

CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

DEPARTMENT OF FINANCE

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Members of the Government Finance Officer's Association
of the United States and Canada

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CITY OF ROCHESTER, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2005

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CITY OF ROCHESTER, MINNESOTA
INTRODUCTORY SECTION
DECEMBER 31, 2005

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ROCHESTER

Minnesota



FINANCE DEPARTMENT
201 4th Street SE, Room 204
Rochester, MN 55904-3779
(507) 285-8088
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May 30, 2006

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

Minnesota statutes require all cities to issue an annual report on its financial position and activity prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Rochester for the fiscal year ended December 31, 2005.

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

The City of Rochester's financial statements have been audited by Smith, Schafer and Associates, Ltd., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rochester for the fiscal year ended December 31, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rochester's financial statements for the fiscal year ended December 31, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

CITY OF ROCHESTER, MINNESOTA

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

PROFILE OF THE GOVERNMENT

The City of Rochester, incorporated on August 5, 1858, is located in the southeastern part of the State of Minnesota, which is considered to be one of the top growth areas in the state, and one of the top growth areas in the country. The City currently has a land area of nearly 50.90 square miles and serves a population of 97,191. The City of Rochester is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

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

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

The annual budget serves as the foundation for the City of Rochester's financial planning and control. All departments and agencies of the City of Rochester submit requests for appropriation to the city administrator in August of each year. The city administrator uses these requests as the starting point for developing a proposed budget. The city administrator then provides this proposed budget to the council for review prior to November 15th. Work sessions are then held with the council covering each department budget. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than December 31, the close of the City of Rochester's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between funds, however, require the special approval of the city council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 28 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 80.

CITY OF ROCHESTER, MINNESOTA

FACTORS AFFECTING FINANCIAL CONDITION

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

Local economy. The third largest City in Minnesota, Rochester is located 78 miles southeast of Minneapolis and St. Paul. Rochester's strong economy is built around world-renowned health care, cutting-edge technology, agriculture and agribusiness. As home to the Mayo Clinic and IBM Rochester, the City has developed into an economic growth center and the cultural hub of southeastern Minnesota. Its many recreational and cultural activities draw people from southeastern Minnesota and northern Iowa. Add these benefits to a low crime rate and an exceptional school system and it is easy to see why Rochester continues to rank as one of the top places to live. In May of 2005, Forbes Magazine placed Rochester at number 2 of the 10 best small cities to start a business.

Other recent indicators of Rochester's economic vitality include:

- **Jobs.** Rochester posted a 12 month increase of 1,691 jobs through March of 2006. This is after an increase of 1,214 jobs in the prior 12 months and continues a 15-year growth pattern. Education and Health services accounted for the bulk (800+) of that increase. Total employment stood at 103,565 at the end of the first quarter of 2006.
- **Unemployment.** Rochester's unemployment rate decreased to 4.2 percent by the end of March 2006, down from 4.4 percent one year ago. It remains below the state and U.S. averages of 4.8 percent. The average unemployment rate for Rochester over the past 12 months was 3.5%.
- **Home Sales.** Home sales for the first quarter of 2006 reached just shy of \$68 million and represented a 1.3 percent increase from the same period last year.
- **Building Activity.** First quarter 2006 commercial and residential building permits totaled over \$64 million, but did represent a decrease of 7.4 percent from the same quarter in 2005. Still, this was 8.7 percent higher than the same period in 2004.

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

- **Waste Water Treatment Plant Expansion.** Construction is underway on this \$64 million expansion of our wastewater treatment plant. The project is necessary to meet the ever-growing capacity demands. Council issued bonds and approved of a new "plant investment fee" charged to new development to support the additional debt service requirements. Construction should be completed by the end of 2006.
- **Water Quality Project.** The \$22 million in sales tax monies allocated toward extending sanitary sewer and water lines to parcels adjacent to the City that had failing septic systems is in its final stages of completion this spring. In addition to protecting the community's drinking water aquifers, the project is providing both additional tax base through annexation of these developed properties as well as the

CITY OF ROCHESTER, MINNESOTA

Long-term financial planning (continued).

development of many in-fill areas that were previously not able to be developed without this infrastructure.

- Cascade Lake Development. The City has purchased some properties, provided for the relocation of power lines, obtained easements and accepted development plans for the gravel mining and eventual development of what will become the largest lake in the area. Plans are proceeding for adjacent public parkland and a public bike trail surrounding the lake. This project has already become a significant attraction for new residential development, and will eventually be a wonderful asset for all the citizens of Rochester to enjoy.
- Downtown Development. The new Downtown Alliance and the City's development department are working on a number of exciting projects to rejuvenate this area including the Downtown Plaza Project, and a new 9-story Bioscience Building to be built by the City's EDA.
- Expansion of Sewer Collection and Water Service Systems. With the treatment plant expansion nearing completion, construction of new sewer mains from the plant to new development territory is underway. This, along with the upgrade of a major lift station will open up significant new areas for the City to expand.

Cash management policies and practices. Cash temporarily idle during the year was invested in short-term government money market accounts, commercial paper, obligations of the U.S. Treasury and its agencies, and municipal bonds. The maturities of the investments range from 30 days to 20 years with an average maturity of 1.7 years. Investment income includes appreciation or depreciation in the fair value of investments. Increases or decreases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk management. The City maintains a self-insurance program for employee group health coverage and workers' compensation and a high deductible policy on property and casualty coverage. The group health program is limited to losses of \$225,000 per claim with a variable annual aggregate, and the 2005 workers' compensation exposure is limited to \$760,000 per occurrence, both through the use of stop-loss policies. The City's general and auto liability policies retain a \$200,000 aggregate deductible exposure with a \$1,000,000 statutory limit of coverage. The City recognizes a liability on individual claims when a claim is probable and the amount can be reasonably estimated. In addition the City recognizes an estimated liability on claims that have been incurred but not reported. The workers' compensation premium charged to the departmental budgets for 2005 was a factor of 0.30 of the Workers' Compensation Reinsurance Association adjusted pure premium exposure base rate.

Health coverage premiums were increased 24.5 percent in 2004 and 35 percent for 2005 as we struggled to respond to some high claims and continued increases in general health care that exceed inflation rates. Dental premiums were not increased in 2004 and were increased a modest 4% in 2005. Despite these large increases, premiums still remain about average in the market for comparable

CITY OF ROCHESTER, MINNESOTA

Risk management (continued).

coverage. Additional information on the City's risk management activity can be found in Note 4:A of the notes to the financial statements.

Pension. Substantially all employees of the City of Rochester are covered by a statewide defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). Employees participated in one of the following plans during 2005:

- Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer plan
- Public Employees Police and Fire Fund (PEPFF), a cost-sharing multiple-employer plan

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers qualifying for membership by statute are covered by the PEPFF. Additional information on the City's pension benefits can be found in Note 4:E. of the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rochester, Minnesota for its comprehensive annual financial report for the fiscal year ended December 31, 2004. This was the thirty-seventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Dale R. Martinson
Director of Finance



Stevan E. Kvenvold
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester,
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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



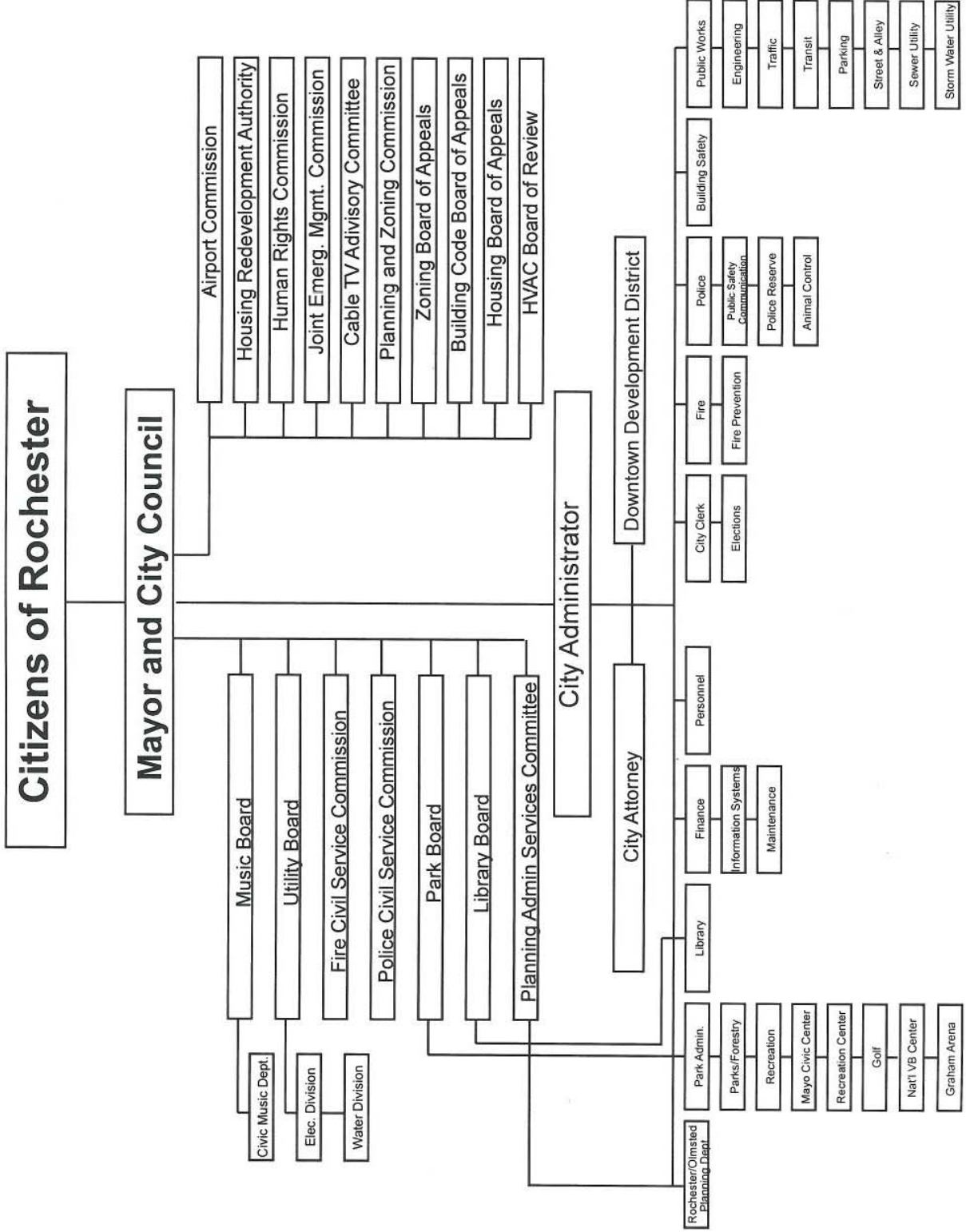
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

**CITY OF ROCHESTER, MINNESOTA
ORGANIZATIONAL CHART**



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

MAYOR - COUNCIL

| | Initial Term <u>Commenced</u> | Current Term Expires <u>December 31</u> |
|---|-------------------------------------|---|
| Mayor, Ardell F. Brede | 2003 | 2006 |
| Council President, Dennis L. Hanson | 1999 | 2008 |
| Councilmember First Ward, Amy Blenker | 2005 | 2006 |
| Councilmember Second Ward, Marcia Marcoux | 1996 | 2008 |
| Councilmember Third Ward, Bruce Snyder | 2006 | 2006 |
| Councilmember Fourth Ward, Patt Carr | 2005 | 2008 |
| Councilmember Fifth Ward, Bob Nowicki | 2003 | 2006 |
| Councilmember Sixth Ward, Sandra Means | 2003 | 2008 |

CITY ADMINISTRATOR

Stevan E. Kvenvold

DIRECTOR OF FINANCE – TREASURER

Dale R. Martinson

OTHER CITY OFFICIALS

City Attorney, Terry L. Adkins
City Clerk, Judy Kay Scherr
Director of Public Works, Richard W. Freese
Director of Building Safety, Ronald D. Boose
Chief of Police, Roger L. Peterson
Fire Chief, David A. Kapler
Director of Human Resources, Linda F. Gilsrud
Director Library Services, Audrey Betcher
Superintendent of Parks and Recreation, Roy Sutherland
General Manager - Music, Steven J. Schmidt
General Manager - Public Utilities, Larry J. Koshire
Superintendent of Water Reclamation Plant, Lyle J. Zimmerman

CITY OF ROCHESTER, MINNESOTA
FINANCIAL SECTION
DECEMBER 31, 2005

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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, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Minnesota as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006 on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

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

Smith, Schaefer and Associates, Ltd.

Rochester, Minnesota
May 30, 2006

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, 2005, with comparative data for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$904,563,347 (*net assets*). Of this amount, \$182,476,807 (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 \$64,184,329.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$97,894,233. Approximately 9 percent of this total amount, or \$8,434,848 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 \$18,206,655 or 42 percent of total general fund expenditures.
- The City of Rochester increased total outstanding debt obligations, including accrued compensated absences, by \$4,065,442 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 thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 23-24) and the special revenue funds (pages 76-81) 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 33-70 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds can be found on pages 72-81 of this report.

