920,504	82,115	2,946,324
Interest earnings	370,000	370,000	691,808	321,808	468,542
Net increase (decrease) in the fair value of investments			167,249	167,249	(119,992)
Miscellaneous	180,901	236,218	238,354	2,136	249,407
Total Revenues	<u>38,177,173</u>	<u>38,928,424</u>	<u>40,346,666</u>	<u>1,418,242</u>	<u>37,934,224</u>
EXPENDITURES					
Current:					
General Government:					
Mayor and Council	658,421	673,882	671,589	2,293	681,682
City Administrator	509,871	515,190	514,796	394	470,740
Development District Administration	128,629	128,629	129,053	(424)	120,523
City Clerk	268,812	269,082	264,628	4,454	244,149
Elections and Voter Registration	134,319	134,319	114,673	19,646	63,175
Finance Department	1,068,415	1,068,855	1,063,806	5,049	986,080
Information Systems	958,195	958,195	903,929	54,266	750,808
City Attorney	1,032,671	1,134,327	1,133,985	342	982,247
Human Resources	826,129	831,691	730,286	101,405	655,848
Planning and Zoning	57,200	57,200	25,211	31,989	55,445
City Hall Maintenance	392,854	394,375	412,549	(18,174)	392,637
Total General Government	<u>6,035,516</u>	<u>6,165,745</u>	<u>5,964,505</u>	<u>201,240</u>	<u>5,403,334</u>
Public Safety:					
Police Department	15,567,974	15,936,493	15,221,992	714,501	14,096,390
Fire Department	10,754,884	11,149,205	11,149,061	144	10,194,363
Fire Hazmat Response Team	45,000	69,547	60,425	9,122	115,100
Building Safety	2,512,089	2,512,089	2,466,199	45,890	2,354,235
Animal Control	249,843	257,679	270,288	(12,609)	240,611
Drug Enforcement Administration		39,839	19,505	20,334	39,891
Flood Control	478,939	509,957	510,821	(864)	429,390
Emergency Mgmt/Safety Council	215,282	215,282	215,282		161,941
Total Public Safety	<u>29,824,011</u>	<u>30,690,091</u>	<u>29,913,573</u>	<u>776,518</u>	<u>27,631,921</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, 2006
With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 (As Restated) Actual Amounts
	Original	Final			
EXPENDITURES (continued)					
Current:					
Public Works:					
Engineering	\$ 2,794,802	\$ 2,803,353	\$ 2,027,103	\$ 776,250	\$ 1,841,547
Traffic Engineer	1,166,304	1,173,418	1,013,080	160,338	1,017,875
Street and Alley	4,363,319	4,367,962	3,621,820	746,142	3,984,707
City Lighting	883,027	883,027	1,020,122	(137,095)	910,158
Total Public Works	<u>9,207,452</u>	<u>9,227,760</u>	<u>7,682,125</u>	<u>1,545,635</u>	<u>7,754,287</u>
Culture:					
Art Center/Theatre	265,000	267,766	267,772	(6)	212,234
Music Department	690,550	825,499	758,357	67,142	696,162
Total Culture	<u>955,550</u>	<u>1,093,265</u>	<u>1,026,129</u>	<u>67,136</u>	<u>908,396</u>
Economic Development/Tourism	<u>1,441,000</u>	<u>1,920,229</u>	<u>1,687,862</u>	<u>232,367</u>	<u>1,508,203</u>
Community Reinvestment and Unallocated	<u>832,680</u>	<u>594,278</u>	<u>469,416</u>	<u>124,862</u>	<u>284,907</u>
Total Expenditures	<u>48,296,209</u>	<u>49,691,368</u>	<u>46,743,610</u>	<u>2,947,758</u>	<u>43,491,048</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,119,036)</u>	<u>(10,762,944)</u>	<u>(6,396,944)</u>	<u>4,366,000</u>	<u>(5,556,824)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	10,004,546	10,033,751	10,219,591	185,840	9,564,642
Transfers out	<u>(1,108,736)</u>	<u>(1,608,736)</u>	<u>(3,265,037)</u>	<u>(1,656,301)</u>	<u>(2,381,960)</u>
Total other financing sources (uses)	<u>8,895,810</u>	<u>8,425,015</u>	<u>6,954,554</u>	<u>(1,470,461)</u>	<u>7,182,682</u>
Net change in fund balances	<u>(1,223,226)</u>	<u>(2,337,929)</u>	<u>557,610</u>	<u>2,895,539</u>	<u>1,625,858</u>
Fund Balance - beginning, as originally reported					16,827,964
Prior period adjustment (Note 4F)					<u>316,471</u>
Fund Balance - beginning, as restated	<u>18,770,293</u>	<u>18,770,293</u>	<u>18,770,293</u>		<u>17,144,435</u>
Fund Balance - ending	<u>\$ 17,547,067</u>	<u>\$ 16,432,364</u>	<u>\$ 19,327,903</u>	<u>\$ 2,895,539</u>	<u>\$ 18,770,293</u>

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2006
With Comparative Totals as of December 31, 2005

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 20,296	\$ 16,302,467	\$ 1,807,619
Investments	11,457,700		
Accrued interest receivable	112,600	20,316	
Accounts receivable	53,258	9,202,447	677,339
Accrued utility revenues		3,127,547	48,256
Inventory, material, supplies and fuel		9,168,000	284,194
Due from other funds	61		
Due from other governmental units	346		
Prepaid items		68,815	
Restricted assets		1,944,564	
Restricted cash		4,230,433	1,522,809
Other assets			
Total Current Assets	<u>11,644,261</u>	<u>44,064,589</u>	<u>4,340,217</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable	4,977,752	10,202,148	4,033,795
Depreciable	27,076,858	216,017,916	99,665,223
Less: Accumulated depreciation	<u>(13,121,335)</u>	<u>(87,967,426)</u>	<u>(24,171,323)</u>
Net capital assets	18,933,275	138,252,638	79,527,695
Deferred charges and other assets		1,458,758	24,662
Total Noncurrent Assets	<u>18,933,275</u>	<u>139,711,396</u>	<u>79,552,357</u>
Total Assets	<u>30,577,536</u>	<u>183,775,985</u>	<u>83,892,574</u>
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	42,105	9,645,314	456,886
Deposits payable	12,460	489,146	
Accrued interest payable		172,726	
Accrued compensation and payroll taxes	6,734	340,461	40,065
Accrued compensated absences	19,466	1,051,078	160,613
Due to other funds	1,126	1,434,251	856,536
Due to other governmental units	50,781	342,386	794
Accrued claims			
Unearned revenue		38,005	140,575
Bonds payable		1,840,000	355,000
Other liabilities		2,816	
Total Current Liabilities	<u>132,672</u>	<u>15,356,183</u>	<u>2,010,469</u>
Noncurrent Liabilities:			
Bonds payable		45,570,000	1,170,000
Unamortized bond (discount) premium		(354,293)	
Accrued compensated absences	38,473	1,153,299	145,915
Accrued claims		110,000	
Unearned lease revenues		847,475	
Total Noncurrent Liabilities	<u>38,473</u>	<u>47,326,481</u>	<u>1,315,915</u>
Total Liabilities	<u>171,145</u>	<u>62,682,664</u>	<u>3,326,384</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,933,275	95,408,028	78,002,696
Restricted for:			
Service territory acquisitions		1,944,564	
Construction fund			1,522,809
Unrestricted	11,473,116	23,740,729	1,040,685
Total Net Assets	<u>\$ 30,406,391</u>	<u>\$ 121,093,321</u>	<u>\$ 80,566,190</u>

Amounts reported by business-type activities in the statement of net assets (page 16) are different because:

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

Net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2006	2005
		2006	2005		
\$	\$	\$	\$	\$	\$
15,011,353	255,491	18,385,873	19,464,006	300,216	1,142,635
208,816	647,027	27,116,080	21,764,700	22,092,600	18,015,200
2,586	6,400	348,132	661,866	217,100	116,200
	13,635	9,949,265	9,339,245		
		3,175,803	2,754,244		
16,745		9,468,939	8,119,097		
1,212,290	181,135	1,393,486	1,414,439		
4,956		5,302	10,846		
		68,815	52,220		
		1,944,564	660,387		
7,620,339		13,373,581	53,355,306		
138		138	265		
<u>24,077,223</u>	<u>1,103,688</u>	<u>85,229,978</u>	<u>117,596,621</u>	<u>22,609,916</u>	<u>19,274,035</u>
72,401,736	1,828,706	93,444,137	61,186,405		
185,047,160	35,946,378	563,753,535	538,752,122	20,450,202	19,048,475
(78,066,925)	(2,508,997)	(205,836,006)	(191,883,475)	(11,580,583)	(10,770,684)
<u>179,381,971</u>	<u>35,266,087</u>	<u>451,361,666</u>	<u>408,055,052</u>	<u>8,869,619</u>	<u>8,277,791</u>
		1,483,420	1,189,640		
<u>179,381,971</u>	<u>35,266,087</u>	<u>452,845,086</u>	<u>409,244,692</u>	<u>8,869,619</u>	<u>8,277,791</u>
<u>203,459,194</u>	<u>36,369,775</u>	<u>538,075,064</u>	<u>526,841,313</u>	<u>31,479,535</u>	<u>27,551,826</u>
1,863,741	166,101	12,174,147	11,976,828	11,527	41,343
144,610		646,216	565,415	240,933	325,335
1,719,865		1,892,591	1,903,576		
101,294	14,439	502,993	488,276	14,050	18,450
192,813	9,951	1,433,921	1,610,992		
210,445	28,095	2,530,453	1,986,958		
3,524	467	397,952	390,247	10,580	34,418
				1,307,530	1,675,902
		178,580	82,641		
1,770,000		3,965,000	2,900,000		
		2,816	320		
<u>6,006,292</u>	<u>219,053</u>	<u>23,724,669</u>	<u>21,905,253</u>	<u>1,584,620</u>	<u>2,095,448</u>
86,150,000		132,890,000	135,330,000		
4,918,076		4,563,783	4,815,017		
261,333	4,223	1,603,243	1,376,190		
		110,000	123,000	959,407	859,094
		847,475	883,895		
<u>91,329,409</u>	<u>4,223</u>	<u>140,014,501</u>	<u>142,528,102</u>	<u>959,407</u>	<u>859,094</u>
<u>97,335,701</u>	<u>223,276</u>	<u>163,739,170</u>	<u>164,433,355</u>	<u>2,544,027</u>	<u>2,954,542</u>
94,164,234	35,266,087	321,774,320	318,365,339	8,869,619	8,277,791
		1,944,564	660,387		
		1,522,809			
11,959,259	880,412	49,094,201	43,382,232	20,065,889	16,319,493
<u>\$ 106,123,493</u>	<u>\$ 36,146,499</u>	<u>374,335,894</u>	<u>362,407,958</u>	<u>\$ 28,935,508</u>	<u>\$ 24,597,284</u>
		563,965	(380,051)		
		<u>\$ 374,899,859</u>	<u>\$ 362,027,907</u>		