IMPORTANT REMINDERS:

Infrastructure Assets. The City of Rochester first implemented GASB statement #34 for its fiscal year ended December 31, 2002. However, the City deferred complete implementation of the retroactive infrastructure portion for general government activities until a final revaluation could be completed. Historically, governmental fixed assets, particularly infrastructure assets, have only been accounted for using the current financial resources (budgeted resources) method, and have not been expensed annually through depreciation or accounted for otherwise. Additionally, significant infrastructure assets have been constructed by developers and contributed to the City over the years but had not been recorded on its financial records prior to January 1, 2003. Valuations of the water and sewer lines, storm water ponds, sidewalk, pedestrian trails, traffic signal inventory, flood control improvements, roads, bridges, and storm water lines have now been completed and are included in this December 31, 2005 statement. This concludes the process of valuation and retroactive recording of the City's infrastructure. The City of Rochester has significant reserves in the capital project funds and an ongoing program for repairs, reconditioning, and replacement of these assets with annual funding sources continually earmarked for these specific purposes. All infrastructure assets acquired since 2002 are properly recorded under the new reporting model.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$904,563,347 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (75 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 | |
|-----------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2004 | | 2004 | | 2004 | |
| | 2005 | (As Restated) | 2005 | (As Restated) | 2005 | (As Restated) |
| Current and other assets | \$ 148,252,974 | \$ 134,001,327 | \$ 116,419,252 | \$ 139,182,010 | \$ 264,672,226 | \$ 273,183,337 |
| Capital assets | 431,812,464 | 401,729,976 | 408,055,052 | 354,791,166 | 839,867,516 | 756,521,142 |
| Total assets | <u>580,065,438</u> | <u>535,731,303</u> | <u>524,474,304</u> | <u>493,973,176</u> | <u>1,104,539,742</u> | <u>1,029,704,479</u> |
| Long-term liabilities | | | | | | |
| outstanding | 22,720,432 | 22,173,109 | 146,032,199 | 142,514,080 | 168,752,631 | 164,687,189 |
| Other liabilities | 14,809,566 | 12,389,877 | 16,414,198 | 12,248,395 | 31,223,764 | 24,638,272 |
| Total liabilities | <u>37,529,998</u> | <u>34,562,986</u> | <u>162,446,397</u> | <u>154,762,475</u> | <u>199,976,395</u> | <u>189,325,461</u> |
| Net assets: | | | | | | |
| Invested in capital assets, | | | | | | |
| net of related debt | 410,403,840 | 386,077,492 | 269,212,028 | 218,331,466 | 679,615,868 | 604,408,958 |
| Restricted | 41,810,285 | 32,353,633 | 660,387 | 78,197,015 | 42,470,672 | 110,550,648 |
| Unrestricted | 90,321,315 | 82,737,192 | 92,155,492 | 42,682,220 | 182,476,807 | 125,419,412 |
| Total net assets | <u>\$ 542,535,440</u> | <u>\$ 501,168,317</u> | <u>\$ 362,027,907</u> | <u>\$ 339,210,701</u> | <u>\$ 904,563,347</u> | <u>\$ 840,379,018</u> |

An additional portion of the City of Rochester's net assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$182,476,807) 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 \$41,367,123. 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 \$22,817,206. The majority of this increase is attributable to the capital contribution of sewer and storm sewer infrastructure assets as noted above. Operations in the City's electric and 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:

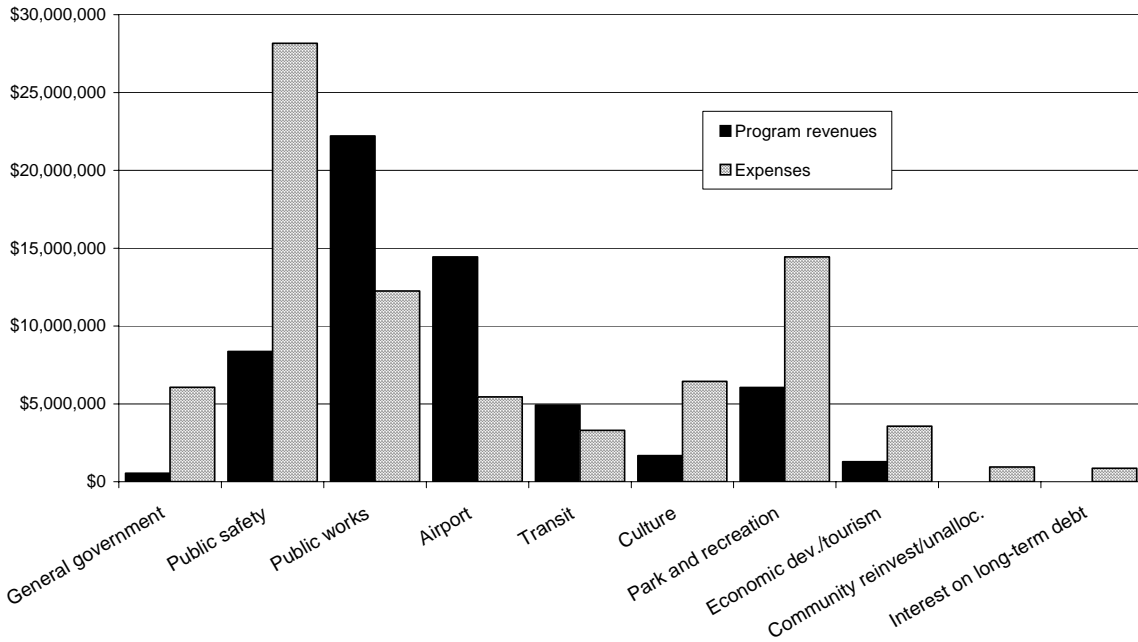
City of Rochester's Change in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2005 | 2004 (As Restated) | 2005 | 2004 (As Restated) | 2005 | 2004 (As Restated) |
| | Revenue: | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 15,022,722 | \$ 14,757,361 | \$ 137,180,715 | \$ 125,005,326 | \$ 152,203,437 | \$ 139,762,687 |
| Operating grants and contributions | 7,059,210 | 7,107,431 | | | 7,059,210 | 7,107,431 |
| Capital grants and contributions | 37,406,085 | 31,083,644 | 13,946,513 | 16,514,378 | 51,352,598 | 47,598,022 |
| General revenues: | | | | | | |
| Property taxes | 29,975,840 | 26,767,245 | | 98 | 29,975,840 | 26,767,343 |
| Other taxes | 14,029,753 | 14,575,255 | | | 14,029,753 | 14,575,255 |
| Grants and contributions not restricted to specific programs | 7,909,168 | 9,044,063 | 9,796 | 9,796 | 7,918,964 | 9,053,859 |
| Other | 3,123,716 | (981,749) | 3,183,839 | 2,856,295 | 6,307,555 | 1,874,546 |
| Total revenues | <u>114,526,494</u> | <u>102,353,250</u> | <u>154,320,863</u> | <u>144,385,893</u> | <u>268,847,357</u> | <u>246,739,143</u> |
| Expenses: | | | | | | |
| General government | 6,064,465 | 5,903,311 | | | 6,064,465 | 5,903,311 |
| Public safety | 28,164,368 | 27,197,802 | | | 28,164,368 | 27,197,802 |
| Public works | 12,249,412 | 11,869,756 | | | 12,249,412 | 11,869,756 |
| Airport | 5,457,037 | 3,691,508 | | | 5,457,037 | 3,691,508 |
| Transit | 3,297,701 | 2,736,558 | | | 3,297,701 | 2,736,558 |
| Culture | 6,443,821 | 7,910,173 | | | 6,443,821 | 7,910,173 |
| Park and recreation | 14,436,903 | 12,095,905 | | | 14,436,903 | 12,095,905 |
| Economic development/tourism | 3,560,176 | 3,149,558 | | | 3,560,176 | 3,149,558 |
| Community reinvestment/unallocated | 939,928 | 198,911 | | | 939,928 | 198,911 |
| Interest on long-term debt | 870,516 | 1,333,511 | | | 870,516 | 1,333,511 |
| Parking | | | 3,138,080 | 2,963,261 | 3,138,080 | 2,963,261 |
| Electric | | | 97,352,275 | 92,520,009 | 97,352,275 | 92,520,009 |
| Water | | | 6,096,397 | 5,731,981 | 6,096,397 | 5,731,981 |
| Sewer | | | 14,067,892 | 8,831,583 | 14,067,892 | 8,831,583 |
| Storm water | | | 2,524,057 | 1,899,924 | 2,524,057 | 1,899,924 |
| Total expenses | <u>81,484,327</u> | <u>76,086,993</u> | <u>123,178,701</u> | <u>111,946,758</u> | <u>204,663,028</u> | <u>188,033,751</u> |
| Increase in net assets before transfers | 33,042,167 | 26,266,257 | 31,142,162 | 32,439,135 | 64,184,329 | 58,705,392 |
| Transfers | 8,324,956 | (67,769,519) | (8,324,956) | 67,769,519 | | |
| Increase in net assets | 41,367,123 | (41,503,262) | 22,817,206 | 100,208,654 | 64,184,329 | 58,705,392 |
| Net assets, beginning of year | 501,168,317 | 385,330,228 | 339,210,701 | 239,002,047 | 840,379,018 | 624,332,275 |
| Prior period adjustment | | 157,341,351 | | | | 157,341,351 |
| Net assets, beginning restated | <u>501,168,317</u> | <u>542,671,579</u> | <u>339,210,701</u> | <u>239,002,047</u> | <u>840,379,018</u> | <u>781,673,626</u> |
| Net assets, end of year | <u>\$ 542,535,440</u> | <u>\$ 501,168,317</u> | <u>\$ 362,027,907</u> | <u>\$ 339,210,701</u> | <u>\$ 904,563,347</u> | <u>\$ 840,379,018</u> |

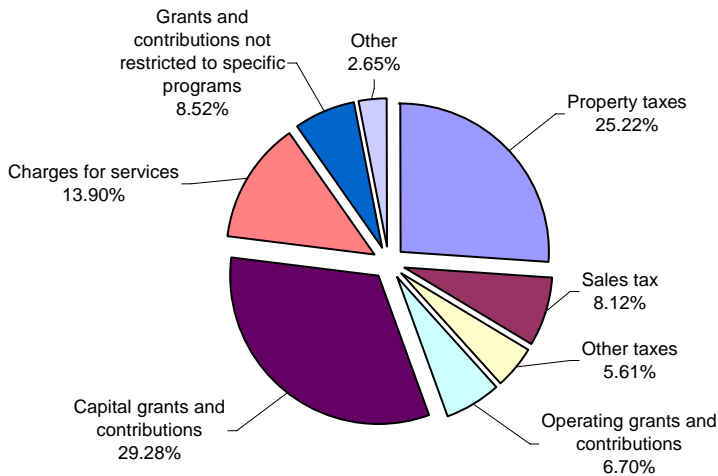
CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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



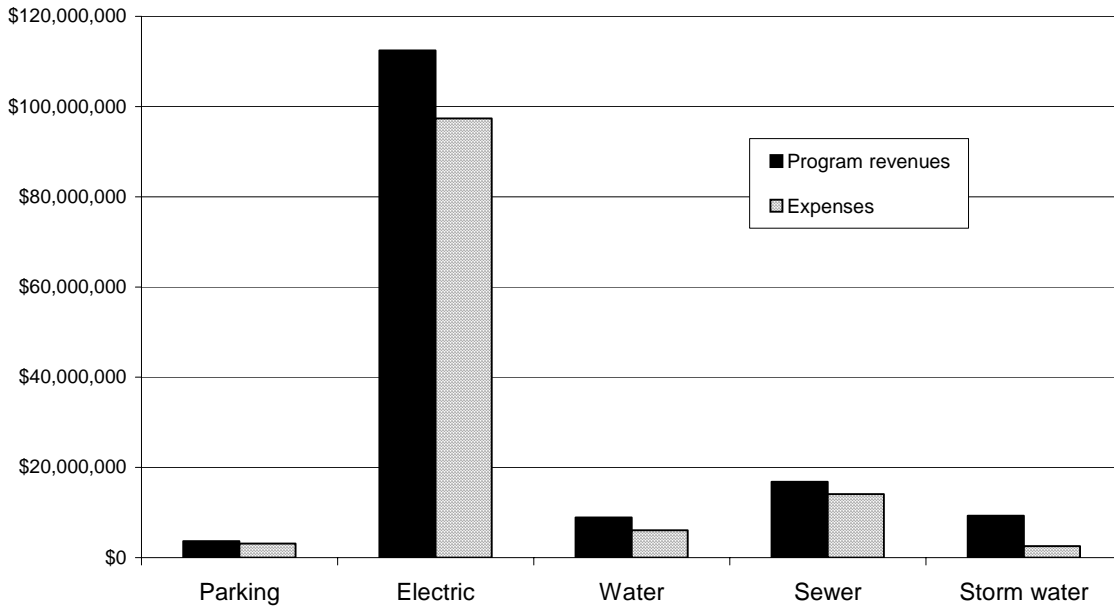
Revenues by Source - Governmental Activities



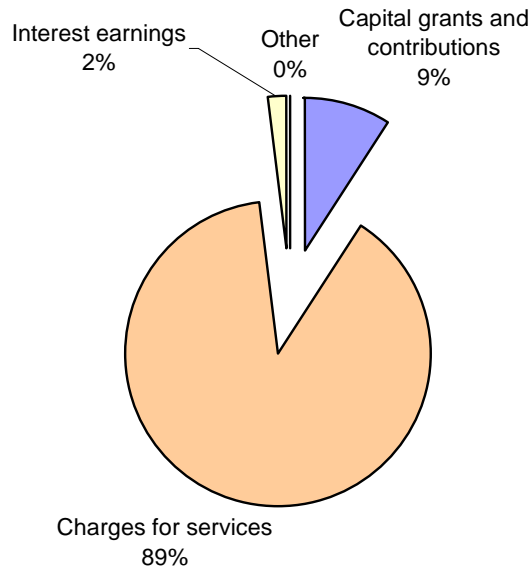
**CITY OF ROCHESTER, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$97,894,233, an increase of \$5,725,441 from the prior year primarily a result of in-lieu of tax payments and transfers to the capital project construction fund from enterprise funds. Approximately 43 percent of the total fund balance, or \$41,860,034, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$1,290,060), 2) to repay interfund advances or other debt (\$19,617,161), or 3) to fund specific capital projects or programs as obligated by statute or other regulation (\$35,068,700).

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 \$18,206,655 while total fund balance amounted to \$18,453,822. 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 42 percent of total general fund expenditures, while total fund balance represents 43 percent of that same amount.

The general fund increased its fund balance by \$1.6 million during the year which reflects higher than anticipated revenues, primarily building permit revenues, and lower than anticipated expenditures in the police, fire and engineering divisions. Police and fire experienced savings in employee services due to attrition and some delays in filling open positions. Engineering charges to capital projects for employee services exceeded the budgeted amount due to increased project activity.

The library fund (page 84) decreased its fund balance by \$23,330 for the year as it transferred funds to the capital projects fund for equipment purchases. The municipal recreation fund increased its fund balance by \$104,994 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 \$526,315 for the year to \$3,438,869. The transit fund saw an increase in fund balance of \$20,162 as intergovernmental revenues increased but were offset by increased repairs and insurance costs during the year.

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

The construction improvement fund increased fund balance by \$3.5 million reflecting the transfer in of \$1.4 million to fund new projects and the receipt of sales tax revenues that outpaced sales tax project construction costs.

**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 - \$10,577,496, Electric - \$23,398,916, Water - \$1,065,755, Sewer - \$56,069,989 and Storm water - \$1,423,387. All had increases in total net assets for the year.

The water utility's rates were increased an average of 5 percent again in January of 2005 as the utility continued to spend cash on all maintenance and repair of existing water lines and water usage was down for the second year due to high summer precipitation.

The sewer utility's rates were adjusted an average of just under 5 percent effective January of 2005 based upon the service costing completed during 2004. 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 currently underway.

The electric utility rates were increased an average of 3 percent in January of 2005, while the parking utility rates increased somewhat as well, but varied widely by space and type.

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

General Fund Budgetary Highlights

The City approved the 2005 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.
- 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, and grant appropriations.

At the close of the year, general fund total expenditures were \$3,030,138 below final budget while actual revenues surpassed the final budget by \$1,677,580.

**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, 2005, amounts to \$839,867,516 (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 \$240,687,725, or 40 percent. Most of this increase within the governmental activities can be found in the addition of the street network and flood control infrastructure. Within the business-type activities the most significant increases occurred with the retroactive addition of storm water lines in the storm water utility.

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

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------|-----------------------|
| | 2005 | 2004 (As Restated) | 2005 | 2004 (As Restated) | 2005 | 2004 (As Restated) |
| | Land | \$ 47,799,275 | \$ 47,150,013 | \$ 6,911,822 | \$ 5,829,574 | \$ 54,711,097 |
| Buildings | 72,912,147 | 76,228,348 | 160,815,810 | 148,777,219 | 233,727,957 | 225,005,567 |
| Improvements other than buildings | 7,210,309 | 7,160,125 | | | 7,210,309 | 7,160,125 |
| Machinery and equipment | 23,057,690 | 20,052,512 | 186,052,837 | 178,618,146 | 209,110,527 | 198,670,658 |
| Infrastructure | 236,157,970 | 208,626,114 | | | 236,157,970 | 208,626,114 |
| Construction in progress | 44,675,073 | 42,512,864 | 54,274,583 | 21,566,227 | 98,949,656 | 64,079,091 |
| Total | <u>\$ 431,812,464</u> | <u>\$ 401,729,976</u> | <u>\$ 408,055,052</u> | <u>\$ 354,791,166</u> | <u>\$ 839,867,516</u> | <u>\$ 756,521,142</u> |

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

Long-term debt. At the end of the current fiscal year, the City of Rochester had \$153,480,860 in bonds and notes outstanding. Of this amount, \$104,064,108 comprises debt backed by the full faith and credit of the government and \$49,416,752 represents bonds secured solely by specified revenue sources. The City provides general obligation backing to the sewer utility bonds even though utility charges are the source of bond repayment.

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

City of Rochester's Outstanding Debt

General Obligation and Revenue Bonds and Notes Payable

| | Governmental | | Business-Type | | Total | |
|----------------------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Activities | | Activities | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| General obligation bonds | \$ 2,547,435 | \$ 2,603,879 | \$ | \$ | \$ 2,547,435 | \$ 2,603,879 |
| General obligation revenue bonds | 10,258,673 | 10,458,673 | 89,070,000 | 89,855,000 | 99,328,673 | 100,313,673 |
| General obligation revenue notes | 2,188,000 | 2,295,000 | | | 2,188,000 | 2,295,000 |
| Revenue bonds | | | 43,740,000 | 45,050,000 | 43,740,000 | 45,050,000 |
| Notes payable | 256,752 | 314,287 | 5,420,000 | | 5,676,752 | 314,287 |
| Total | <u>\$ 15,250,860</u> | <u>\$ 15,671,839</u> | <u>\$ 138,230,000</u> | <u>\$ 134,905,000</u> | <u>\$ 153,480,860</u> | <u>\$ 150,576,839</u> |

The City of Rochester's total bonds and notes payable increased by \$2,904,021 during the current fiscal year. The City issued a \$5,765,000 electric utility revenue note during 2005 for construction of distribution system assets into their expanded service territories. The remaining principal reductions occurred as a result of scheduled debt service payments on existing debt. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 55.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Rochester ended the first quarter of 2006 at 4.2 percent, which is down from 4.4 percent a year ago. This compares favorably to the state and national average unemployment rate of 4.8 percent. Total number of jobs continued their eleven-year trend of growth with this year's number up 1.5% over last year.
- 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 4.5 percent, or over \$290 million for taxes payable in 2006.
- Property tax reforms and budget deficits at the state level continue to significantly impact government aid payments made to the City. Rochester's has sustained state aid reductions of nearly \$5 million, or 47 percent, since 2002 when the City received \$10.7 million annually. Under current law, these reductions will continue into the future until Rochester's state aid bottoms out at \$2.5 million. Present legislative battles do not indicate any near-term improvement in this situation.
- Interest rates have begun to climb, helping to increase average earnings of the City's investment portfolio.

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

All of these factors were considered in preparing the City of Rochester's budget for the 2006 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 2006 in expectation that state aid will continue to dwindle while the City continues its growth trends and resulting demands for service.

Requests for Information

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

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CITY OF ROCHESTER, MINNESOTA
GOVERNMENT-WIDE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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

December 31, 2005

With Comparative Totals for December 31, 2004

| | Governmental Activities | Business-Type Activities | Totals | |
|--|----------------------------|-----------------------------|-----------------------|-----------------------|
| | | | 2005 | 2004 (As Restated) |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 8,495,488 | \$ 19,464,006 | \$ 27,959,494 | \$ 38,456,689 |
| Investments | 108,221,950 | 21,764,700 | 129,986,650 | 113,758,265 |
| Receivables (net of allowance for uncollectibles) | 22,775,816 | 10,001,111 | 32,776,927 | 24,643,054 |
| Internal balances | 952,570 | (952,570) | | |
| Due from other governmental units | 7,583,315 | 10,846 | 7,594,161 | 4,129,403 |
| Accrued utility revenues | | 2,754,244 | 2,754,244 | 2,995,289 |
| Restricted cash and investments | 32,565 | 53,355,306 | 53,387,871 | 81,280,257 |
| Restricted assets | | 660,387 | 660,387 | 241,608 |
| Inventory | 165,557 | 8,119,097 | 8,284,654 | 6,940,886 |
| Prepaid items | 25,713 | 52,485 | 78,198 | 28,657 |
| Deferred charges and other assets | | 1,189,640 | 1,189,640 | 709,229 |
| Capital assets: | | | | |
| Nondepreciable | 92,474,348 | 61,186,405 | 153,660,753 | 117,058,678 |
| Depreciable, net | 339,338,116 | 346,868,647 | 686,206,763 | 639,462,464 |
| Total Assets | <u>580,065,438</u> | <u>524,474,304</u> | <u>1,104,539,742</u> | <u>1,029,704,479</u> |
| LIABILITIES | | | | |
| Accounts and contracts payable | 2,626,405 | 11,977,148 | 14,603,553 | 10,855,588 |
| Deposits payable | 1,098,924 | 565,415 | 1,664,339 | 1,738,090 |
| Accrued interest payable | 352,166 | 1,903,576 | 2,255,742 | 1,244,155 |
| Accrued compensation and payroll taxes | 1,632,616 | 488,276 | 2,120,892 | 1,964,640 |
| Accrued claims | 2,534,996 | 123,000 | 2,657,996 | 2,960,576 |
| Due to other governmental units | 6,564,459 | 390,247 | 6,954,706 | 4,778,430 |
| Unearned revenue | | 966,536 | 966,536 | 1,096,793 |
| Noncurrent liabilities: | | | | |
| Due within one year | 4,767,535 | 4,510,992 | 9,278,527 | 8,795,078 |
| Due in more than one year | 17,952,897 | 141,521,207 | 159,474,104 | 155,892,111 |
| Total Liabilities | <u>37,529,998</u> | <u>162,446,397</u> | <u>199,976,395</u> | <u>189,325,461</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 410,403,840 | 269,212,028 | 679,615,868 | 604,408,958 |
| Restricted for: | | | | |
| Airport | 4,015,170 | | 4,015,170 | 2,912,554 |
| CDBG loans | 3,270,151 | | 3,270,151 | 2,987,696 |
| Civic music endowment | 32,565 | | 32,565 | 29,770 |
| Service territory acquisitions | | 660,387 | 660,387 | 241,608 |
| Flood control | 22,345,524 | | 22,345,524 | 21,124,782 |
| Sales tax authorized projects | 12,146,875 | | 12,146,875 | 5,298,831 |
| Unrestricted | <u>90,321,315</u> | <u>92,155,492</u> | <u>182,476,807</u> | <u>203,374,819</u> |
| Total Net Assets | <u>\$ 542,535,440</u> | <u>\$ 362,027,907</u> | <u>\$ 904,563,347</u> | <u>\$ 840,379,018</u> |

See Notes to the Financial Statements

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|-----------------------|-----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 6,064,465 | \$ 440,710 | \$ 416 | \$ 100,000 |
| Public safety | 28,164,368 | 6,020,036 | 2,177,904 | 165,252 |
| Public works | 12,249,412 | 240,393 | 32,602 | 21,938,432 |
| Airport | 5,457,037 | 2,586,232 | 330,426 | 11,522,164 |
| Transit | 3,297,701 | 61,994 | 2,598,500 | 2,256,556 |
| Culture | 6,443,821 | 373,127 | 1,307,084 | |
| Park and recreation | 14,436,903 | 5,295,126 | 476,330 | 273,436 |
| Economic development/tourism | 3,560,176 | 5,104 | 135,948 | 1,150,245 |
| Community reinvestment/unallocated | 939,928 | | | |
| Interest on long-term debt | 870,516 | | | |
| Total governmental activities | 81,484,327 | 15,022,722 | 7,059,210 | 37,406,085 |
| Business-Type activities: | | | | |
| Parking | 3,138,080 | 3,670,386 | | |
| Electric utility | 97,352,275 | 112,432,402 | | 6,321 |
| Water utility | 6,096,397 | 7,047,596 | | 1,848,834 |
| Sewer utility | 14,067,892 | 10,208,056 | | 6,593,197 |
| Storm water utility | 2,524,057 | 3,822,275 | | 5,498,161 |
| Total business-type activities | 123,178,701 | 137,180,715 | | 13,946,513 |
| Total | \$ 204,663,028 | \$ 152,203,437 | \$ 7,059,210 | \$ 51,352,598 |