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

For the Year Ended December 31, 2006
 With Comparative Totals for the Year Ended December 31, 2005

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 3,876,103	\$	\$
Sales and charges for services, pledged as security for revenue bonds		127,468,093	7,156,230
Miscellaneous		3,255,276	591,624
Total Operating Revenues	<u>3,876,103</u>	<u>130,723,369</u>	<u>7,747,854</u>
Operating Expenses:			
Purchased power		68,444,307	
Maintenance and operations	2,188,978	41,467,687	4,801,031
Depreciation	898,710	6,426,781	2,015,765
Total Operating Expenses	<u>3,087,688</u>	<u>116,338,775</u>	<u>6,816,796</u>
Operating Income	<u>788,415</u>	<u>14,384,594</u>	<u>931,058</u>
Nonoperating Revenues (Expenses):			
Intergovernmental revenues	577		
Interest earnings	431,662	1,124,207	106,037
Net increase (decrease) in the fair value of investments	95,600		
Interest and fiscal charges		(2,303,235)	(28,102)
Gain on disposal of property	3,250		
Other income (expense)	250	1,219,738	(4,004)
Total Nonoperating Revenues (Expenses)	<u>531,339</u>	<u>40,710</u>	<u>73,931</u>
Income (Loss) Before Transfers and Contributions	1,319,754	14,425,304	1,004,989
Capital contributions			2,296,494
Transfers in	38,999		
Transfers out	(324,416)	(7,971,240)	(369,583)
Change in net assets	1,034,337	6,454,064	2,931,900
Net Assets - Beginning of Year	<u>29,372,054</u>	<u>114,639,257</u>	<u>77,634,290</u>
Net Assets - End of Year	<u>\$ 30,406,391</u>	<u>\$ 121,093,321</u>	<u>\$ 80,566,190</u>

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

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

Change in net assets of business-type activities

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2006	2005
		2006	2005		
\$	\$ 3,043,280	\$ 6,919,383	\$ 10,190,847	\$ 14,620,440	\$ 13,371,987
10,451,578		145,075,901	122,297,360		
942,524	1,176,456	5,965,880	4,692,508		
<u>11,394,102</u>	<u>4,219,736</u>	<u>157,961,164</u>	<u>137,180,715</u>	<u>14,620,440</u>	<u>13,371,987</u>
		68,444,307	55,780,898		
6,198,702	2,378,825	57,035,223	48,039,784	9,792,887	10,053,259
4,265,609	651,591	14,258,456	13,662,464	1,750,234	1,630,736
<u>10,464,311</u>	<u>3,030,416</u>	<u>139,737,986</u>	<u>117,483,146</u>	<u>11,543,121</u>	<u>11,683,995</u>
<u>929,791</u>	<u>1,189,320</u>	<u>18,223,178</u>	<u>19,697,569</u>	<u>3,077,319</u>	<u>1,687,992</u>
9,219		9,796	9,796		
1,577,725	53,104	3,292,735	3,187,157	795,618	475,860
221,137	9,700	326,437	(287,211)	152,400	(117,300)
(4,040,878)		(6,372,215)	(6,247,558)		
		3,250	310,732	76,049	94,349
<u>132,728</u>		<u>1,348,712</u>	<u>(26,839)</u>	<u>1,572</u>	<u>8,169</u>
<u>(2,100,069)</u>	<u>62,804</u>	<u>(1,391,285)</u>	<u>(3,053,923)</u>	<u>1,025,639</u>	<u>461,078</u>
(1,170,278)	1,252,124	16,831,893	16,643,646	4,102,958	2,149,070
4,206,082	3,634,917	10,137,493	19,213,104	133,416	60,052
	328,585	367,584	317,319	101,850	64,520
<u>(5,327,616)</u>	<u>(1,416,179)</u>	<u>(15,409,034)</u>	<u>(13,908,866)</u>		<u>(4,502)</u>
<u>(2,291,812)</u>	<u>3,799,447</u>	<u>11,927,936</u>	<u>22,265,203</u>	<u>4,338,224</u>	<u>2,269,140</u>
<u>108,415,305</u>	<u>32,347,052</u>			<u>24,597,284</u>	<u>22,328,144</u>
<u>\$ 106,123,493</u>	<u>\$ 36,146,499</u>			<u>\$ 28,935,508</u>	<u>\$ 24,597,284</u>
		944,016	552,003		
		<u>\$ 12,871,952</u>	<u>\$ 22,817,206</u>		

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

For the Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 3,824,034	\$ 129,524,466	\$ 5,673,373
Cash received from other City funds	42,797	4,028,572	152,997
Cash received from employees			
Cash paid to employees	(306,672)	(15,625,984)	(1,783,037)
Cash paid to suppliers	(1,850,995)	(96,708,436)	(786,629)
Other income	250		
Net Cash Provided By Operating Activities	<u>1,709,414</u>	<u>21,218,618</u>	<u>3,256,704</u>
Cash Flows From Noncapital Financing Activities:			
Intergovernmental revenues	577		
Transfers in	38,999		
Transfers out	(324,416)	(7,951,314)	(369,834)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(284,840)</u>	<u>(7,951,314)</u>	<u>(369,834)</u>
Cash Flows From Capital and Related Financing Activities:			
Proceeds from the sale of property	3,250		
Proceeds from issuance of revenue notes			1,525,000
Principal payments on bonds		(1,750,000)	
Interest and fiscal charges on bonds		(2,337,151)	(27,286)
Acquisition of capital assets	(1,037,427)	(9,730,679)	(2,655,940)
Net Cash (Used In) Capital and Related Financing Activities	<u>(1,034,177)</u>	<u>(13,817,830)</u>	<u>(1,158,226)</u>
Cash Flows From Investing Activities:			
Investment income	386,862	1,229,312	77,936
Payments to service territory escrow		(1,882,052)	
Net (increase) decrease in investments	(850,000)		
Net Cash Provided By (Used In) Invested Activities	<u>(463,138)</u>	<u>(652,740)</u>	<u>77,936</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(72,741)	(1,203,266)	1,806,580
Cash and Cash Equivalents, Beginning of Year	<u>93,037</u>	<u>21,736,166</u>	<u>1,523,848</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,296</u>	<u>\$ 20,532,900</u>	<u>\$ 3,330,428</u>
Classified As:			
Cash and Cash Equivalents	\$ 20,296	\$ 16,302,467	\$ 1,807,619
Restricted Cash		4,230,433	1,522,809
Total Cash and Cash Equivalents, End of Year	<u>\$ 20,296</u>	<u>\$ 20,532,900</u>	<u>\$ 3,330,428</u>

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2006	2005
		2006	2005		
\$ 11,203,451	\$ 4,458,515	\$ 154,683,839	\$ 136,266,681	\$ 12,561,198	\$ 11,376,248
175,732	40,474	4,440,572	3,882,976	2,059,242	1,995,739
(2,660,393)	(365,244)	(20,741,330)	(20,014,299)	(10,169,409)	(10,804,438)
(4,276,187)	(1,938,235)	(105,560,482)	(88,457,949)	1,572	8,169
132,728		132,978	89,988	4,452,603	2,575,718
<u>4,575,331</u>	<u>2,195,510</u>	<u>32,955,577</u>	<u>31,767,397</u>		
9,219		9,796	9,796		
	328,585	367,584	317,319	101,850	64,520
<u>(5,327,616)</u>	<u>(1,416,179)</u>	<u>(15,389,359)</u>	<u>(13,875,925)</u>		<u>(4,502)</u>
<u>(5,318,397)</u>	<u>(1,087,594)</u>	<u>(15,011,979)</u>	<u>(13,548,810)</u>	101,850	60,018
		3,250	310,732	106,557	96,546
		1,525,000	5,765,000		
(1,150,000)		(2,900,000)	(2,440,000)		
(4,295,537)		(6,659,974)	(5,802,221)		
<u>(32,859,963)</u>	<u>(1,359,096)</u>	<u>(47,643,105)</u>	<u>(46,232,108)</u>	<u>(2,273,147)</u>	<u>(1,945,642)</u>
<u>(38,305,500)</u>	<u>(1,359,096)</u>	<u>(55,674,829)</u>	<u>(48,398,597)</u>	<u>(2,166,590)</u>	<u>(1,849,096)</u>
1,831,154	53,104	3,578,368	3,214,292	694,718	448,160
		(1,882,052)	(1,001,123)		
<u>(4,524,916)</u>	<u>349,973</u>	<u>(5,024,943)</u>	<u>(1,107,383)</u>	<u>(3,925,000)</u>	<u>(2,922,113)</u>
<u>(2,693,762)</u>	<u>403,077</u>	<u>(3,328,627)</u>	<u>1,105,786</u>	<u>(3,230,282)</u>	<u>(2,473,953)</u>
(41,742,328)	151,897	(41,059,858)	(29,074,224)	(842,419)	(1,687,313)
49,362,667	103,594	72,819,312	101,893,536	1,142,635	2,829,948
<u>\$ 7,620,339</u>	<u>\$ 255,491</u>	<u>\$ 31,759,454</u>	<u>\$ 72,819,312</u>	<u>\$ 300,216</u>	<u>\$ 1,142,635</u>
\$ 7,620,339	\$ 255,491	\$ 18,385,873	\$ 19,464,006	\$ 300,216	\$ 1,142,635
<u>\$ 7,620,339</u>	<u>\$ 255,491</u>	<u>\$ 13,373,581</u>	<u>\$ 53,355,306</u>		
<u>\$ 7,620,339</u>	<u>\$ 255,491</u>	<u>\$ 31,759,454</u>	<u>\$ 72,819,312</u>	<u>\$ 300,216</u>	<u>\$ 1,142,635</u>