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

Change in net assets
Net assets - beginning
Prior period adjustment
Net assets - beginning as restated
Net assets - ending

See Notes to the Financial Statements

Net (Expense) Revenue
and Changes in Net Assets

| Governmental Activities | Business-Type Activities | Totals | |
|----------------------------|-----------------------------|-----------------------|-----------------------|
| | | 2005 | 2004 (As Restated) |
| \$ (5,523,339) | | \$ (5,523,339) | \$ (5,317,300) |
| (19,801,176) | | (19,801,176) | (19,061,490) |
| 9,962,015 | | 9,962,015 | 12,716,075 |
| 8,981,785 | | 8,981,785 | 2,799,509 |
| 1,619,349 | | 1,619,349 | 1,110,160 |
| (4,763,610) | | (4,763,610) | (6,411,875) |
| (8,392,011) | | (8,392,011) | (5,471,716) |
| (2,268,879) | | (2,268,879) | (1,969,498) |
| (939,928) | | (939,928) | (198,911) |
| (870,516) | | (870,516) | (1,017,418) |
| <u>(21,996,310)</u> | | <u>(21,996,310)</u> | <u>(22,822,464)</u> |
| | \$ 532,306 | 532,306 | 744,904 |
| | 15,086,448 | 15,086,448 | 10,177,765 |
| | 2,800,033 | 2,800,033 | 6,567,846 |
| | 2,733,361 | 2,733,361 | 6,150,978 |
| | <u>6,796,379</u> | <u>6,796,379</u> | <u>5,931,453</u> |
| | <u>27,948,527</u> | <u>27,948,527</u> | <u>29,572,946</u> |
| <u>(21,996,310)</u> | <u>27,948,527</u> | <u>5,952,217</u> | <u>6,750,482</u> |
| 29,975,840 | | 29,975,840 | 26,767,343 |
| 1,234,488 | | 1,234,488 | (1,595,672) |
| 8,767,156 | | 8,767,156 | 8,614,955 |
| 4,028,109 | | 4,028,109 | 3,756,385 |
| 7,909,168 | 9,796 | 7,918,964 | 9,053,859 |
| 3,797,186 | 3,187,157 | 6,984,343 | 4,396,542 |
| (270,214) | | (270,214) | |
| (607,192) | (287,211) | (894,403) | (777,016) |
| 203,936 | 283,893 | 487,829 | 1,738,514 |
| 8,324,956 | <u>(8,324,956)</u> | | |
| <u>63,363,433</u> | <u>(5,131,321)</u> | <u>58,232,112</u> | <u>51,954,910</u> |
| 41,367,123 | 22,817,206 | 64,184,329 | 58,705,392 |
| 501,168,317 | 339,210,701 | 840,379,018 | 624,332,275 |
| | | | <u>157,341,351</u> |
| <u>501,168,317</u> | <u>339,210,701</u> | <u>840,379,018</u> | <u>781,673,626</u> |
| <u>\$ 542,535,440</u> | <u>\$ 362,027,907</u> | <u>\$ 904,563,347</u> | <u>\$ 840,379,018</u> |

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CITY OF ROCHESTER, MINNESOTA
FUND FINANCIAL STATEMENTS
DECEMBER 31, 2005

CITY OF ROCHESTER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005
With Comparative Totals for December 31, 2004

| | General | Construction Improvement | Other Governmental Funds | Total Governmental Funds | |
|--|----------------------|-----------------------------|--------------------------------|--------------------------|-----------------------|
| | | | | 2005 | 2004 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 589,036 | \$ 5,749,225 | \$ 1,014,592 | \$ 7,352,853 | \$ 14,983,692 |
| Investments | 18,616,240 | 65,420,910 | 6,169,600 | 90,206,750 | 77,603,350 |
| Accrued interest receivable | 318,553 | 339,100 | 39,800 | 697,453 | 471,612 |
| Accounts receivable (net of allowance for uncollectibles) | 590,533 | 1,098,011 | 1,428,653 | 3,117,197 | 2,717,948 |
| Loans receivable | | 2,493,064 | 3,270,151 | 5,763,215 | 4,374,821 |
| Taxes receivable delinquent | 143,146 | 45,618 | 76,695 | 265,459 | 260,160 |
| Special assessments receivable: | | | | | |
| Deferred | | 12,754,630 | | 12,754,630 | 9,357,524 |
| Delinquent | 1,342 | 23,369 | 430 | 25,141 | 53,701 |
| Utility connection charges receivable: | | | | | |
| Deferred | | 36,521 | | 36,521 | 51,248 |
| Due from other funds | 662,766 | 472,455 | 15,666 | 1,150,887 | 1,338,360 |
| Due from other governmental units | 953,332 | 6,117,600 | 512,383 | 7,583,315 | 4,127,913 |
| Advances to other funds | | 1,290,060 | | 1,290,060 | 1,469,963 |
| Prepaid items | 12,600 | | 13,113 | 25,713 | 27,953 |
| Restricted cash | 32,565 | | | 32,565 | 29,770 |
| Inventory | 165,557 | | | 165,557 | 84,808 |
| TOTAL ASSETS | \$ 22,085,670 | \$ 95,840,563 | \$ 12,541,083 | \$ 130,467,316 | \$ 116,952,823 |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Accounts and contracts payable | \$ 652,625 | \$ 1,338,620 | \$ 593,817 | \$ 2,585,062 | \$ 1,650,260 |
| Deposits payable | 631,102 | 4,300 | 138,187 | 773,589 | 786,786 |
| Accrued compensation and payroll taxes | 1,287,474 | | 326,692 | 1,614,166 | 1,488,393 |
| Accrued compensated absences | 316,352 | | 40,478 | 356,830 | 349,881 |
| Due to other funds | 347,086 | 697 | 230,585 | 578,368 | 542,422 |
| Due to other governmental units | 252,722 | 6,129,999 | 147,320 | 6,530,041 | 4,398,872 |
| Advances from other funds | | | 1,290,060 | 1,290,060 | 1,469,963 |
| Deferred revenue | 144,487 | 15,353,203 | 3,347,277 | 18,844,967 | 14,097,454 |
| Total Liabilities | <u>3,631,848</u> | <u>22,826,819</u> | <u>6,114,416</u> | <u>32,573,083</u> | <u>24,784,031</u> |
| Fund Balance: | | | | | |
| Reserved for: | | | | | |
| Restricted assets | 32,565 | | | 32,565 | 29,770 |
| Prepaid items | 12,600 | | 13,113 | 25,713 | 27,953 |
| Interfund advances | | 1,290,060 | | 1,290,060 | 1,469,963 |
| Encumbrances | 202,002 | 19,389,073 | 26,086 | 19,617,161 | 7,030,539 |
| Airport | | 576,301 | | 576,301 | |
| Flood control | | 22,345,524 | | 22,345,524 | 21,124,782 |
| Sales tax authorized projects | | 12,146,875 | | 12,146,875 | 5,298,831 |
| Unreserved, designated, reported in: | | | | | |
| General fund | 6,666,833 | | | 6,666,833 | 5,913,265 |
| Special revenue funds | | | 1,768,015 | 1,768,015 | 1,594,609 |
| Unreserved, undesignated, reported in: | | | | | |
| General fund | 11,539,822 | | | 11,539,822 | 10,710,036 |
| Capital projects fund | | 17,265,911 | | 17,265,911 | 34,799,074 |
| Special revenue funds | | | 4,619,453 | 4,619,453 | 4,169,970 |
| Total Fund Balance | <u>18,453,822</u> | <u>73,013,744</u> | <u>6,426,667</u> | <u>97,894,233</u> | <u>92,168,792</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 22,085,670 | \$ 95,840,563 | \$ 12,541,083 | \$ 130,467,316 | \$ 116,952,823 |

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, 2005

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

| | | |
|--|--|---------------|
| Total governmental fund balances (page 19) | | \$ 97,894,233 |
|--|--|---------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | |
|-------------------------------------|----------------------|-------------|
| Governmental funds - capital assets | \$ 565,562,690 | |
| Less: Accumulated depreciation | <u>(142,028,017)</u> | |
| | | 423,534,673 |

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 | \$ 290,601 | |
| Deferred special assessments and utility connection agreements | 12,791,151 | |
| Loans receivable | <u>5,763,215</u> | |
| | | 18,844,967 |

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.

24,977,335

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | | |
|---------------------------------|-----------------|---------------------|
| Bonds and notes payable | \$ (15,250,860) | |
| Compensated absences | (7,125,722) | |
| Accrued interest | (352,166) | |
| Unamortized bond issuance costs | <u>12,980</u> | |
| | | <u>(22,715,768)</u> |

| | | |
|---|--|------------------------------|
| Net assets of governmental activities (page 16) | | <u><u>\$ 542,535,440</u></u> |
|---|--|------------------------------|

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | General | Construction Improvement | Other Governmental Funds | Total Governmental Funds | |
|--|----------------------|-----------------------------|--------------------------------|--------------------------|----------------------|
| | | | | 2005 | 2004 |
| REVENUES | | | | | |
| General property taxes | \$ 16,671,967 | \$ 4,891,977 | \$ 8,406,596 | \$ 29,970,540 | \$ 26,897,971 |
| Tax increments collections (refund) | | 1,035,298 | 199,190 | 1,234,488 | (1,595,672) |
| Sales tax | | 7,731,082 | 1,036,074 | 8,767,156 | 8,614,955 |
| Special assessments | | 1,906,295 | | 1,906,295 | 2,278,962 |
| Utility connection and availability | | 2,954,785 | | 2,954,785 | 3,403,538 |
| Nonproperty taxes | 4,028,109 | | | 4,028,109 | 3,756,385 |
| Licenses and permits | 3,570,176 | | | 3,570,176 | 3,386,298 |
| Fines and forfeits | 402,795 | | | 402,795 | 489,227 |
| Intergovernmental revenues | 9,716,896 | 17,597,319 | 5,350,630 | 32,664,845 | 24,944,012 |
| Charges for services | 2,946,324 | 545,318 | 8,103,427 | 11,595,069 | 11,401,301 |
| Contributions in aid of construction | | 2,749,763 | | 2,749,763 | 3,237,156 |
| Interest earnings | 468,542 | 2,701,382 | 151,402 | 3,321,326 | 3,020,843 |
| Net decrease in the fair value of investments | (119,992) | (333,100) | (36,800) | (489,892) | (465,593) |
| Miscellaneous revenues | 249,407 | 469,449 | 439,350 | 1,158,206 | 1,417,577 |
| Total Revenues | 37,934,224 | 42,249,568 | 23,649,869 | 103,833,661 | 90,786,960 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 5,403,334 | | | 5,403,334 | 5,100,229 |
| Public safety | 27,631,921 | | 35,203 | 27,667,124 | 26,002,843 |
| Public works | 7,754,287 | | | 7,754,287 | 7,394,724 |
| Airport operations | | | 2,860,315 | 2,860,315 | 2,569,762 |
| Transit | | | 2,749,219 | 2,749,219 | 2,275,346 |
| Culture | 908,396 | | 5,095,972 | 6,004,368 | 5,620,173 |
| Park and recreation | | | 10,079,101 | 10,079,101 | 9,308,479 |
| Economic development/tourism | 1,508,203 | | 1,000,900 | 2,509,103 | 2,262,933 |
| Community reinvestment and unallocated | 284,907 | | | 284,907 | 196,943 |
| Debt service | | | 1,292,799 | 1,292,799 | 3,808,938 |
| Capital outlay | | 44,461,829 | | 44,461,829 | 27,672,306 |
| Total Expenditures | 43,491,048 | 44,461,829 | 23,113,509 | 111,066,386 | 92,212,676 |
| Excess (deficiency) of revenues over (under) expenditures | (5,556,824) | (2,212,261) | 536,360 | (7,232,725) | (1,425,716) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 9,564,642 | 6,625,152 | 555,757 | 16,745,551 | 19,070,845 |
| Transfers out | (2,381,960) | (917,352) | (488,073) | (3,787,385) | (6,879,572) |
| Total other financing sources (uses) | 7,182,682 | 5,707,800 | 67,684 | 12,958,166 | 12,191,273 |
| Net change in fund balances | 1,625,858 | 3,495,539 | 604,044 | 5,725,441 | 10,765,557 |
| Fund Balance - beginning | 16,827,964 | 69,518,205 | 5,822,623 | 92,168,792 | 81,403,235 |
| Fund Balance - ending | \$ 18,453,822 | \$ 73,013,744 | \$ 6,426,667 | \$ 97,894,233 | \$ 92,168,792 |