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

For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income	\$ 788,415	\$ 14,384,594	\$ 931,058
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	898,710	6,426,781	2,015,765
Other income (expense)	250	(15,572)	
Other		1,388,008	(1,382)
(Increase) Decrease In:			
Accounts receivable	(11,265)	(788,859)	(39,975)
Accrued utility revenues		(414,065)	(7,494)
Inventory		(1,397,664)	48,393
Due from other funds	(61)		
Due from other governmental units	590		
Other assets		(19,426)	
Increase (Decrease) In:			
Accounts and contracts payable, operations	11,797	1,603,789	193,905
Deposits payable	2,880	67,921	
Accrued expenses and other liabilities	806	(967)	53,120
Unearned revenues		(1,914)	63,927
Accrued claims		(13,000)	
Due to other funds	(1,416)		
Due to other governmental units	18,708	(1,008)	(613)
Net Cash Provided By Operating Activities	<u>\$ 1,709,414</u>	<u>\$ 21,218,618</u>	<u>\$ 3,256,704</u>
Non Cash Transactions:			
Increase (decrease) in fair value of investments	\$ 95,600	\$	\$
Receipt of contributed property			2,296,494
Service territory acquisition cost paid from escrow		(597,875)	
Purchase of equipment included in accounts payable at year end			

Enterprise Funds				Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Storm Water Utility Fund	Totals		2006	2005
		2006	2005		
\$ 929,791	\$ 1,189,320	\$ 18,223,178	\$ 19,697,569	\$ 3,077,319	\$ 1,687,992
4,265,609	651,591	14,258,456	13,662,464	1,750,234	1,630,736
132,728		117,406	76,748	1,572	8,169
		1,386,626	83,998		
(849)	180,928	(660,020)	(2,760,710)		
		(421,559)	241,045		
(570)		(1,349,841)	(1,263,019)		
(76,439)	97,453	20,953	(215,308)		
4,954		5,544	(9,356)		
127		(19,299)	(99,165)		
(759,562)	95,115	1,145,044	1,835,501	4,177	(333,442)
10,000		80,801	99,835	(84,402)	(160,389)
24,318	(12,578)	64,699	480,175	(4,400)	574
		62,013	(129,936)		
		(13,000)	(26,000)	(268,059)	(276,580)
47,415	872	46,871	67,103		
(2,191)	(7,191)	7,705	26,453	(23,838)	18,658
<u>\$ 4,575,331</u>	<u>\$ 2,195,510</u>	<u>\$ 32,955,577</u>	<u>\$ 31,767,397</u>	<u>\$ 4,452,603</u>	<u>\$ 2,575,718</u>
\$ 221,137	\$ 9,700	\$ 326,437	\$ (287,211)	\$ 152,400	\$ (117,300)
4,206,082	3,634,917	10,137,493	19,213,104	133,416	60,052
		(597,875)	(582,343)		
					33,993

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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. As of December 31, 2006, the City had one blended component unit, the Economic Development Authority (EDA) Fund which was created to account for development allowable only under specific State statutes. The board of directors of the EDA is comprised of City Council members and the EDA directly provides all of its services to the City. The EDA is reported as a nonmajor special revenue fund in the Governmental Fund Financial Statements.

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. As of December 31, 2006, there were no entities that met the requirements to be considered a discretely presented component unit of the City.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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.

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies (continued)

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

1. Deposits and investments (continued)

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

Cash and cash equivalents for purposes of the 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.

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, 2006

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 ranging from 5.75% to 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

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, in the governmental funds.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

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 liability only if they have matured, for example, as a result of employee's resignations and retirements.

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

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

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, 2006

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 sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2005 from which the summarized information was derived.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

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, 2006

NOTE 3: Detailed Notes on All Funds

A. Deposits and Investments

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

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

Deposits

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

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

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

The City's deposits in banks at December 31, 2006 were entirely covered by federal depository insurance or by collateral held by the City or its agent in the City's name.

Investment Policy

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Policy (continued)

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needs for operation. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. The average weighted maturity of the portfolio should not exceed three (3) years.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk (continued)

Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with expected use of funds.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (in years)</u>	<u>Investment Rating as of Year End</u>	
			<u>S&P</u>	<u>MOODY</u>
Commercial Paper	\$ 14,172,653	0.16	A-1/A-1+	P1
Guaranteed Investment Contracts	4,230,433	**	Unrated	Unrated
Short-Term Government Trust	10,679,470	0	AAA	Aaa
Municipal Bond	9,740,394	*	Unrated	Unrated
US Government and Agency Securities:				
Federal Farm Credit Bank	21,504,150	1.96	AAA	Aaa
Federal Home Loan Bank	48,980,765	1.41	AAA	Aaa
Federal Home Loan Mortgage Corporation	31,083,972	1.61	AAA	Aaa
Federal National Mortgage Association	17,038,363	1.11	AAA	Aaa
US Treasury Notes	<u>78,913</u>	1.62	N/A	N/A
Sub-total Investments	157,509,113			
Cash and Deposits	<u>15,212,324</u>			
Total	<u>\$ 172,721,437</u>			

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

**Debt reserve accounts not subject to weighted average maturity policy.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments. The investment policy of the City limits their investment options to those authorized by Minnesota Statute as described on the previous page.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

Issuer	Investment Type	Reported Amount
City of Rochester	Municipal Bonds	\$ 9,740,394
Short-Term Government Trust	Federal Agency Securities	10,679,470
Federal Farm Credit Bank	Federal Agency Securities	21,504,150
Federal Home Loan Bank	Federal Agency Securities	48,980,765
Federal Home Loan Mortgage Corporation	Federal Agency Securities	31,083,972
Federal National Mortgage Association	Federal Agency Securities	17,038,363

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. At December 31, 2006 all investments were insured or registered or the securities were held by the City or its agent in the city's name.

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

Cash and cash equivalents	\$ 31,586,295
Investments	127,724,527
Restricted cash and investments	<u>13,410,615</u>
Total	<u>\$ 172,721,437</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 3: Detailed Notes on All Funds (continued)

B. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2006 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$ 79,702	\$ 454,168	\$ 406,201	\$ 113,814	\$ 1,053,885
Special Revenue	345,070	88,001	87,951	70,164	591,186
Capital Project	1,295,392	1,872,513	455,330	2,706	3,625,941
Enterprise		1,027	4,275		5,302
Totals	<u>\$ 1,720,164</u>	<u>\$ 2,415,709</u>	<u>\$ 953,757</u>	<u>\$ 186,684</u>	<u>\$ 5,276,314</u>

Amounts due to other governmental units as of December 31, 2006 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 187,276	\$ 176,142	\$ 3,219	\$ 366,637
Special Revenue	21,322	62,412	89,915	16,476	190,125
Capital Project		4,003,366	66,454		4,069,820
Enterprise		344,642	53,310		397,952
Internal Service		10,580			10,580
Totals	<u>\$ 21,322</u>	<u>\$ 4,608,276</u>	<u>\$ 385,821</u>	<u>\$ 19,695</u>	<u>\$ 5,035,114</u>

**CITY OF ROCHESTER, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2006**

NOTE 3: Detailed Notes on All Funds (continued)

C. 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, 2006, and descriptions are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

Rochester Area Foundation Endowment	\$	37,034
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Enterprise Funds

Electric Fund:

Reserve Account		4,230,433
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Water Fund:

Water Utility Construction Account		1,522,809
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Sewer Fund:

Waste Water Construction Account		6,439,827
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Waste Water Debt Service Account		1,180,512
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Total		\$ 13,410,615
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Restricted Assets -

Enterprise Funds

Electric Fund:

Territorial Service Acquisitions Escrow		\$ 1,944,564
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The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements and the sewer utility issued revenue bonds in 2004 to fund the construction of sewer utility improvements. Provisions of these revenue bonds require that the electric and sewer utilities fund debt service accounts in an amount equal to the following 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, 2006

NOTE 3: Detailed Notes on All Funds (continued)

D. Capital Assets

Governmental capital asset activity, including internal service fund capital assets, for the year ended December 31, 2006 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 47,799,275	\$ 1,484,525	\$ 27,055	\$ 49,256,745
Construction in progress	44,675,073	66,685,561	47,298,290	64,062,344
Total capital assets, not being depreciated	<u>92,474,348</u>	<u>68,170,086</u>	<u>47,325,345</u>	<u>113,319,089</u>
Capital assets, being depreciated:				
Buildings	115,381,665	1,715,971		117,097,636
Improvements other than buildings	15,542,283	18,266,571		33,808,854
Infrastructure	309,320,373	13,922,768		323,243,141
Machinery and equipment	51,892,496	3,744,737	3,326,994	52,310,239
Total capital assets, being depreciated	<u>492,136,817</u>	<u>37,650,047</u>	<u>3,326,994</u>	<u>526,459,870</u>
Less accumulated depreciation for:				
Buildings	42,469,518	3,265,450		45,734,968
Improvements other than buildings	8,331,974	555,984		8,887,958
Infrastructure	73,162,403	6,750,079		79,912,482
Machinery and equipment	28,834,806	4,174,114	3,286,812	29,722,108
Total accumulated depreciation	<u>152,798,701</u>	<u>14,745,627</u>	<u>3,286,812</u>	<u>164,257,516</u>
Total capital assets, being depreciated, net	<u>339,338,116</u>	<u>22,904,420</u>	<u>40,182</u>	<u>362,202,354</u>
Governmental activities capital assets, net	<u>\$ 431,812,464</u>	<u>\$ 91,074,506</u>	<u>\$ 47,365,527</u>	<u>\$ 475,521,443</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

D. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2006 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 6,911,822	\$ 1,499,958	\$	\$ 8,411,780
Construction in progress	54,274,583	42,889,508	12,131,734	85,032,357
Total capital assets, not being depreciated	<u>61,186,405</u>	<u>44,389,466</u>	<u>12,131,734</u>	<u>93,444,137</u>
Capital assets, being depreciated:				
Buildings and improvements	253,225,685	15,619,065		268,844,750
Machinery and equipment	285,526,437	9,859,295	476,947	294,908,785
Total capital assets, being depreciated	<u>538,752,122</u>	<u>25,478,360</u>	<u>476,947</u>	<u>563,753,535</u>
Less accumulated depreciation for:				
Buildings and improvements	92,409,875	6,049,809		98,459,684
Machinery and equipment	99,473,600	8,208,647	305,925	107,376,322
Total accumulated depreciation	<u>191,883,475</u>	<u>14,258,456</u>	<u>305,925</u>	<u>205,836,006</u>
Total capital assets, being depreciated, net	<u>346,868,647</u>	<u>11,219,904</u>	<u>171,022</u>	<u>357,917,529</u>
Business-type activities capital assets, net	<u>\$ 408,055,052</u>	<u>\$ 55,609,370</u>	<u>\$ 12,302,756</u>	<u>\$ 451,361,666</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 3: Detailed Notes on All Funds (continued)

D. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 471,565
Public safety	2,713,980
Public works	4,492,311
Airport operations	1,292,621
Transit	599,075
Culture	859,767
Park and recreation	2,564,856
Economic development/tourism	562
Community reinvestment/unallocated	656
Subtotal	<u>12,995,393</u>
Internal Service Funds:	
Equipment revolving	1,653,810
Information technology	<u>96,424</u>

Total depreciation expense - governmental activities \$ 14,745,627

Business-Type Activities:

Parking	\$ 898,710
Electric utility	6,426,781
Water utility	2,015,765
Sewer utility	4,265,609
Storm water utility	<u>651,591</u>

Total depreciation expense - business-type activities \$ 14,258,456

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

E. Interfund Balances and Transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The amounts due to and due from other funds as of December 31, 2006, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
Major Governmental Funds:		
General	\$ 768,502	\$ 414,526
Construction improvement	799,381	107
Subtotal	1,567,883	414,633
Non-Major Governmental Funds:		
Special Revenue -		
Library	13,616	11,711
Municipal recreation system	34,155	145,607
Airport operations	61,259	50,356
Economic development		24,118
Community development projects		13,616
Facility energy improvements	120,095	
Subtotal	229,125	245,408
Total Governmental Funds	1,797,008	660,041
Proprietary Funds:		
Enterprise -		
Parking	61	1,126
Electric utility		1,434,251
Water utility		856,536
Sewer utility	1,212,290	210,445
Storm water utility	181,135	28,095
Total Proprietary Funds	1,393,486	2,530,453
Total All Funds	\$ 3,190,494	\$ 3,190,494

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

E. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2006, at the individual fund level are summarized below:

Funds	Advances to Other Funds	Advances from Other Funds
Major Governmental Funds:		
Capital Project -		
Construction improvement	\$ 1,100,952	\$
Non-Major Governmental Funds:		
Special Revenue -		
Municipal recreation system		1,100,952
Total Governmental Funds	<u>\$ 1,100,952</u>	<u>\$ 1,100,952</u>

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

Transfers during the year ended December 31, 2006 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 10,219,591	\$ 3,265,037
Capital Project	9,303,414	889,119
Other Governmental Funds	<u>483,119</u>	<u>912,368</u>
Subtotal Governmental Funds	20,006,124	5,066,524
Enterprise	367,584	15,409,034
Internal Service	<u>101,850</u>	
Totals	<u>\$ 20,475,558</u>	<u>\$ 20,475,558</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

E. Interfund Balances and Transfers (continued)

In the government-wide statement of net assets, transfers in/out of \$10,414,727 are comprised of developer contributions of \$4,626,723 transferred from governmental activities to business-type activities net of \$15,041,450 in transfers from business-type activities to governmental activities.

F. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Expenditures under these operating leases for the year ended December 31, 2006 totaled \$205,371.

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

Years ending December 31:	
2007	\$ 34,483
2008	35,518
2009	36,583
2010	37,681
2011	38,811

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

G. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2006, is as follows:

	Original Amount of Debt	Range of Interest	Final Maturity	Balance 12/31/06
General Obligation Bonds:				
Taxable Tax Increment Bonds				
District 7, Series 1997	\$ 2,669,380	5.5%	2024	\$ 2,465,264
General Obligation Revenue Bonds:				
Taxable Sales Tax Revenue				
Bond of 2000	10,458,673	6.35%	2010	7,275,130
Wastewater Treatment Plant				
Refunding Bonds, Series 2001A	8,275,000	3.5-4.0%	2011	4,515,000
Wastewater Treatment Plant				
Revenue Bonds, Series 2004A	83,735,000	3.0-5.0%	2026	83,405,000
Revenue Bonds:				
Electric Utility Revenue				
Bonds, Series 2000	37,290,000	4.75-5.25%	2030	33,410,000
Electric Utility Revenue				
Bonds, Series 2002	11,275,000	3.0-4.5%	2017	8,965,000
Revenue Note:				
Electric Utility				
Note, Series 2005	5,765,000	3.98%	2014	5,035,000
Water Utility				
Note, Series 2006	1,525,000	3.80%	2010	1,525,000
Notes Payable:				
GO Sales Tax Revenue Note of 2001	2,500,000	2.83%	2021	2,078,000
Airport Hangar - 1998	175,200	0%	2008	21,795
Airport Hangar - 1999	184,729	0%	2010	55,418
Airport Hangar - 2001	215,301	0%	2012	122,004
Airport Hangar - 2006	263,944	0%	2016	259,545
Energy Loan Payable	5,715,795	4.10%	2018	5,715,795
Compensated absences				10,811,111
Less: Unamortized premium and issuance costs				4,551,667
Total Long-term Debt				\$ 170,210,729

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

G. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

In 1997, the City issued Taxable Tax Increment Bonds, District 7 totaling \$2,669,380. These bonds are structured without fixed principal maturities. Payments are equal to the amount of available tax increments received by the City within the six month period preceding each payment date. These bonds are backed by the full faith, credit, and taxing power of the City and are serviced by a Debt Service Fund.

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 and Notes – Electric Utility

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

Revenue Note – Water Utility

Revenue note issued in 2006 by the Water Utility is payable from revenue derived from the operations of the Water Utility Enterprise Fund.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

G. Long-term Debt (continued)

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.

Energy Loan Payable

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

Notes Payable

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

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

G. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Taxable Tax Increment Bonds, District 7, Series 1997	\$ 2,547,435	\$	\$ 82,171	\$ 2,465,264	\$
Taxable Sales Tax Revenue Bonds, Series 2000	10,258,673		2,983,543	7,275,130	
GO Sales Tax Revenue Note of 2001	2,188,000		110,000	2,078,000	113,000
Note Payable:					
Airport Hangar 1998	39,327		17,532	21,795	17,532
Airport Hangar 1999	73,891		18,473	55,418	18,473
Airport Hangar 2001	143,534		21,530	122,004	21,530
Airport Hangar 2006		263,944	4,399	259,545	26,394
Municipal Loan Payable: Energy Loan		5,715,795		5,715,795	484,551
Less: Unamortized Issuance Costs	(12,980)		(864)	(12,116)	
Other Liabilities:					
Compensated Absences	7,482,552	4,538,847	4,247,452	7,773,947	4,680,000
Governmental Activities Long-term Liabilities	<u>22,720,432</u>	<u>10,518,586</u>	<u>7,484,236</u>	<u>25,754,782</u>	<u>5,361,480</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
Wastewater Treatment Plant - Revenue Refunding Bonds, Series 2001A	5,335,000		820,000	4,515,000	830,000
Revenue Bonds, Series 2004A	83,735,000		330,000	83,405,000	940,000
Revenue Bonds:					
Electric Utility Revenue Bonds - Series 2000	34,135,000		725,000	33,410,000	755,000
Series 2002	9,605,000		640,000	8,965,000	660,000
Revenue Note:					
Electric Utility Note of 2005	5,420,000		385,000	5,035,000	425,000
Water Utility Note of 2006		1,525,000		1,525,000	355,000
Less: Unamortized (Discount) Premium	4,815,017		251,234	4,563,783	
Other Liabilities:					
Compensated Absences	2,987,182	1,581,697	1,531,715	3,037,164	1,433,921
Business-type Activities Long-term Liabilities	<u>146,032,199</u>	<u>3,106,697</u>	<u>4,682,949</u>	<u>144,455,947</u>	<u>5,398,921</u>
Total	<u>\$ 168,752,631</u>	<u>\$ 13,625,283</u>	<u>\$ 12,167,185</u>	<u>\$ 170,210,729</u>	<u>\$ 10,760,401</u>

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

G. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2006, excluding accrued compensated absences over the life of the debt, are summarized below:

	General Obligation Revenue Bonds*		Revenue Bonds and Note		Energy Loan Payable		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2007					\$ 484,551	\$ 169,161	\$ 196,929	\$ 58,808
2008					385,045	210,574	186,660	55,610
2009					400,994	194,626	186,396	52,326
2010					417,603	178,017	170,924	48,930
2011					434,900	160,719	173,924	45,450
2012-2016					2,460,099	517,997	829,929	171,527
2017-2021					1,132,603	58,635	792,000	68,457
Totals					<u>\$ 5,715,795</u>	<u>\$ 1,489,729</u>	<u>\$ 2,536,762</u>	<u>\$ 501,108</u>
<u>Business-Type Activities</u>								
2007	\$ 1,770,000	\$ 4,250,475	\$ 2,195,000	\$ 2,388,763				
2008	1,815,000	4,193,075	2,320,000	2,285,044				
2009	1,865,000	4,132,345	2,455,000	2,182,429				
2010	1,915,000	4,068,895	2,595,000	2,071,822				
2011	2,040,000	3,991,600	2,320,000	1,952,290				
2012-2016	17,400,000	17,920,000	12,020,000	8,086,377				
2017-2021	27,870,000	11,910,250	7,700,000	5,676,734				
2022-2026	33,245,000	4,174,375	8,640,000	3,688,651				
2027-2031			8,690,000	1,169,438				
Totals	<u>\$ 87,920,000</u>	<u>\$ 54,641,015</u>	<u>\$ 48,935,000</u>	<u>\$ 29,501,548</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, 2006, the City had not utilized \$145,469,134 of its net legal debt margin.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$1,135,798,000 and the balance outstanding at December 31, 2006 totals \$1,129,956,857.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

H. 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, 2006 in the following funds:

General Fund

Designated:

Subsequent years' appropriations	\$ 293,201
General contingency for future compensated absences	<u>6,296,800</u>

Totals	<u><u>\$ 6,590,001</u></u>
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Special Revenue Funds

	<u>Library</u>	<u>Municipal Recreation</u>	<u>Law Enforcement Block Grants</u>	<u>Totals</u>
Designated:				
Subsequent years' appropriations	\$257,099	\$ 54,795	\$ 31,711	\$ 343,605
General contingency for future compensated absences	<u>515,676</u>	<u>961,471</u>	<u>31,711</u>	<u>1,477,147</u>
Totals	<u><u>\$772,775</u></u>	<u><u>\$1,016,266</u></u>	<u><u>\$ 31,711</u></u>	<u><u>\$1,820,752</u></u>

I. Individual Fund Disclosures

A deficit fund balance exists in the following fund. This deficit is expected to be eliminated in future years:

Special Revenue Fund:

Economic Development Fund	\$ (33,704)
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CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3: Detailed Notes on All Funds (continued)