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, 2005

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

| | | |
|---|---------------------|--------------------------|
| Net change in fund balances - total governmental funds (page 21) | \$ | 5,725,441 |
| <p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital outlay-construction improvement | \$ 44,461,829 | |
| Capital outlay-other governmental funds | 756,389 | |
| Depreciation expense | <u>(8,648,366)</u> | |
| | | 36,569,852 |
| <p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p> | | |
| | | (6,860,125) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| Deferred revenue, December 31, 2005 | \$ 18,844,967 | |
| Deferred revenue, December 31, 2004 | <u>(14,097,454)</u> | |
| | | 4,747,513 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Compensated absences | | (954,978) |
| <p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> | | |
| Principal retirement on long-term debt | \$ 420,979 | |
| Change in accrued interest | 7,679 | |
| Amortization of bond issuance costs | <u>(6,375)</u> | |
| | | 422,283 |
| <p>Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p> | | |
| | | <u>1,717,137</u> |
| Change in net assets of governmental activities (pages 17 and 18) | \$ | <u><u>41,367,123</u></u> |

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

For the Year Ended December 31, 2005
 With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|-------------------|-------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| General property taxes | \$ 18,003,706 | \$ 16,778,374 | \$ 16,671,967 | \$ (106,407) | \$ 15,437,135 |
| Nonproperty taxes | 3,500,000 | 3,711,110 | 4,028,109 | 316,999 | 3,756,385 |
| Licenses and permits | 2,609,789 | 2,609,789 | 3,570,176 | 960,387 | 3,383,898 |
| Fines and forfeits | 447,900 | 462,747 | 402,795 | (59,952) | 489,227 |
| Intergovernmental | 7,904,734 | 9,587,025 | 9,716,896 | 129,871 | 10,554,316 |
| Charges for services | 2,476,968 | 2,595,874 | 2,946,324 | 350,450 | 2,859,920 |
| Interest earnings | 357,000 | 357,002 | 468,542 | 111,540 | 204,442 |
| Net decrease in the fair value of investments | | | (119,992) | (119,992) | (108,093) |
| Miscellaneous | 117,839 | 154,723 | 249,407 | 94,684 | 142,794 |
| Total Revenues | <u>35,417,936</u> | <u>36,256,644</u> | <u>37,934,224</u> | <u>1,677,580</u> | <u>36,720,024</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government: | | | | | |
| Mayor and Council | 647,603 | 697,475 | 681,682 | 15,793 | 647,759 |
| City Administrator | 474,918 | 474,918 | 470,740 | 4,178 | 448,365 |
| Development District Administration | 125,438 | 125,438 | 120,523 | 4,915 | 202,248 |
| City Clerk | 249,863 | 249,863 | 244,149 | 5,714 | 238,924 |
| Elections and Voter Registration | 29,171 | 29,171 | 63,175 | (34,004) | 107,234 |
| Finance Department | 1,026,987 | 1,027,386 | 986,080 | 41,306 | 915,851 |
| Information Systems | 825,333 | 825,333 | 750,808 | 74,525 | 621,400 |
| City Attorney | 946,585 | 988,663 | 982,247 | 6,416 | 843,893 |
| Human Resources | 705,429 | 710,537 | 655,848 | 54,689 | 640,807 |
| Planning and Zoning | 87,900 | 112,900 | 55,445 | 57,455 | 84,537 |
| City Hall Maintenance | 384,943 | 404,324 | 392,637 | 11,687 | 349,211 |
| Total General Government | <u>5,504,170</u> | <u>5,646,008</u> | <u>5,403,334</u> | <u>242,674</u> | <u>5,100,229</u> |
| Public Safety: | | | | | |
| Police Department | 14,378,426 | 14,743,017 | 14,096,390 | 646,627 | 13,172,196 |
| Drug Enforcement Administration | 3,700 | 55,655 | 39,891 | 15,764 | 13,578 |
| Fire Department | 10,354,897 | 10,558,443 | 10,194,363 | 364,080 | 9,648,084 |
| Fire Hazmat Response Team | 15,400 | 114,768 | 115,100 | (332) | 112,630 |
| Building Safety | 2,394,642 | 2,395,036 | 2,354,235 | 40,801 | 2,201,989 |
| Animal Control | 233,763 | 233,931 | 240,611 | (6,680) | 226,024 |
| Police Reserve | | | | | 7,121 |
| Flood Control | 417,107 | 430,891 | 429,390 | 1,501 | 405,677 |
| Emergency Mgmt/Safety Council | 178,606 | 178,606 | 161,941 | 16,665 | 163,030 |
| Total Public Safety | <u>27,976,541</u> | <u>28,710,347</u> | <u>27,631,921</u> | <u>1,078,426</u> | <u>25,950,329</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, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|----------------------|----------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| EXPENDITURES (continued) | | | | | |
| Current: | | | | | |
| Public Works: | | | | | |
| Engineering | \$ 2,714,207 | \$ 2,721,042 | \$ 1,841,547 | \$ 879,495 | \$ 1,900,341 |
| Traffic Engineer | 1,070,257 | 1,075,797 | 1,017,875 | 57,922 | 910,149 |
| Street and Alley | 4,144,640 | 4,152,211 | 3,984,707 | 167,504 | 3,728,938 |
| City Lighting | 843,027 | 843,027 | 910,158 | (67,131) | 855,296 |
| Total Public Works | <u>8,772,131</u> | <u>8,792,077</u> | <u>7,754,287</u> | <u>1,037,790</u> | <u>7,394,724</u> |
| Culture: | | | | | |
| Art Center/Theatre | 210,000 | 215,000 | 212,234 | 2,766 | 176,000 |
| Music Department | 604,926 | 718,338 | 696,162 | 22,176 | 592,322 |
| Total Culture | <u>814,926</u> | <u>933,338</u> | <u>908,396</u> | <u>24,942</u> | <u>768,322</u> |
| Economic Development/Tourism | <u>1,290,000</u> | <u>1,697,046</u> | <u>1,508,203</u> | <u>188,843</u> | <u>1,396,397</u> |
| Community Reinvestment and Unallocated | <u>737,120</u> | <u>742,370</u> | <u>284,907</u> | <u>457,463</u> | <u>196,943</u> |
| Total Expenditures | <u>45,094,888</u> | <u>46,521,186</u> | <u>43,491,048</u> | <u>3,030,138</u> | <u>40,806,944</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(9,676,952)</u> | <u>(10,264,542)</u> | <u>(5,556,824)</u> | <u>4,707,718</u> | <u>(4,086,920)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 9,710,688 | 9,715,431 | 9,564,642 | (150,789) | 9,018,494 |
| Transfers out | (33,736) | (533,736) | (2,381,960) | (1,848,224) | (2,627,625) |
| Total other financing sources (uses) | <u>9,676,952</u> | <u>9,181,695</u> | <u>7,182,682</u> | <u>(1,999,013)</u> | <u>6,390,869</u> |
| Net change in fund balances | | (1,082,847) | 1,625,858 | 2,708,705 | 2,303,949 |
| Fund Balance - beginning | <u>16,827,964</u> | <u>16,827,964</u> | <u>16,827,964</u> | | <u>14,524,015</u> |
| Fund Balance - ending | <u>\$ 16,827,964</u> | <u>\$ 15,745,117</u> | <u>\$ 18,453,822</u> | <u>\$ 2,708,705</u> | <u>\$ 16,827,964</u> |

CITY OF ROCHESTER, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2005
With Comparative Totals for December 31, 2004

| | Business-Type Activities - | | |
|---|----------------------------|--------------------------|-----------------------|
| | Parking Fund | Electric Utility Fund | Water Utility Fund |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 93,037 | \$ 17,534,171 | \$ 1,523,848 |
| Investments | 10,512,100 | | |
| Accrued interest receivable | 67,800 | 125,421 | |
| Accounts receivable | 41,993 | 8,463,587 | 637,365 |
| Accrued utility revenues | | 2,713,482 | 40,762 |
| Inventory, material, supplies and fuel | | 7,770,336 | 332,586 |
| Due from other funds | | | |
| Due from other governmental units | 936 | | |
| Prepaid items | | 52,220 | |
| Restricted assets | | 660,387 | |
| Restricted cash | | 4,201,995 | |
| Other assets | | | |
| Total Current Assets | <u>10,715,866</u> | <u>41,521,599</u> | <u>2,534,561</u> |
| Noncurrent Assets: | | | |
| Capital assets: | | | |
| Nondepreciable | 4,149,065 | 14,739,635 | 1,931,815 |
| Depreciable | 26,876,216 | 202,250,019 | 96,827,856 |
| Less: Accumulated depreciation | (12,230,723) | (81,802,895) | (22,191,136) |
| Net capital assets | <u>18,794,558</u> | <u>135,186,759</u> | <u>76,568,535</u> |
| Deferred charges and other assets | | 1,189,640 | |
| Total Noncurrent Assets | <u>18,794,558</u> | <u>136,376,399</u> | <u>76,568,535</u> |
| Total Assets | <u>29,510,424</u> | <u>177,897,998</u> | <u>79,103,096</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts and contracts payable | 30,308 | 8,652,872 | 599,359 |
| Deposits payable | 9,580 | 421,225 | |
| Accrued interest payable | | 177,195 | |
| Accrued compensation and payroll taxes | 9,593 | 326,121 | 35,408 |
| Accrued compensated absences | 19,025 | 1,215,692 | 166,051 |
| Due to other funds | 2,542 | 1,296,243 | 497,920 |
| Due to other governmental units | 32,073 | 343,394 | 1,407 |
| Accrued claims | | | |
| Unearned revenue | | 5,994 | 76,647 |
| Bonds payable | | 1,750,000 | |
| Other liabilities | | 320 | |
| Total Current Liabilities | <u>103,121</u> | <u>14,189,056</u> | <u>1,376,792</u> |
| Noncurrent Liabilities: | | | |
| Bonds payable | | 47,410,000 | |
| Unamortized bond (discount) premium and issue costs | | (351,202) | |
| Accrued compensated absences | 35,249 | 1,003,992 | 92,014 |
| Accrued claims | | 123,000 | |
| Unearned lease revenues | | 883,895 | |
| Total Noncurrent Liabilities | <u>35,249</u> | <u>49,069,685</u> | <u>92,014</u> |
| Total Liabilities | <u>138,370</u> | <u>63,258,741</u> | <u>1,468,806</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 18,794,558 | 90,579,954 | 76,568,535 |
| Restricted for: | | | |
| Service territory acquisitions | | 660,387 | |
| Unrestricted | 10,577,496 | 23,398,916 | 1,065,755 |
| Total Net Assets | <u>\$ 29,372,054</u> | <u>\$ 114,639,257</u> | <u>\$ 77,634,290</u> |

Amounts reported by business-type activities in the statement of net assets (page 19) 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 | | 2005 | 2004 |
| | | 2005 | 2004 | | |
| \$ 209,356 | \$ 103,594 | \$ 19,464,006 | \$ 20,643,049 | \$ 1,142,635 | \$ 2,829,948 |
| 10,265,300 | 987,300 | 21,764,700 | 20,944,528 | 18,015,200 | 15,210,387 |
| 462,245 | 6,400 | 661,866 | 689,005 | 116,200 | 88,500 |
| 1,737 | 194,563 | 9,339,245 | 6,578,535 | | |
| | | 2,754,244 | 2,995,289 | | |
| 16,175 | | 8,119,097 | 6,856,078 | | |
| 1,135,851 | 278,588 | 1,414,439 | 1,199,131 | | |
| 9,910 | | 10,846 | 1,490 | | |
| | | 52,220 | | | |
| | | 660,387 | 241,608 | | |
| 49,153,311 | | 53,355,306 | 81,250,487 | | |
| 265 | | 265 | 704 | | |
| <u>61,254,150</u> | <u>1,570,445</u> | <u>117,596,621</u> | <u>141,399,904</u> | <u>19,274,035</u> | <u>18,128,835</u> |
| 39,436,547 | 929,343 | 61,186,405 | 27,395,801 | | |
| 180,946,304 | 31,851,727 | 538,752,122 | 506,591,955 | 19,048,475 | 17,804,219 |
| (73,801,316) | (1,857,405) | (191,883,475) | (179,196,590) | (10,770,684) | (9,899,189) |
| <u>146,581,535</u> | <u>30,923,665</u> | <u>408,055,052</u> | <u>354,791,166</u> | <u>8,277,791</u> | <u>7,905,030</u> |
| | | 1,189,640 | 709,229 | | |
| <u>146,581,535</u> | <u>30,923,665</u> | <u>409,244,692</u> | <u>355,500,395</u> | <u>8,277,791</u> | <u>7,905,030</u> |
| <u>207,835,685</u> | <u>32,494,110</u> | <u>526,841,313</u> | <u>496,900,299</u> | <u>27,551,826</u> | <u>26,033,865</u> |
| 2,623,303 | 70,986 | 11,976,828 | 8,830,543 | 41,343 | 374,785 |
| 134,610 | | 565,415 | 465,580 | 325,335 | 485,724 |
| 1,726,381 | | 1,903,576 | 884,310 | | |
| 100,494 | 16,660 | 488,276 | 458,371 | 18,450 | 17,876 |
| 193,375 | 16,849 | 1,610,992 | 1,421,647 | | |
| 163,030 | 27,223 | 1,986,958 | 1,995,069 | | |
| 5,715 | 7,658 | 390,247 | 363,798 | 34,418 | 15,760 |
| | | | | 1,675,902 | 1,748,018 |
| | | 82,641 | 176,479 | | |
| 1,150,000 | | 2,900,000 | 2,095,000 | | |
| | | 320 | | | |
| <u>6,096,908</u> | <u>139,376</u> | <u>21,905,253</u> | <u>16,690,797</u> | <u>2,095,448</u> | <u>2,642,163</u> |
| 87,920,000 | | 135,330,000 | 132,810,000 | | |
| 5,166,219 | | 4,815,017 | 5,072,168 | | |
| 237,253 | 7,682 | 1,376,190 | 1,115,265 | | |
| | | 123,000 | 149,000 | 859,094 | 1,063,558 |
| | | 883,895 | 920,314 | | |
| <u>93,323,472</u> | <u>7,682</u> | <u>142,528,102</u> | <u>140,066,747</u> | <u>859,094</u> | <u>1,063,558</u> |
| <u>99,420,380</u> | <u>147,058</u> | <u>164,433,355</u> | <u>156,757,544</u> | <u>2,954,542</u> | <u>3,705,721</u> |
| 52,345,316 | 30,923,665 | 269,212,028 | 218,331,466 | 8,277,791 | 7,905,030 |
| | | 660,387 | 241,608 | | |
| 56,069,989 | 1,423,387 | 92,535,543 | 121,569,681 | 16,319,493 | 14,423,114 |
| <u>\$ 108,415,305</u> | <u>\$ 32,347,052</u> | <u>362,407,958</u> | <u>340,142,755</u> | <u>\$ 24,597,284</u> | <u>\$ 22,328,144</u> |
| | | (380,051) | (932,054) | | |
| | | <u>\$ 362,027,907</u> | <u>\$ 339,210,701</u> | | |