J. Restricted Net Assets

	Restricted Net Assets Imposed By			
	Grantors	Contributors	Bond Agreement	Legally Enforceable
<u>Major Governmental Funds:</u>				
General Fund:				
Civic Music Endowment	\$	\$ 37,034	\$	\$
Construction Improvement Fund:				
Flood Control	21,641,027			
Sales Tax Authorized Projects				6,176,212
<u>Nonmajor Governmental Funds:</u>				
Special Revenue Funds:				
CDBG Loans	2,899,737			
Airport Operations				4,564,777
Total Governmental Activities	<u>24,540,764</u>	<u>37,034</u>		<u>10,740,989</u>
<u>Major Proprietary Funds:</u>				
Water Utility Fund:				
Construction Account			1,522,809	
Electric Utility Fund:				
Service Territory Acquisitions				1,944,564
Total Business-Type Activities			<u>1,522,809</u>	<u>1,944,564</u>
Total Restricted Net Assets	<u>\$ 24,540,764</u>	<u>\$ 37,034</u>	<u>\$ 1,522,809</u>	<u>\$ 12,685,553</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, 2006**

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 \$2,266,937 reported in the Fund at December 31, 2006 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, 2006 and 2005 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>
2006	\$2,534,996	\$ 7,978,729	\$ (8,246,788)	\$2,266,937
2005	2,811,576	8,231,625	(8,508,205)	\$2,534,996

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 4: Other Information (continued)

B. 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.

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments . As of December 31, 2006, the City's commitments with contractors and vendors was as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Major Street Projects	\$ 578,027
Sewer and Water Projects	7,250,532
Sidewalk Projects	224,502
Traffic Projects	21,037
Storm Water / Storm Sewer Projects	847,734
Water Reclamation Projects	2,627,324
Airport Projects	1,755,997
Parks Projects - Various	46,908
Total Construction Projects	<u>\$ 13,352,061</u>
<u>Equipment Purchase Commitments</u>	
General Government Land and Buildings - Facility Energy Improvements	\$ 2,169,542
General Government Land and Buildings - Council Chambers Audio/Visual	123,311
General Government Land and Buildings - Building Permit Software	73,381
General Government Land and Buildings - Dispatch Console Upgrade	51,634
Mass Transit Projects - 4 Transit Buses	1,199,772
Total Equipment Purchase Commitments	<u>\$ 3,617,640</u>

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006**

NOTE 4: Other Information (continued)

C. Contingent Liabilities

General Litigation:

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

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, 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, 2006, 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.

SMMPA Litigation:

In 2005, the City's municipal utility, Rochester Public Utilities (RPU), brought a claim against Southern Minnesota Municipal Power Agency (SMMPA) its primary wholesale power supplier, seeking a declaratory judgment that with respect to RPU's election of a "contract rate of delivery (CROD)" in 1999, RPU is not obligated to pay the capital costs of new generating resources. RPU also alleged breach of contract related to the process by which SMMPA establishes its rates and the possibility that SMMPA might have overcollected costs through rates charged to RPU (and others) under the Power Sales Contract since 2003. In 2006, RPU amended and supplemented its claims. With respect to the CROD-related count, RPU amended the requested judgment to state that SMMPA cannot charge RPU for the capital costs of generating facilities exceeding the 216 MW CROD. With respect to the breach of contract issues regarding rates, RPU amended and supplemented the count to argue that SMMPA has not followed correct ratemaking procedures and may have under collected important costs in past years.

SMMPA has filed a counterclaim alleging that RPU's steam sale agreement with the Mayo Clinic represents a breach of a 1992 "Settlement Agreement" concerning the use of RPU's Silver Lake Plant. SMMPA also filed counterclaims for declaratory judgment on issues relating to the nature of RPU's obligations under the Power Sales Contract. Early in 2007, SMMPA added a counterclaim requesting a judgment declaring, among other things, that the SMMPA Board has virtually unlimited discretion in setting rates under the Power Sales Contract with RPU

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4: Other Information (continued)

C. Contingent Liabilities (continued)

SMMPA Litigation (continued):

No provision for gain or loss related to RPU's claims or SMMPA's counterclaims have been recorded in the accompanying financial statements as it is not possible to predict or determine the outcome of this litigation.

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.

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 Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026. 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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

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

The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. 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 is capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.50% respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members were required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. The City of Rochester is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$2,096,034, \$1,871,477, and \$1,782,126, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$1,545,448, \$1,335,317, and \$1,289,118, 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 prior years, the City recorded a liability for compensated absences that have not matured in the Governmental Fund Financial Statements. During 2006, the City discontinued this policy in accordance with Governmental Accounting Standards, which resulted in a restatement of fund balance. The restatement increased the unreserved, designated general fund balance and the unreserved special revenue fund balance, previously reported at December 31, 2004, by \$316,471 and \$40,359 respectively. The restatement had no impact on the net change in fund balance for 2005.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4: Other Information (continued)

G. Subsequent Event

In March 2007, the City's municipal utility, Rochester Public Utilities (RPU), issued \$76 million in revenue bonds to finance emissions control improvements at the Silver Lake plant, substation work, and the expansion of the transmission and distribution system, as well as refund the 2000 revenue bonds at a lower interest rate.

In February and May, 2007 the City also issued \$50,380,000 in general obligation bonds to finance sewer infrastructure improvements .

H. Accounting Standards Issued But Not Yet Implemented

Government Accounting Standards Board Opinion No. 45 (GASB 45) "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" will be effective for the City in 2007 and will require the City to calculate the implicit rate subsidy provided to retirees participating in the City's group health plan. The implicit rate subsidy will result in the recording of a liability for post retirement benefits and is the result of the City allowing retirees to participate in the City's group health plan. No estimate of the amount of the liability is available.

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL NONMAJOR
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2006

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CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2006

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.

Economic Development Authority Fund: This fund was established to account for development allowable only under specific state statute.

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.

CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2006

DEBT SERVICE FUNDS (continued)

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.

Facility Energy Improvements Loan Fund:

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

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CITY OF ROCHESTER, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2006

	Special Revenue						
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Estate	Transit	
ASSETS							
Cash and cash equivalents	\$ 56,563	\$ 406,461	\$ 33,337	\$ 33,826	\$ 24,741	\$ 7,610	\$
Investments	1,394,300	2,092,100		2,605,800	223,900	447,800	
Accrued interest receivable	13,700	20,600		25,600	2,200	4,400	
Accounts receivable (net of allowance for uncollectibles)	56	441,120		1,136,729		21,532	
Loans receivable							
Taxes receivable delinquent	53,322	59,697		9,901		588	
Special assessments receivable delinquent		762					
Due from other funds	13,616	34,155		61,259			
Due from other governmental units	34,658	120,912		93,314		234,638	
Prepaid items	12,786	4,300					
TOTAL ASSETS	\$ 1,579,001	\$ 3,180,107	\$ 33,337	\$ 3,966,429	\$ 250,841	\$ 716,568	\$
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	\$ 106,044	\$ 92,758	\$ 1,262	\$ 135,850		\$ 97,286	\$ 9,586
Deposits payable	6,816	339,312					
Accrued compensation and payroll taxes	146,927	207,178				224	
Due to other funds	11,711	145,607		50,356			24,118
Due to other governmental units	16,444	134,367	364	21,322		21	
Advances from other funds		1,100,952					
Deferred revenue	53,322	60,460		9,900		588	
Total Liabilities	341,264	2,080,634	1,626	217,428		98,119	33,704
Fund Balance:							
Reserved for prepaid items	12,786	4,300					
Reserved for debt service							
Reserved for encumbrances	24,900	17,762				12,479	
Unreserved:							
Designated for future compensated absences	515,676	961,471					
Designated for subsequent years' appropriations	257,099	54,795	31,711				
Undesignated	427,276	61,145		3,749,001	250,841	605,970	(33,704)
Total Fund Balance	1,237,737	1,099,473	31,711	3,749,001	250,841	618,449	(33,704)
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,579,001	\$ 3,180,107	\$ 33,337	\$ 3,966,429	\$ 250,841	\$ 716,568	\$

Community Development Projects	Debt Service							Total Nonmajor Governmental Funds
	Total	Tax Increment Bonds	Airport Hangar Construction Notes	Sales Tax Revenue Bonds	Transportation Sales Tax Note	Facility Improvements Loan	Energy Total	
\$	\$ 562,538	\$	\$	\$	\$	\$ 6,738	\$ 6,738	\$ 569,276
	6,763,900							6,763,900
	66,500							66,500
	1,599,437							1,599,437
2,899,737	2,899,737							2,899,737
	123,508							123,508
	762							762
	109,030					120,095	120,095	229,125
107,664	591,186							591,186
	17,086							17,086
<u>\$ 3,007,401</u>	<u>\$ 12,733,684</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 126,833</u>	<u>\$ 126,833</u>	<u>\$ 12,860,517</u>
\$ 76,441	\$ 519,227	\$	\$	\$	\$	\$ 19,364	\$ 19,364	\$ 538,591
	346,128							346,128
	354,329							354,329
13,616	245,408							245,408
17,607	190,125							190,125
	1,100,952							1,100,952
2,899,737	3,024,007							3,024,007
<u>3,007,401</u>	<u>5,780,176</u>					<u>19,364</u>	<u>19,364</u>	<u>5,799,540</u>
	17,086							17,086
	55,141					107,469	107,469	107,469
								55,141
	1,477,147							1,477,147
	343,605							343,605
	5,060,529							5,060,529
	<u>6,953,508</u>					<u>107,469</u>	<u>107,469</u>	<u>7,060,977</u>
<u>\$ 3,007,401</u>	<u>\$ 12,733,684</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 126,833</u>	<u>\$ 126,833</u>	<u>\$ 12,860,517</u>

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

	Special Revenue						Economic Development Authority
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Estate	Transit	
REVENUES							
General property taxes	\$ 3,938,279	\$ 4,479,624	\$	\$ 735,702	\$	\$ 42,497	\$
Tax increments							
Sales tax							
Intergovernmental revenues	1,138,867	338,389	30,470	251,146		2,582,401	
Charges for services	163,213	5,212,282		2,647,146		150,853	
Interest earnings	28,692	54,389	1,029	115,892	9,874	19,494	
Net increase (decrease) in the fair value of investments	10,500	16,700		21,300	2,400	3,400	(187)
Miscellaneous revenues	117,156	68,675		18,000	11,546	28,033	
Total Revenues	5,396,707	10,170,059	31,499	3,789,186	23,820	2,826,678	(187)
EXPENDITURES							
Culture	5,364,731						
Park and recreation		10,357,189					
Public safety			41,585				
Airport operations				2,734,471			
Transit						2,649,879	
Economic development/tourism							33,517
Debt service							
Total Expenditures	5,364,731	10,357,189	41,585	2,734,471		2,649,879	33,517
Excess (deficiency) of revenues over (under) expenditures	31,976	(187,130)	(10,086)	1,054,715	23,820	176,799	(33,704)
OTHER FINANCING SOURCES (USES)							
Transfers in		305,000					
Transfers out	(15,000)	(40,000)		(744,583)	(75,325)		
Total Other Financing Sources (Uses)	(15,000)	265,000		(744,583)	(75,325)		
Net change in fund balances	16,976	77,870	(10,086)	310,132	(51,505)	176,799	(33,704)
Fund Balances - beginning, as restated	1,220,761	1,021,603	41,797	3,438,869	302,346	441,650	
Fund Balances - ending	\$ 1,237,737	\$ 1,099,473	\$ 31,711	\$ 3,749,001	\$ 250,841	\$ 618,449	\$ (33,704)

Community Development Projects	Debt Service							Total Nonmajor Governmental Funds
	Total	Tax Increment Bonds	Airport Hangar Construction Notes	Sales Tax Revenue Bonds	Transportation Sales Tax Note	Facility Energy Improvements Loan	Total	
\$	\$9,196,102	\$	\$	\$	\$	\$	\$	\$9,196,102
		221,166					221,166	221,166
				3,851,426	171,920		4,023,346	4,023,346
498,152	4,839,425							4,839,425
	8,173,494							8,173,494
	229,370					3,906	3,906	233,276
	54,113					86	86	54,199
36,717	280,127					122,841	122,841	402,968
534,869	22,772,631	221,166		3,851,426	171,920	126,833	4,371,345	27,143,976
	5,364,731							5,364,731
	10,357,189							10,357,189
	41,585							41,585
	2,734,471							2,734,471
	2,649,879							2,649,879
497,409	530,926							530,926
		221,166	61,934	3,851,426	171,920	135,549	4,441,995	4,441,995
497,409	21,678,781	221,166	61,934	3,851,426	171,920	135,549	4,441,995	26,120,776
37,460	1,093,850		(61,934)			(8,716)	(70,650)	1,023,200
	305,000		61,934			116,185	178,119	483,119
(37,460)	(912,368)							(912,368)
(37,460)	(607,368)		61,934			116,185	178,119	(429,249)
	486,482					107,469	107,469	593,951
	6,467,026							6,467,026
\$	\$6,953,508	\$	\$	\$	\$	\$ 107,469	\$ 107,469	\$7,060,977

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 (As Restated) Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 4,226,905	\$ 3,960,938	\$ 3,938,279	\$ (22,659)	\$ 3,702,328
Intergovernmental	869,895	1,135,862	1,138,867	3,005	1,074,720
Charges for services	146,200	146,200	163,213	17,013	160,077
Interest earnings		8,372	28,692	20,320	16,594
Net increase (decrease) in the fair value of investments			10,500	10,500	(6,700)
Miscellaneous					
Contributions		109,447	109,447		134,600
Other	7,000	7,001	7,709	708	8,323
Total Revenues	<u>5,250,000</u>	<u>5,367,820</u>	<u>5,396,707</u>	<u>28,887</u>	<u>5,089,942</u>
EXPENDITURES					
Public Library	5,250,000	5,275,172	5,224,477	50,695	4,980,852
Library - SELCO		44,568	6,590	37,978	24,992
Gifts appropriations		352,785	133,664	219,121	90,128
Total Expenditures	<u>5,250,000</u>	<u>5,672,525</u>	<u>5,364,731</u>	<u>307,794</u>	<u>5,095,972</u>
Excess (deficiency) of revenues over (under) expenditures		<u>(304,705)</u>	<u>31,976</u>	<u>336,681</u>	<u>(6,030)</u>
OTHER FINANCING USES					
Transfers out			<u>(15,000)</u>	<u>(15,000)</u>	<u>(17,300)</u>
Net change in fund balances		<u>(304,705)</u>	<u>16,976</u>	<u>321,681</u>	<u>(23,330)</u>
Fund Balances - beginning, as originally reported					1,231,014
Prior period adjustment (Note 4F)					<u>13,077</u>
Fund Balance - beginning, as restated	<u>1,220,761</u>	<u>1,220,761</u>	<u>1,220,761</u>		<u>1,244,091</u>
Fund Balances - ending	<u>\$ 1,220,761</u>	<u>\$ 916,056</u>	<u>\$ 1,237,737</u>	<u>\$ 321,681</u>	<u>\$ 1,220,761</u>

CITY OF ROCHESTER, MINNESOTA
MUNICIPAL RECREATION SYSTEM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 (As Restated) Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 4,809,874	\$ 4,507,227	\$ 4,479,624	\$ (27,603)	\$ 3,955,821
Intergovernmental	18,562	321,209	338,389	17,180	348,651
Charges for services	5,480,975	5,520,975	5,212,282	(308,693)	5,295,125
Interest earnings	45,075	45,075	54,389	9,314	40,039
Net increase (decrease) in the fair value of investments			16,700	16,700	(9,300)
Miscellaneous					
Contributions	26,100	48,731	52,570	3,839	36,536
Other	26,250	26,964	16,105	(10,859)	38,464
Total Revenues	<u>10,406,836</u>	<u>10,470,181</u>	<u>10,170,059</u>	<u>(300,122)</u>	<u>9,705,336</u>
EXPENDITURES					
Administration	420,762	420,762	418,836	1,926	391,360
Recreation Department	599,201	604,772	605,434	(662)	575,489
Golf	1,391,546	1,406,164	1,463,160	(56,996)	1,369,660
Tennis Center	46,803	46,803	52,942	(6,139)	50,983
Volleyball Center	259,522	259,522	274,403	(14,881)	251,679
Swimming Pools	199,588	199,588	194,174	5,414	188,642
Graham Arenas	455,954	455,954	440,652	15,302	460,768
Park	3,203,925	3,518,848	3,145,231	373,617	3,099,384
Plummer House	61,371	61,371	70,827	(9,456)	70,598
Recreation Center	1,189,946	1,189,946	1,153,166	36,780	1,240,923
UCR Field House	111,500	111,500	146,799	(35,299)	118,413
Mayo Civic Center	2,285,397	2,308,024	2,391,565	(83,541)	2,243,850
Total Expenditures	<u>10,225,515</u>	<u>10,583,254</u>	<u>10,357,189</u>	<u>226,065</u>	<u>10,061,749</u>
Excess (deficiency) of revenues over (under) expenditures	<u>181,321</u>	<u>(113,073)</u>	<u>(187,130)</u>	<u>(74,057)</u>	<u>(356,413)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		305,000	305,000		461,407
Transfers out	<u>(189,107)</u>	<u>(229,107)</u>	<u>(40,000)</u>	<u>189,107</u>	
Total Other Financing Sources (Uses)	<u>(189,107)</u>	<u>75,893</u>	<u>265,000</u>	<u>189,107</u>	<u>461,407</u>
Net change in fund balances	<u>(7,786)</u>	<u>(37,180)</u>	<u>77,870</u>	<u>115,050</u>	<u>104,994</u>
Fund Balances - beginning, as originally reported					889,327
Prior period adjustment (Note 4F)					<u>27,282</u>
Fund Balance - beginning, as restated	<u>1,021,603</u>	<u>1,021,603</u>	<u>1,021,603</u>		<u>916,609</u>
Fund Balances - ending	<u>\$ 1,013,817</u>	<u>\$ 984,423</u>	<u>\$ 1,099,473</u>	<u>\$ 115,050</u>	<u>\$ 1,021,603</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, 2006