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Business-Type Activities - | | |
|--|----------------------------|--------------------------|-----------------------|
| | Parking Fund | Electric Utility Fund | Water Utility Fund |
| Operating Revenues: | | | |
| Sales and charges for services | \$ 3,670,386 | \$ | \$ 6,520,461 |
| Sales and charges for services, pledged as security for revenue bonds | | 109,575,608 | |
| Miscellaneous | | 2,856,794 | 527,135 |
| Total Operating Revenues | <u>3,670,386</u> | <u>112,432,402</u> | <u>7,047,596</u> |
| Operating Expenses: | | | |
| Purchased power | | 55,780,898 | |
| Maintenance and operations | 2,157,994 | 33,720,013 | 4,198,048 |
| Depreciation | 987,582 | 6,081,358 | 1,945,510 |
| Total Operating Expenses | <u>3,145,576</u> | <u>95,582,269</u> | <u>6,143,558</u> |
| Operating Income (Loss) | <u>524,810</u> | <u>16,850,133</u> | <u>904,038</u> |
| Nonoperating Revenues (Expenses): | | | |
| General property taxes | | | |
| Intergovernmental revenues | 577 | | |
| Interest earnings | 278,878 | 685,922 | 33,266 |
| Net decrease in the fair value of investments | (69,300) | | |
| Interest and fiscal charges | | (2,170,778) | |
| Gain on disposal of property | 353 | | |
| Other income (expense) | 137 | (58,348) | (58,479) |
| Total Nonoperating Revenues (Expenses) | <u>210,645</u> | <u>(1,543,204)</u> | <u>(25,213)</u> |
| Income (Loss) Before Transfers and Contributions | 735,455 | 15,306,929 | 878,825 |
| Capital contributions | | 6,321 | 2,677,470 |
| Transfers in | 198,819 | | |
| Transfers out | (283,904) | (7,546,050) | (338,393) |
| Change in net assets | 650,370 | 7,767,200 | 3,217,902 |
| Net Assets - Beginning of Year | <u>28,721,684</u> | <u>106,872,057</u> | <u>74,416,388</u> |
| Net Assets - End of Year | <u>\$ 29,372,054</u> | <u>\$ 114,639,257</u> | <u>\$ 77,634,290</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 | | 2005 | 2004 |
| | | 2005 | 2004 | | |
| \$ | \$ | \$ 10,190,847 | \$ 9,709,288 | \$ 13,371,987 | \$ 11,231,026 |
| 9,574,696 | 3,147,056 | 122,297,360 | 112,225,438 | | |
| 633,360 | 675,219 | 4,692,508 | 3,070,600 | | |
| <u>10,208,056</u> | <u>3,822,275</u> | <u>137,180,715</u> | <u>125,005,326</u> | <u>13,371,987</u> | <u>11,231,026</u> |
| | | 55,780,898 | 53,787,320 | | |
| 5,916,334 | 2,047,395 | 48,039,784 | 43,687,596 | 10,053,259 | 10,622,547 |
| 4,156,114 | 491,900 | 13,662,464 | 11,199,794 | 1,630,736 | 1,612,654 |
| <u>10,072,448</u> | <u>2,539,295</u> | <u>117,483,146</u> | <u>108,674,710</u> | <u>11,683,995</u> | <u>12,235,201</u> |
| <u>135,608</u> | <u>1,282,980</u> | <u>19,697,569</u> | <u>16,330,616</u> | <u>1,687,992</u> | <u>(1,004,175)</u> |
| | | | 98 | | |
| 9,219 | | 9,796 | 9,796 | | |
| 2,150,486 | 38,605 | 3,187,157 | 1,325,304 | 475,860 | 366,488 |
| (210,611) | (7,300) | (287,211) | (207,523) | (117,300) | (103,900) |
| (4,076,780) | | (6,247,558) | (3,019,869) | | |
| 310,379 | | 310,732 | | 94,349 | 13,520 |
| 89,851 | | (26,839) | 1,738,514 | 8,169 | 3,009 |
| <u>(1,727,456)</u> | <u>31,305</u> | <u>(3,053,923)</u> | <u>(153,680)</u> | <u>461,078</u> | <u>279,117</u> |
| (1,591,848) | 1,314,285 | 16,643,646 | 16,176,936 | 2,149,070 | (725,058) |
| 7,924,804 | 8,604,509 | 19,213,104 | 97,859,936 | 60,052 | |
| | 118,500 | 317,319 | 461,829 | 64,520 | 1,384,766 |
| <u>(5,093,554)</u> | <u>(646,965)</u> | <u>(13,908,866)</u> | <u>(14,037,868)</u> | <u>(4,502)</u> | |
| 1,239,402 | 9,390,329 | 22,265,203 | 100,460,833 | 2,269,140 | 659,708 |
| <u>107,175,903</u> | <u>22,956,723</u> | | | <u>22,328,144</u> | <u>21,668,436</u> |
| <u>\$ 108,415,305</u> | <u>\$ 32,347,052</u> | | | <u>\$ 24,597,284</u> | <u>\$ 22,328,144</u> |
| | | 552,003 | (252,179) | | |
| | | <u>\$ 22,817,206</u> | <u>\$ 100,208,654</u> | | |

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Business-Type Activities - | | |
|---|----------------------------|--------------------------|-----------------------|
| | Parking Fund | Electric Utility Fund | Water Utility Fund |
| Cash Flows From Operating Activities: | | | |
| Cash received from customers | \$ 3,654,536 | \$ 111,897,918 | \$ 6,939,678 |
| Cash received from other City funds | | 3,764,586 | 118,390 |
| Cash received from employees | | | |
| Cash paid to employees | (286,556) | (15,270,814) | (1,605,196) |
| Cash paid to suppliers | (1,867,207) | (79,618,803) | (2,980,665) |
| Other income | 137 | | |
| Net Cash Provided By Operating Activities | <u>1,500,910</u> | <u>20,772,887</u> | <u>2,472,207</u> |
| Cash Flows From Noncapital Financing Activities: | | | |
| General property taxes | | | |
| Intergovernmental revenues | 577 | | |
| Transfers in | 198,819 | | |
| Transfers out | (283,904) | (7,515,387) | (336,115) |
| Net Cash Provided By (Used In) Noncapital Financing Activities | <u>(84,508)</u> | <u>(7,515,387)</u> | <u>(336,115)</u> |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Capital contributions | | | |
| Proceeds from the sale of property | 353 | | |
| Proceeds from issuance of revenue bonds | | 5,765,000 | |
| Principal payments on bonds | | (1,655,000) | |
| Interest and fiscal charges on bonds | | (2,500,847) | |
| Issuance costs of revenue bonds | | | |
| Facilities and service territory acquisition | | (582,343) | |
| Acquisition of capital assets | (1,296,091) | (11,810,697) | (2,353,369) |
| Net Cash (Used In) Capital and Related Financing Activities | <u>(1,295,738)</u> | <u>(10,783,887)</u> | <u>(2,353,369)</u> |
| Cash Flows From Investing Activities: | | | |
| Investment income | 262,478 | 670,556 | 33,266 |
| Service territory escrow payments | | (418,780) | |
| Net (increase) decrease in investments | (1,744,367) | | |
| Net Cash Provided By (Used In) Invested Activities | <u>(1,481,889)</u> | <u>251,776</u> | <u>33,266</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (1,361,225) | 2,725,389 | (184,011) |
| Cash and Cash Equivalents, Beginning of Year | 1,454,262 | 19,010,777 | 1,707,859 |
| Cash and Cash Equivalents, End of Year | <u>\$ 93,037</u> | <u>\$ 21,736,166</u> | <u>\$ 1,523,848</u> |
| Classified As: | | | |
| Cash and Cash Equivalents | \$ 93,037 | \$ 17,534,171 | \$ 1,523,848 |
| Restricted Cash | | 4,201,995 | |
| Total Cash and Cash Equivalents, End of Year | <u>\$ 93,037</u> | <u>\$ 21,736,166</u> | <u>\$ 1,523,848</u> |

| Enterprise Funds | | | | Governmental Activities- Internal Service Funds | |
|-----------------------|-----------------------------|----------------------|-----------------------|--|---------------------|
| Sewer Utility Fund | Storm Water Utility Fund | Totals | | 2005 | 2004 |
| | | 2005 | 2004 | | |
| \$ 10,118,662 | \$ 3,655,887 | \$ 136,266,681 | \$ 122,530,400 | \$ 11,376,248 | \$ 9,693,416 |
| | | 3,882,976 | 3,561,614 | 1,995,739 | 1,539,146 |
| (2,494,672) | (357,061) | (20,014,299) | (18,854,524) | | |
| (2,354,861) | (1,636,413) | (88,457,949) | (77,289,546) | (10,804,438) | (10,047,046) |
| 89,851 | | 89,988 | 1,081,448 | 8,169 | 3,009 |
| <u>5,358,980</u> | <u>1,662,413</u> | <u>31,767,397</u> | <u>31,029,392</u> | <u>2,575,718</u> | <u>1,188,525</u> |
| | | | 98 | | |
| 9,219 | | 9,796 | 9,796 | | |
| | 118,500 | 317,319 | 461,829 | 64,520 | 1,384,766 |
| <u>(5,093,554)</u> | <u>(646,965)</u> | <u>(13,875,925)</u> | <u>(13,998,694)</u> | <u>(4,502)</u> | |
| <u>(5,084,335)</u> | <u>(528,465)</u> | <u>(13,548,810)</u> | <u>(13,526,971)</u> | <u>60,018</u> | <u>1,384,766</u> |
| | | | 179,083 | | |
| 310,379 | | 310,732 | | 96,546 | 17,658 |
| | | 5,765,000 | 89,444,438 | | |
| (785,000) | | (2,440,000) | (2,214,059) | | |
| (3,301,374) | | (5,802,221) | (2,500,758) | | |
| | | (582,343) | (149,832) | | |
| <u>(29,913,806)</u> | <u>(858,145)</u> | <u>(46,232,108)</u> | <u>(596,357)</u> | <u>(1,945,642)</u> | <u>(761,980)</u> |
| <u>(33,689,801)</u> | <u>(858,145)</u> | <u>(48,980,940)</u> | <u>(19,256,529)</u> | <u>(1,849,096)</u> | <u>(744,322)</u> |
| | | | 64,905,986 | | |
| 2,212,091 | 35,901 | 3,214,292 | 875,403 | 448,160 | 367,786 |
| | | (418,780) | (1,017) | | |
| 994,681 | (357,697) | (1,107,383) | (4,096,159) | (2,922,113) | (1,410,047) |
| <u>3,206,772</u> | <u>(321,796)</u> | <u>1,688,129</u> | <u>(3,221,773)</u> | <u>(2,473,953)</u> | <u>(1,042,261)</u> |
| (30,208,384) | (45,993) | (29,074,224) | 79,186,634 | (1,687,313) | 786,708 |
| 79,571,051 | 149,587 | 101,893,536 | 22,706,902 | 2,829,948 | 2,043,240 |
| <u>\$ 49,362,667</u> | <u>\$ 103,594</u> | <u>\$ 72,819,312</u> | <u>\$ 101,893,536</u> | <u>\$ 1,142,635</u> | <u>\$ 2,829,948</u> |
| \$ 209,356 | \$ 103,594 | \$ 19,464,006 | \$ 20,643,049 | \$ 1,142,635 | \$ 2,829,948 |
| 49,153,311 | | 53,355,306 | 81,250,487 | | |
| <u>\$ 49,362,667</u> | <u>\$ 103,594</u> | <u>\$ 72,819,312</u> | <u>\$ 101,893,536</u> | <u>\$ 1,142,635</u> | <u>\$ 2,829,948</u> |