With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 Actual Amounts
	Original	Final			
REVENUES					
Intergovernmental	\$ 30,470	\$ 30,470	\$ 30,470	\$	\$ 51,551
Interest earnings	1,029	1,029	1,029		304
Total Revenues	<u>31,499</u>	<u>31,499</u>	<u>31,499</u>		<u>51,855</u>
EXPENDITURES					
Law enforcement block grant	<u>72,267</u>	<u>73,296</u>	<u>41,585</u>	<u>31,711</u>	<u>35,203</u>
Total Expenditures	<u>72,267</u>	<u>73,296</u>	<u>41,585</u>	<u>31,711</u>	<u>35,203</u>
Excess (deficiency) of revenues over (under) expenditures	(40,768)	(41,797)	(10,086)	31,711	16,652
Fund Balances - beginning	<u>41,797</u>	<u>41,797</u>	<u>41,797</u>		<u>25,145</u>
Fund Balances - ending	<u>\$ 1,029</u>	<u>\$</u>	<u>\$ 31,711</u>	<u>\$ 31,711</u>	<u>\$ 41,797</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, 2006
With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 789,525	\$ 739,836	\$ 735,702	\$ (4,134)	\$ 693,785
Intergovernmental	185,840	251,146	251,146		330,431
Charges for services	2,433,359	2,633,359	2,647,146	13,787	2,586,231
Interest earnings	42,500	115,500	115,892	392	70,478
Net increase (decrease) in the fair value of investments			21,300	21,300	(17,400)
Miscellaneous	18,000	18,000	18,000		24,751
Total Revenues	<u>3,469,224</u>	<u>3,757,841</u>	<u>3,789,186</u>	<u>31,345</u>	<u>3,688,276</u>
EXPENDITURES					
Airport operations	2,394,054	2,647,671	2,574,749	72,922	2,679,938
US customs operations	124,589	159,589	159,722	(133)	180,377
Total Expenditures	<u>2,518,643</u>	<u>2,807,260</u>	<u>2,734,471</u>	<u>72,789</u>	<u>2,860,315</u>
Excess (deficiency) of revenues over (under) expenditures	<u>950,581</u>	<u>950,581</u>	<u>1,054,715</u>	<u>104,134</u>	<u>827,961</u>
OTHER FINANCING SOURCES (USES)					
Transfers in					36,815
Transfers out	<u>(677,475)</u>	<u>(677,475)</u>	<u>(744,583)</u>	<u>(67,108)</u>	<u>(338,461)</u>
Total Other Financing Sources (Uses)	<u>(677,475)</u>	<u>(677,475)</u>	<u>(744,583)</u>	<u>(67,108)</u>	<u>(301,646)</u>
Net change in fund balances	273,106	273,106	310,132	37,026	526,315
Fund Balances - beginning	<u>3,438,869</u>	<u>3,438,869</u>	<u>3,438,869</u>		<u>2,912,554</u>
Fund Balances - ending	<u>\$3,711,975</u>	<u>\$3,711,975</u>	<u>\$3,749,001</u>	<u>\$ 37,026</u>	<u>\$3,438,869</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, 2006
With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 Actual Amounts
	Original	Final			
REVENUES					
Interest earnings	\$ 5,000	\$ 5,000	\$ 9,874	\$ 4,874	\$ 7,986
Net increase (decrease) in fair value of investments			2,400	2,400	(1,300)
Miscellaneous					
Contributions			20	20	
Rental of real property	9,600	9,600	11,526	1,926	11,170
Total Revenues	<u>14,600</u>	<u>14,600</u>	<u>23,820</u>	<u>9,220</u>	<u>17,856</u>
EXPENDITURES					
Contractual services	5,149	5,149		5,149	1,984
Materials and supplies					5,368
Capital outlay					10,000
Total Expenditures	<u>5,149</u>	<u>5,149</u>		<u>5,149</u>	<u>17,352</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,451</u>	<u>9,451</u>	<u>23,820</u>	<u>14,369</u>	<u>504</u>
OTHER FINANCING USES					
Transfers out			<u>(75,325)</u>	<u>(75,325)</u>	<u>(929)</u>
Net change in fund balances	9,451	9,451	(51,505)	(60,956)	(425)
Fund Balances - beginning	<u>302,346</u>	<u>302,346</u>	<u>302,346</u>		<u>302,771</u>
Fund Balances - ending	<u>\$ 311,797</u>	<u>\$ 311,797</u>	<u>\$ 250,841</u>	<u>\$ (60,956)</u>	<u>\$ 302,346</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, 2006
With Comparative Totals for the Year Ended December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget - Positive (Negative)	2005 Actual Amounts
	Original	Final			
REVENUES					
General property taxes	\$ 45,545	\$ 42,669	\$ 42,497	\$ (172)	\$ 54,662
Intergovernmental revenues	2,744,403	2,747,279	2,582,401	(164,878)	2,548,942
Charges for services	91,198	91,198	150,853	59,655	61,994
Interest earnings			19,494	19,494	16,001
Net increase (decrease) in the fair value of investments			3,400	3,400	(2,100)
Miscellaneous		16,042	28,033	11,991	49,558
Total Revenues	<u>2,881,146</u>	<u>2,897,188</u>	<u>2,826,678</u>	<u>(70,510)</u>	<u>2,729,057</u>
EXPENDITURES					
Employee services	13,847	13,847	10,728	3,119	7,668
Contractual services	472,605	488,647	473,985	14,662	623,524
Materials and supplies	1,925	1,925	64,992	(63,067)	4,888
Other charges	2,392,769	2,392,769	2,100,174	292,595	2,113,139
Total Expenditures	<u>2,881,146</u>	<u>2,897,188</u>	<u>2,649,879</u>	<u>247,309</u>	<u>2,749,219</u>
Excess (deficiency) of revenues over (under) expenditures			176,799	176,799	(20,162)
Fund Balances - beginning	<u>441,650</u>	<u>441,650</u>	<u>441,650</u>		<u>461,812</u>
Fund Balances - ending	<u>\$ 441,650</u>	<u>\$ 441,650</u>	<u>\$ 618,449</u>	<u>\$ 176,799</u>	<u>\$ 441,650</u>

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2006

Internal Service Funds are used to account for the financing of goods or services provided for various departments of the City on a cost-reimbursement basis. The accrual basis of accounting is used. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Equipment Revolving Fund:

This fund was created by Council resolution for the purchase and replacement of equipment. City departments pay rental charges to the Equipment Revolving Fund for equipment used in providing services.

Information Technology Revolving Fund:

This fund provides for the purchase and upgrading of computer equipment and base-system software; and maintenance of current computer hardware. User charges are assessed against City departments using the computer equipment.

Self-Insurance Fund:

This fund was established by Council resolution, under the authority of City Charter Chapter XI, to account for the City's self-insurance program which includes group life and health, workers' compensation and deductible property loss.

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS

December 31, 2006

With Comparative Totals as of December 31, 2005

	Equipment	Information	Self-	Totals	
	Revolving Fund	Technology Revolving Fund	Insurance Fund	2006	2005
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 87,035	\$ 41,177	\$ 172,004	\$ 300,216	\$ 1,142,635
Investments	5,978,200	3,038,500	13,075,900	22,092,600	18,015,200
Accrued interest receivable	58,700	29,900	128,500	217,100	116,200
Total Current Assets	<u>6,123,935</u>	<u>3,109,577</u>	<u>13,376,404</u>	<u>22,609,916</u>	<u>19,274,035</u>
Noncurrent Assets:					
Capital assets:					
Machinery and equipment	19,745,602	704,600		20,450,202	19,048,475
Less: Accumulated depreciation	(11,275,327)	(305,256)		(11,580,583)	(10,770,684)
Total capital assets (net of accumulated depreciation)	<u>8,470,275</u>	<u>399,344</u>		<u>8,869,619</u>	<u>8,277,791</u>
Total Assets	<u>14,594,210</u>	<u>3,508,921</u>	<u>13,376,404</u>	<u>31,479,535</u>	<u>27,551,826</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	2,036	266	9,225	11,527	41,343
Deposits payable			240,933	240,933	325,335
Accrued compensation and payroll taxes			14,050	14,050	18,450
Due to other governmental units			10,580	10,580	34,418
Accrued claims			1,307,530	1,307,530	1,561,817
Total Current Liabilities	<u>2,036</u>	<u>266</u>	<u>1,582,318</u>	<u>1,584,620</u>	<u>1,981,363</u>
Noncurrent Liabilities:					
Accrued claims			959,407	959,407	973,179
Total Liabilities	<u>2,036</u>	<u>266</u>	<u>2,541,725</u>	<u>2,544,027</u>	<u>2,954,542</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,470,275	399,344		8,869,619	8,277,791
Unrestricted	<u>6,121,899</u>	<u>3,109,311</u>	<u>10,834,679</u>	<u>20,065,889</u>	<u>16,319,493</u>
Total Net Assets	<u>\$14,592,174</u>	<u>\$ 3,508,655</u>	<u>\$10,834,679</u>	<u>\$28,935,508</u>	<u>\$24,597,284</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, 2006

With Comparative Totals for the Year Ended December 31, 2005

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2006	2005
Operating Revenues:					
Charges for Services:					
Equipment rental	\$ 1,642,839	\$ 279,979	\$	\$ 1,922,818	\$ 1,725,352
Copy center charges	21,918			21,918	23,888
Departmental workers' compensation charges			173,149	173,149	180,813
Departmental insurance charges			10,424,301	10,424,301	9,426,780
Departmental flex charges			19,012	19,012	19,415
Employee insurance charges			1,467,501	1,467,501	1,447,584
Employee flex benefit contributions			591,741	591,741	548,155
Total Operating Revenues	<u>1,664,757</u>	<u>279,979</u>	<u>12,675,704</u>	<u>14,620,440</u>	<u>13,371,987</u>
Operating Expenses:					
Copy center	12,519			12,519	14,913
Minor equipment		148,835		148,835	180,227
Workers' compensation benefits			123,130	123,130	574,196
Workers' compensation insurance premiums			42,710	42,710	106,964
Health insurance claims			8,023,287	8,023,287	7,853,796
Flex benefits			611,364	611,364	575,238
Property and liability insurance			666,510	666,510	581,702
Property and liability claims			28,735	28,735	36,843
Other	187	135,610		135,797	129,380
Depreciation	1,653,810	96,424		1,750,234	1,630,736
Total Operating Expenses	<u>1,666,516</u>	<u>380,869</u>	<u>9,495,736</u>	<u>11,543,121</u>	<u>11,683,995</u>
Operating Income (Loss)	<u>(1,759)</u>	<u>(100,890)</u>	<u>3,179,968</u>	<u>3,077,319</u>	<u>1,687,992</u>
Nonoperating Revenues (Expenses):					
Interest earnings	223,303	116,521	455,794	795,618	475,860
Net increase (decrease) in the fair value of investments	58,200	25,000	69,200	152,400	(117,300)
Gain on disposal of property	76,049			76,049	94,349
Other income	1,302		270	1,572	8,169
Total Nonoperating Revenues (Expenses)	<u>358,854</u>	<u>141,521</u>	<u>525,264</u>	<u>1,025,639</u>	<u>461,078</u>
Income (Loss) Before Transfers and Contributions	357,095	40,631	3,705,232	4,102,958	2,149,070
Capital contributions		133,416		133,416	60,052
Transfers in	5,801	96,049		101,850	64,520
Transfers out					(4,502)
Change in Net Assets	<u>362,896</u>	<u>270,096</u>	<u>3,705,232</u>	<u>4,338,224</u>	<u>2,269,140</u>
Total Net Assets - beginning	<u>14,229,278</u>	<u>3,238,559</u>	<u>7,129,447</u>	<u>24,597,284</u>	<u>22,328,144</u>
Total Net Assets - ending	<u>\$ 14,592,174</u>	<u>\$ 3,508,655</u>	<u>\$ 10,834,679</u>	<u>\$ 28,935,508</u>	<u>\$ 24,597,284</u>

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

For the Year Ended December 31, 2006
 With Comparative Totals for the Year Ended December 31, 2005

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2006	2005
Cash Flows From Operating Activities:					
Cash received from other departments	\$ 1,664,757	\$ 279,979	\$ 10,616,462	\$ 12,561,198	\$ 11,376,248
Cash received from employees			2,059,242	2,059,242	1,995,739
Cash paid to suppliers	(10,880)	(288,995)	(9,869,534)	(10,169,409)	(10,838,431)
Other income	1,302		270	1,572	8,169
Net Cash Provided by (Used in) Operating Activities	1,655,179	(9,016)	2,806,440	4,452,603	2,541,725
Cash Flows From Noncapital Financing Activities:					
Transfers in	5,801	96,049		101,850	64,520
Transfers out					(4,502)
Net Cash Provided By (Used in) Noncapital Financing Activities	5,801	96,049		101,850	60,018
Cash Flows From Capital and Related Financing Activities:					
Proceeds from sale of property	106,557			106,557	96,546
Acquisition of capital assets	(2,200,190)	(72,957)		(2,273,147)	(1,911,649)
Net Cash Provided By (Used in) Capital and Related Financing Activities	(2,093,633)	(72,957)		(2,166,590)	(1,815,103)
Cash Flows From Investing Activities:					
Investment income	204,103	104,421	386,194	694,718	448,160
Net (increase) decrease in investments	200,000	(250,000)	(3,875,000)	(3,925,000)	(2,922,113)
Net Cash Provided By (Used in) Investing Activities	404,103	(145,579)	(3,488,806)	(3,230,282)	(2,473,953)
Net Increase (Decrease) in Cash and Cash Equivalents	(28,550)	(131,503)	(682,366)	(842,419)	(1,687,313)
Cash and Cash Equivalents, Beginning of Year	115,585	172,680	854,370	1,142,635	2,829,948
Cash and Cash Equivalents, End of Year	\$ 87,035	\$ 41,177	\$ 172,004	\$ 300,216	\$ 1,142,635

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

For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

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

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals	
				2006	2005
Operating Income (Loss)	\$ (1,759)	\$ (100,890)	\$ 3,179,968	\$ 3,077,319	\$ 1,687,992
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	1,653,810	96,424		1,750,234	1,630,736
Other income	1,302		270	1,572	8,169
Increase (Decrease) In:					
Accounts payable	1,826	(4,550)	6,901	4,177	(367,435)
Deposits payable			(84,402)	(84,402)	(160,389)
Accrued compensation and payroll taxes			(4,400)	(4,400)	574
Due to other governmental units			(23,838)	(23,838)	18,658
Accrued claims			(268,059)	(268,059)	(276,580)
Net Cash Provided by (Used in) Operating Activities	<u>\$1,655,179</u>	<u>\$ (9,016)</u>	<u>\$ 2,806,440</u>	<u>\$ 4,452,603</u>	<u>\$ 2,541,725</u>
Non Cash Transactions:					
Receipt of contributed property	\$	\$ 133,416	\$	\$ 133,416	\$ 60,052
Increase (decrease) in fair value of investments	58,200	25,000	69,200	152,400	(117,300)
Purchase of equipment included in accounts payable at year end					33,993

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CITY OF ROCHESTER, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES**

December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation Tax</u>								
<u>Increment Bonds:</u>								
Taxable Tax Increment Bonds District 7, Series 1997	5.50% (2/1; 8/1)	3/4/1997	2/1/2024	(1)	\$ 2,768,500	\$ 2,669,380	\$ 204,116	\$ 2,465,264
Total General Obligation Tax Increment Bonds					2,768,500	2,669,380	204,116	2,465,264
<u>General Obligation Sales</u>								
<u>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	3,183,543	7,275,130
Total General Obligation Sales Tax Revenue Bonds					10,458,673	10,458,673	3,183,543	7,275,130
<u>General Obligation Sales</u>								
<u>Tax Revenue Notes:</u>								
General Obligation Taxable Sales Tax Revenue Note of 2001	2.83% (2/20; 8/20)	11/14/2001	8/20/2021	\$ 113,000 (2007) 116,000 (2008) 120,000 (2009) 123,000 (2010) 126,000 (2011) 130,000 (2012) 134,000 (2013) 138,000 (2014) 141,000 (2015) 145,000 (2016) 150,000 (2017) 154,000 (2018) 158,000 (2019) 163,000 (2020) 167,000 (2021)	2,500,000	2,500,000	422,000	2,078,000
Total General Obligation Sales Tax Revenue Notes					2,500,000	2,500,000	422,000	2,078,000

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation</u>								
<u>Revenue Bonds:</u>								
Wastewater Treatment 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	\$ 830,000 (2007) 865,000 (2008) 900,000 (2009) 930,000 (2010) 990,000 (2011)	8,275,000	8,275,000	3,760,000	4,515,000
Subtotal General Obligation Revenue Bonds					<u>8,275,000</u>	<u>8,275,000</u>	<u>3,760,000</u>	<u>4,515,000</u>
<u>General Obligation</u>								
<u>Revenue Bonds:</u>								
Wastewater Treatment Revenue Bonds 2004A dated November 1, 2004-str 2/1/11	3.0, 5.0% (2/1)	11/1/2004	2/1/2026	\$ 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	\$ 330,000	\$ 83,405,000
Subtotal General Obligation Revenue Bonds					<u>83,735,000</u>	<u>83,735,000</u>	<u>330,000</u>	<u>83,405,000</u>
Total General Obligation Revenue Bonds					<u>92,010,000</u>	<u>92,010,000</u>	<u>4,090,000</u>	<u>87,920,000</u>

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<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	12/1/2030	\$ 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	\$ 3,880,000	\$ 33,410,000
Subtotal Revenue Bonds					37,290,000	37,290,000	3,880,000	33,410,000

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Revenue Bonds (continued):</u>								
Electric Utility Revenue Bonds, Series 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	\$ 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	\$ 2,310,000	\$ 8,965,000
Subtotal Revenue Bonds					11,275,000	11,275,000	2,310,000	8,965,000
Total Revenue Bonds					48,565,000	48,565,000	6,190,000	42,375,000
<u>Revenue Notes:</u>								
Electric Utility Note, Note of 2005	3.98% (12/1)	3/10/2005	12/1/2014	425,000 (2007) 470,000 (2008) 525,000 (2009) 580,000 (2010) 645,000 (2011) 715,000 (2012) 795,000 (2013) 880,000 (2014)	5,765,000	5,765,000	730,000	5,035,000
Subtotal Revenue Notes					5,765,000	5,765,000	730,000	5,035,000
<u>Revenue Notes:</u>								
Water Utility Note, Note of 2006	3.80% (12/1)	8/10/2006	12/1/2010	355,000 (2007) 370,000 (2008) 390,000 (2009) 410,000 (2010)	1,525,000	1,525,000		1,525,000
Subtotal Revenue Notes					1,525,000	1,525,000		1,525,000
Total Revenue Notes					7,290,000	7,290,000	730,000	6,560,000

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Loan Payable</u>								
Energy Loan Payable Note of 2006	4.10% (3/31; 9/30)	6/30/2006	9/30/2018	\$ 484,551 (2007) 385,045 (2008) 400,994 (2009) 417,603 (2010) 434,900 (2011) 452,914 (2012) 471,674 (2013) 491,210 (2014) 511,556 (2015) 532,745 (2016) 554,812 (2017) 577,791 (2018)	\$ 5,715,795	\$ 5,715,795		\$ 5,715,795
Total Loan Payable					5,715,795	5,715,795		5,715,795
<u>Notes Payable:</u>								
Airport Hanger Note of 1998	0% (monthly)	4/1/1998	4/1/2008	17,532 (2007) 4,263 (2008)	175,200	175,200	153,405	21,795
Subtotal Notes Payable					175,200	175,200	153,405	21,795
<u>Notes Payable:</u>								
Airport Hanger Note of 1999	0% (monthly)	12/31/1999	12/31/2009	18,473 (2007) 18,473 (2008) 18,472 (2009)	184,729	184,729	129,311	55,418
Subtotal Notes Payable					184,729	184,729	129,311	55,418

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DEBT MATURITIES (CONTINUED)
December 31, 2006

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Notes Payable (continued):</u>								
Airport Hanger Note of 2001	0% (monthly)	8/1/2002	8/1/2012	21,530 (2007) 21,530 (2008) 21,530 (2009) 21,530 (2010) 21,530 (2011) 14,354 (2012)	222,400	215,301	93,297	122,004
Subtotal Notes Payable					222,400	215,301	93,297	122,004
<u>Notes Payable:</u>								
Airport Hanger Note of 2006	0% (monthly)	11/1/2006	11/1/2016	26,394 (2007) 26,394 (2008) 26,394 (2009) 26,394 (2010) 26,394 (2011) 26,394 (2012) 26,394 (2013) 26,394 (2014) 26,394 (2015) 21,999 (2016)	263,944	263,944	4,399	259,545
Subtotal Notes Payable					263,944	263,944	4,399	259,545
Total Notes Payable					846,273	839,174	380,412	458,762
TOTAL DEBT PAYABLE					<u>\$ 170,154,241</u>	<u>\$ 170,048,022</u>	<u>\$15,200,071</u>	<u>\$ 154,847,951</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 PERSONNEL EXPENDITURES-ALL FUNDS
For the Year Ended December 31, 2006

	Salaries and Wages		Employer Contributions				Total	
	Amount	Pension	Social Security	Group Insurance	Workers' Compensation	Unemployment Compensation	Other (1) Contributions	Wages and Contributions
<u>Government and Fiduciary Fund Types</u>								
General Government	\$ 3,567,761	\$ 209,147	\$ 251,759	\$ 673,256	\$ 2,335	\$ 1,575	\$ 8,397	\$ 4,714,230
Police	9,270,337	918,833	161,378	1,911,248	36,751		21,474	12,320,021
<u>Public Safety</u>								
Communications	1,302,219	80,946	93,014	274,395	801		4,216	1,755,591
Fire	6,932,042	707,100	88,484	1,373,857	50,702		3,609	9,155,794
Fire Hazmat Response Team	15,100	1,567	122		76			16,865
Building Safety	1,622,773	97,555	119,440	363,971	1,860		1,144	2,206,743
Animal Control	128,557	7,800	9,561	36,977	1,001			183,896
Flood Control	137,550	7,062	9,967	21,656	846	423	59	177,563
Public Works	4,735,108	279,049	349,626	974,468	31,283	4,106	6,244	6,379,884
Music	240,178	14,263	17,662	52,832	210	72	694	325,911
Library	3,041,431	172,710	225,479	529,711	3,299		8,780	3,981,410
Park and Recreation	4,685,775	235,582	346,400	863,913	25,963	8,998	2,258	6,168,889
TOTAL	\$35,678,831	\$2,731,614	\$1,672,892	\$7,076,284	\$ 155,127	\$ 15,174	\$ 56,875	\$47,386,797
<u>Proprietary Fund Types</u>								
Parking	\$ 220,609	\$ 13,217	\$ 16,228	\$ 55,693	\$ 1,337		\$ 394	\$ 307,478
Electric Utility	11,807,330	699,823	865,062	2,273,245	124,298	13,061	4,477	15,787,296
Water Utility	1,320,028	75,170	94,433	244,056	324		412	1,734,423
Sewer Utility	1,902,728	117,254	134,572	512,526	16,404		1,227	2,684,711
Storm Water Utility	278,270	16,273	21,091	36,111	273		648	352,666
TOTAL	\$15,528,965	\$ 921,737	\$1,131,386	\$3,121,631	\$ 142,636	\$ 13,061	\$ 7,158	\$20,866,574

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