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

| | Business-Type Activities - | | |
|--|----------------------------|--------------------------|-----------------------|
| | Parking Fund | Electric Utility Fund | Water Utility Fund |
| Operating Income (Loss) | \$ 524,810 | \$ 16,850,133 | \$ 904,038 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation expense | 987,582 | 6,081,358 | 1,945,510 |
| Other income (expense) | 137 | (13,240) | |
| Other | | 142,477 | (58,479) |
| (Increase) Decrease In: | | | |
| Accounts receivable | (103) | (2,564,749) | (49,462) |
| Accrued utility revenues | | 216,204 | 24,841 |
| Inventory | | (1,132,056) | (125,750) |
| Due from other funds | | | |
| Due from other governmental units | (172) | | |
| Other assets | | (99,604) | |
| Increase (Decrease) In: | | | |
| Accounts and contracts payable, operations | (12,277) | 1,080,563 | (257,002) |
| Deposits payable | (17,572) | 67,407 | |
| Accrued expenses and other liabilities | 14,454 | 319,397 | 46,818 |
| Unearned revenues | | (180,702) | 50,766 |
| Accrued claims | | (18,000) | (8,000) |
| Due to other funds | 1,997 | | |
| Due to other governmental units | 2,054 | 23,699 | (1,073) |
| Net Cash Provided By Operating Activities | \$ 1,500,910 | \$ 20,772,887 | \$ 2,472,207 |
| Non Cash Transactions Received (Paid): | | | |
| Decrease in fair value of investments | \$ 69,300 | \$ 6,321 | \$ 2,677,470 |
| Receipt of contributed property | | | |

| Enterprise Funds | | | | Governmental Activities- Internal Service Funds | |
|-----------------------|-----------------------------|----------------------|----------------------|--|---------------------|
| Sewer Utility Fund | Storm Water Utility Fund | Totals | | 2005 | 2004 |
| | | 2005 | 2004 | | |
| \$ 135,608 | \$ 1,282,980 | \$ 19,697,569 | \$ 16,330,616 | \$ 1,687,992 | \$ (1,004,175) |
| 4,156,114 | 491,900 | 13,662,464 | 11,199,794 | 1,630,736 | 1,612,654 |
| 89,851 | | 76,748 | 1,064,283 | 8,169 | 3,009 |
| | | 83,998 | 798,956 | | |
| (275) | (146,121) | (2,760,710) | 213,099 | | 735 |
| (5,213) | | 241,045 | 164,843 | | |
| (168,325) | (46,983) | (1,263,019) | (231,638) | | 801 |
| (9,184) | | (215,308) | (109,447) | | |
| 439 | | (9,356) | 9,296 | | |
| | | (99,165) | 16,224 | | |
| 991,887 | 32,330 | 1,835,501 | 1,872,852 | (333,442) | 366,251 |
| 50,000 | | 99,835 | 35,206 | (160,389) | (54,620) |
| 85,528 | 13,978 | 480,175 | (109,683) | 574 | (28) |
| | | (129,936) | (224,717) | | |
| | | (26,000) | (11,000) | (276,580) | 263,078 |
| 38,390 | 26,716 | 67,103 | 21,663 | | |
| (5,840) | 7,613 | 26,453 | (10,955) | 18,658 | 820 |
| <u>\$ 5,358,980</u> | <u>\$ 1,662,413</u> | <u>\$ 31,767,397</u> | <u>\$ 31,029,392</u> | <u>\$ 2,575,718</u> | <u>\$ 1,188,525</u> |
| \$ 210,611 | \$ 7,300 | \$ 287,211 | \$ 207,523 | \$ 117,300 | \$ 103,900 |
| 7,924,804 | 8,604,509 | 19,213,104 | 97,680,781 | 60,052 | |

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CITY OF ROCHESTER, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

Component units are legally separate entities which are fiscally dependent on the primary government or for which the primary government is financially accountable. As of December 31, 2005, there were no entities that met the requirements to be considered a component unit of the City.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

The City reports the following major proprietary funds:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables and payables

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

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

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

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

2. Receivables and payables (continued)

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

3. Inventory

The materials and supplies inventories are valued at moving average cost on a first-in, first-out basis. Fossil fuel inventories in the Enterprise Funds are valued at the lower of cost on a last-in, first-out basis, or market. Purchases are reported as expenditures when the inventory items are consumed (consumption method).

4. Restricted assets

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

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, 2005

NOTE 1: Summary of Significant Accounting Policies (continued)

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

6. Utility connection charges

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

7. Compensated absences benefits

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

The City compensates employees upon termination, for 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, 2005

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, 2004 from which the summarized information was derived.

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

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, 2005

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, 2005 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, 2003

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, 2005**

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 of 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 | \$ 21,986,118 | 0.16 | A-1/A-1+ | P1 |
| Guaranteed Investment Contracts | 4,201,995 | ** | Unrated | Unrated |
| Short-Term Government Trust | 3,669,789 | 0 | AAA | Aaa |
| Municipal Bond | 12,806,108 | * | Unrated | Unrated |
| US Government and Agency Securities: | | | | |
| Federal Farm Credit Bank | 8,835,015 | 1.96 | AAA | Aaa |
| Federal Home Loan Bank | 73,762,202 | 1.41 | AAA | Aaa |
| Federal Home Loan Mortgage Corporation | 33,746,796 | 1.61 | AAA | Aaa |
| Federal National Mortgage Association | 37,762,744 | 1.11 | AAA | Aaa |
| US Treasury Notes | 88,373 | 1.62 | N/A | N/A |
| Sub-total Investments | 196,859,140 | | | |
| Cash and Deposits | 14,474,875 | | | |
| Total | <u>\$ 211,334,015</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.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2003**

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:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|--|---------------------------|------------------------|
| City of Rochester | Municipal Bonds | \$ 12,806,108 |
| Federal Home Loan Bank | Federal Agency Securities | 73,762,202 |
| Federal Home Loan Mortgage Corporation | Federal Agency Securities | 33,746,796 |
| Federal National Mortgage Association | Federal Agency Securities | 37,762,744 |

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, 2005 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 | \$ 27,959,494 |
| Investments | 129,986,650 |
| Restricted cash and investments | <u>53,387,871</u> |
| Total | <u><u>\$ 211,334,015</u></u> |

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005**

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, 2005 are as follows:

| Fund Type | Federal Government | State of Minnesota | Olmsted County | Other | Total |
|-----------------|-----------------------|-----------------------|-------------------|-------------------|--------------------|
| General | \$ 157,733 | \$ 333,096 | \$ 384,109 | \$ 78,394 | \$ 953,332 |
| Special Revenue | 63,116 | 277,371 | 98,100 | 73,796 | 512,383 |
| Capital Project | 3,178,929 | 2,678,212 | 260,459 | | 6,117,600 |
| Enterprise | | 1,120 | 9,726 | | 10,846 |
| Totals | <u>\$3,399,778</u> | <u>\$3,289,799</u> | <u>\$ 752,394</u> | <u>\$ 152,190</u> | <u>\$7,594,161</u> |

Amounts due to other governmental units as of December 31, 2005 are as follows:

| Fund Type | Federal Government | State of Minnesota | Olmsted County | Other | Total |
|------------------|-----------------------|-----------------------|-------------------|------------------|--------------------|
| General | \$ | \$ 39,504 | \$ 209,598 | \$ 3,620 | \$ 252,722 |
| Special Revenue | 39,876 | 29,443 | 59,180 | 18,821 | 147,320 |
| Capital Project | 185,566 | 5,941,903 | 2,530 | | 6,129,999 |
| Enterprise | | 348,136 | 42,111 | | 390,247 |
| Internal Service | | 34,418 | | | 34,418 |
| Totals | <u>\$ 225,442</u> | <u>\$6,393,404</u> | <u>\$ 313,419</u> | <u>\$ 22,441</u> | <u>\$6,954,706</u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

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, 2005, and descriptions are as follows:

Restricted Cash -

General Fund

Civic Music Endowment:

| | |
|-------------------------------------|-----------|
| Rochester Area Foundation Endowment | \$ 32,565 |
|-------------------------------------|-----------|

Enterprise Funds

Electric Fund:

| | |
|-----------------|-----------|
| Reserve Account | 4,201,995 |
|-----------------|-----------|

Sewer Fund:

| | |
|----------------------------------|------------|
| Waste Water Construction Account | 43,708,144 |
|----------------------------------|------------|

| | |
|----------------------------------|-----------|
| Waste Water Debt Service Account | 5,445,167 |
|----------------------------------|-----------|

| | |
|-------|-----------------------------|
| Total | <u><u>\$ 53,387,871</u></u> |
|-------|-----------------------------|

Restricted Assets -

Enterprise Funds

Electric Fund:

| | |
|---|--------------------------|
| Territorial Service Acquisitions Escrow | <u><u>\$ 660,387</u></u> |
|---|--------------------------|

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

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, 2005 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 | \$ 47,150,013 | \$ 649,262 | \$ | \$ 47,799,275 |
| Construction in progress | 42,512,864 | 46,046,843 | 43,884,634 | 44,675,073 |
| Total capital assets, not being depreciated | <u>89,662,877</u> | <u>46,696,105</u> | <u>43,884,634</u> | <u>92,474,348</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 116,124,835 | 207,205 | 950,375 | 115,381,665 |
| Improvements other than buildings | 15,013,235 | 537,892 | 8,844 | 15,542,283 |
| Infrastructure | 279,247,031 | 30,073,342 | | 309,320,373 |
| Machinery and equipment | 46,808,242 | 7,033,163 | 1,948,909 | 51,892,496 |
| Total capital assets, being depreciated | <u>457,193,343</u> | <u>37,851,602</u> | <u>2,908,128</u> | <u>492,136,817</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 39,896,487 | 3,321,449 | 748,418 | 42,469,518 |
| Improvements other than buildings | 7,853,110 | 487,453 | 8,589 | 8,331,974 |
| Infrastructure | 70,620,917 | 2,541,486 | | 73,162,403 |
| Machinery and equipment | 26,755,730 | 3,928,714 | 1,849,638 | 28,834,806 |
| Total accumulated depreciation | <u>145,126,244</u> | <u>10,279,102</u> | <u>2,606,645</u> | <u>152,798,701</u> |
| Total capital assets, being depreciated, net | <u>312,067,099</u> | <u>27,572,500</u> | <u>301,483</u> | <u>339,338,116</u> |
| Governmental activities capital assets, net | <u>\$ 401,729,976</u> | <u>\$ 74,268,605</u> | <u>\$ 44,186,117</u> | <u>\$ 431,812,464</u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Business-type capital asset activity for the year ended December 31, 2005 was as follows:

| <u>Business-Type Activities</u> | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|---------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,829,574 | \$ 1,082,248 | \$ | \$ 6,911,822 |
| Construction in progress | 21,566,227 | 41,351,612 | 8,643,256 | 54,274,583 |
| Total capital assets, not being depreciated | <u>27,395,801</u> | <u>42,433,860</u> | <u>8,643,256</u> | <u>61,186,405</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 235,716,387 | 18,360,436 | 851,138 | 253,225,685 |
| Machinery and equipment | 270,875,568 | 15,897,668 | 1,246,799 | 285,526,437 |
| Total capital assets, being depreciated | <u>506,591,955</u> | <u>34,258,104</u> | <u>2,097,937</u> | <u>538,752,122</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 86,939,168 | 5,505,801 | 35,094 | 92,409,875 |
| Machinery and equipment | 92,257,422 | 8,156,663 | 940,485 | 99,473,600 |
| Total accumulated depreciation | <u>179,196,590</u> | <u>13,662,464</u> | <u>975,579</u> | <u>191,883,475</u> |
| Total capital assets, being depreciated, net | <u>327,395,365</u> | <u>20,595,640</u> | <u>1,122,358</u> | <u>346,868,647</u> |
| Business-type activities capital assets, net | <u>\$ 354,791,166</u> | <u>\$ 63,029,500</u> | <u>\$ 9,765,614</u> | <u>\$ 408,055,052</u> |

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|------------------------------------|---------------|
| General government | \$ 574,931 |
| Public safety | 712,061 |
| Public works | 2,213,161 |
| Airport operations | 1,215,828 |
| Transit | 547,358 |
| Culture | 881,008 |
| Park and recreation | 2,501,489 |
| Economic development/tourism | 562 |
| Community reinvestment/unallocated | 1,968 |
| Internal Service Funds: | |
| Equipment revolving | 1,557,700 |
| Information technology | <u>73,036</u> |

| | |
|--|-----------------------------|
| Total depreciation expense - governmental activities | <u><u>\$ 10,279,102</u></u> |
|--|-----------------------------|

Business-Type Activities:

| | |
|---------------------|----------------|
| Parking | \$ 987,582 |
| Electric utility | 6,081,358 |
| Water utility | 1,945,510 |
| Sewer utility | 4,156,114 |
| Storm water utility | <u>491,900</u> |

| | |
|---|-----------------------------|
| Total depreciation expense - business-type activities | <u><u>\$ 13,662,464</u></u> |
|---|-----------------------------|

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers

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

The amounts due to and due from other funds as of December 31, 2005, at the individual fund level are summarized below:

| Funds | Due From Other Funds | Due To Other Funds |
|--------------------------------|-------------------------|-----------------------|
| Governmental Funds: | | |
| General | \$ 662,766 | \$ 347,086 |
| Construction improvements | 472,455 | 697 |
| Subtotal | 1,135,221 | 347,783 |
| Other Governmental Funds: | | |
| Special Revenue - | | |
| Library | 15,666 | 11,340 |
| Municipal recreation system | | 161,625 |
| Airport operations | | 41,954 |
| Community development projects | | 15,666 |
| Subtotal | 15,666 | 230,585 |
| Total Governmental Funds | 1,150,887 | 578,368 |
| Proprietary Funds: | | |
| Enterprise - | | |
| Parking | | 2,542 |
| Electric utility | | 1,296,243 |
| Water utility | | 497,920 |
| Sewer utility | 1,135,851 | 163,030 |
| Storm water utility | 278,588 | 27,223 |
| Total Proprietary Funds | 1,414,439 | 1,986,958 |
| Total All Funds | \$ 2,565,326 | \$ 2,565,326 |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2005, at the individual fund level are summarized below:

| <u>Funds</u> | <u>Advances to Other Funds</u> | <u>Advances from Other Funds</u> |
|-----------------------------|------------------------------------|--------------------------------------|
| Governmental Funds: | | |
| Capital Project - | | |
| Construction improvements | \$ 1,290,060 | \$ |
| Other Governmental Funds: | | |
| Special Revenue - | | |
| Municipal recreation system | | 1,290,060 |
| Total Governmental Funds | <u>\$ 1,290,060</u> | <u>\$ 1,290,060</u> |

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

Transfers during the year ended December 31, 2005 were as follows:

| <u>Funds</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|----------------------|----------------------|
| General | \$ 9,564,642 | \$ 2,381,960 |
| Special Revenue | 498,222 | 488,073 |
| Debt Service | 57,535 | |
| Capital Project | 6,625,152 | 917,352 |
| Enterprise | 317,319 | 13,908,866 |
| Internal Service | 64,520 | 4,502 |
| Totals | 17,127,390 | 17,700,753 |
| Transfer of governmental capital assets: | | |
| From Proprietary Funds to governmental capital assets | <u>573,363</u> | |
| Total Transfers | <u>\$ 17,700,753</u> | <u>\$ 17,700,753</u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

In the government-wide statement of net assets, transfers in/out of \$8,324,956 are comprised of the sewer and storm water utility networks assets and developer contributions of \$5,266,591 transferred from governmental activities to business-type activities net of \$13,591,547 in transfers from business-type activities to governmental activities.

G. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Expenditures under these operating leases for the year ended December 31, 2005 totaled \$151,894.

Following is a schedule by years of future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year. All scheduled rent increases are intended to cover inflationary increases in costs.

| Years ending December 31: | |
|---------------------------|-----------|
| 2006 | \$ 33,479 |
| 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, 2005**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2005, is as follows:

| | Original Amount of Debt | Range of Interest | Final Maturity | Balance 12/31/05 |
|--|----------------------------|----------------------|-------------------|-----------------------|
| General Obligation Bonds: | | | | |
| Taxable Tax Increment Bonds | | | | |
| District 7, Series 1997 | \$ 2,669,380 | 5.5% | 2024 | \$ 2,547,435 |
| General Obligation Revenue Bonds: | | | | |
| Taxable Sales Tax Revenue | | | | |
| Bond of 2000 | 10,458,673 | 6.35% | 2010 | 10,258,673 |
| Wastewater Treatment Plant | | | | |
| Refunding Bonds, Series 2001A | 8,275,000 | 3.5-4.0% | 2011 | 5,335,000 |
| Wastewater Treatment Plant | | | | |
| Revenue Bonds, Series 2004A | 83,735,000 | 3.0-5.0% | 2026 | 83,735,000 |
| Revenue Bonds: | | | | |
| Electric Utility Revenue | | | | |
| Bonds, Series 2000 | 37,290,000 | 4.75-5.25% | 2030 | 34,135,000 |
| Electric Utility Revenue | | | | |
| Bonds, Series 2002 | 11,275,000 | 3.0-4.5% | 2017 | 9,605,000 |
| Revenue Note: | | | | |
| Electric Utility | | | | |
| Note, Series 2005 | 5,765,000 | 3.98% | 2014 | 5,420,000 |
| Notes Payable: | | | | |
| GO Sales Tax Revenue Note of 2001 | 2,500,000 | 2.83% | 2021 | 2,188,000 |
| Airport Hangar - 1998 | 175,200 | 0% | 2008 | 39,327 |
| Airport Hangar - 1999 | 184,729 | 0% | 2010 | 73,891 |
| Airport Hangar - 2001 | 215,301 | 0% | 2012 | 143,534 |
| Compensated absences | | | | 10,469,734 |
| Less: Unamortized premium and issuance costs | | | | 4,802,037 |
| Total Long-term Debt | | | | <u>\$ 168,752,631</u> |

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Taxable Tax Increment Bonds

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

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

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.

General Obligation Sales Tax Revenue Note

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

Notes Payable

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in substantial compliance with these requirements. The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2005:

| | 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 | \$ 2,603,879 | \$ | \$ 56,444 | \$ 2,547,435 | \$ |
| Taxable Sales Tax Revenue Bonds, Series 2000 | 10,458,673 | | 200,000 | 10,258,673 | |
| GO Sales Tax Revenue Note of 2001 | 2,295,000 | | 107,000 | 2,188,000 | 110,000 |
| Note Payable: | | | | | |
| Airport Hangar 1998 | 56,859 | | 17,532 | 39,327 | 17,532 |
| Airport Hangar 1999 | 92,364 | | 18,473 | 73,891 | 18,473 |
| Airport Hangar 2001 | 165,064 | | 21,530 | 143,534 | 21,530 |
| Less: Unamortized Issuance Costs | (19,355) | | (6,375) | (12,980) | |
| Other Liabilities: | | | | | |
| Compensated Absences | 6,520,625 | 4,633,150 | 3,671,223 | 7,482,552 | 4,600,000 |
| Governmental Activities Long-term Liabilities | <u>22,173,109</u> | <u>4,633,150</u> | <u>4,085,827</u> | <u>22,720,432</u> | <u>4,767,535</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Bonds and Notes Payable: | | | | | |
| General Obligation Bonds: | | | | | |
| Wastewater Treatment Plant - Revenue Refunding Bonds, Series 2001A | 6,120,000 | | 785,000 | 5,335,000 | 820,000 |
| Revenue Bonds, Series 2004A | 83,735,000 | | | 83,735,000 | 330,000 |
| Revenue Bonds: | | | | | |
| Electric Utility Revenue Bonds - Series 2000 | 34,825,000 | | 690,000 | 34,135,000 | 725,000 |
| Series 2002 | 10,225,000 | | 620,000 | 9,605,000 | 640,000 |
| Revenue Note: | | | | | |
| Electric Utility Note of 2005 | | 5,765,000 | 345,000 | 5,420,000 | 385,000 |
| Less: Unamortized (Discount) Premium | 5,072,168 | | 257,151 | 4,815,017 | |
| Other Liabilities: | | | | | |
| Compensated Absences | 2,536,912 | 450,270 | | 2,987,182 | 1,610,992 |
| Business-type Activities Long-term Liabilities | <u>142,514,080</u> | <u>6,215,270</u> | <u>2,697,151</u> | <u>146,032,199</u> | <u>4,510,992</u> |
| Total | <u>\$ 164,687,189</u> | <u>\$ 10,848,420</u> | <u>\$ 6,782,978</u> | <u>\$ 168,752,631</u> | <u>\$ 9,278,527</u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2005, excluding accrued compensated absences over the life of the debt, are summarized below:

| | General Obligation Revenue Bonds* | | Revenue Bonds and Note | | Other | |
|---------------------------------|-----------------------------------|----------------------|------------------------|----------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| <u>Governmental Activities</u> | | | | | | |
| 2006 | | | | | \$ 167,535 | \$ 61,920 |
| 2007 | | | | | 170,535 | 58,808 |
| 2008 | | | | | 160,266 | 55,610 |
| 2009 | | | | | 177,535 | 52,326 |
| 2010-2014 | | | | | 552,881 | 174,470 |
| 2015-2019 | | | | | 728,000 | 132,019 |
| 2020-2022 | | | | | 488,000 | 27,875 |
| Totals | | | | | <u>\$ 2,444,752</u> | <u>\$ 563,028</u> |
| <u>Business-Type Activities</u> | | | | | | |
| 2006 | \$ 1,150,000 | \$ 4,298,225 | \$ 1,750,000 | \$ 2,331,610 | | |
| 2007 | 1,770,000 | 4,250,475 | 1,840,000 | 2,262,825 | | |
| 2008 | 1,815,000 | 4,193,075 | 1,950,000 | 2,187,720 | | |
| 2009 | 1,865,000 | 4,132,345 | 2,065,000 | 2,103,572 | | |
| 2010-2014 | 11,690,000 | 19,380,870 | 10,485,000 | 7,488,655 | | |
| 2015-2019 | 25,690,000 | 14,586,750 | 9,525,000 | 6,979,520 | | |
| 2020-2024 | 31,670,000 | 7,452,250 | 7,405,000 | 4,916,744 | | |
| 2025-2029 | 13,420,000 | 645,250 | 9,575,000 | 2,757,564 | | |
| 2030 | | | 4,565,000 | 362,512 | | |
| Totals | <u>\$ 89,070,000</u> | <u>\$ 58,939,240</u> | <u>\$ 49,160,000</u> | <u>\$ 31,390,722</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, 2005, the City had not utilized any of its net legal debt margin which totaled \$140,741,352.

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 \$1,101,833,000 and the balance outstanding at December 31, 2005 totals \$1,096,855,496.

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

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

| | Tax Increment District | | |
|---|------------------------|-----------|---------|
| | No. 2-2 | No. 3-1 | No. 3-2 |
| Original net tax capacity | \$ 18,190 | \$ 39,538 | \$ 833 |
| Current net tax capacity | 147,196 | 108,372 | 15,569 |
| Captured net tax capacity: | | | |
| Retained by authority | 129,006 | 68,834 | 14,736 |
| Shared with other taxing districts | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - |
| Amounts redeemed | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - |

| | Tax Increment District | | | |
|---|------------------------|--------------|----------|----------|
| | No. 6-1 | No. 7-1 | No. 8-1 | No. 11-1 |
| Original net tax capacity | \$ 139 | \$ 3,921 | \$ 1,094 | \$ 3,344 |
| Current net tax capacity | 16,766 | 300,778 | 29,018 | 20,941 |
| Captured net tax capacity: | | | | |
| Retained by authority | 16,627 | 296,857 | 27,924 | 17,597 |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | 2,669,380 | - | - |
| Amounts redeemed | - | 121,945 | - | - |
| Outstanding bonds at December 31, 2005 | - | \$ 2,547,435 | - | - |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

| | Tax Increment District | | | |
|---|------------------------|----------|----------|----------|
| | No. 12-1 | No. 13-1 | No. 14-1 | No. 15-1 |
| Original net tax capacity | \$ 150 | \$ 249 | \$ 336 | \$ 206 |
| Current net tax capacity | 11,627 | 84,583 | 79,143 | 48,299 |
| Captured net tax capacity: | | | | |
| Retained by authority | 11,477 | 84,334 | 78,807 | 48,093 |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - | - |
| Amounts redeemed | - | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - | - |
| | | | | |
| | Tax Increment District | | | |
| | No. 16-1 | No. 17-1 | No. 18-1 | No. 19-1 |
| Original net tax capacity | \$ 410 | \$ 75 | \$ 179 | \$ 96 |
| Current net tax capacity | 14,792 | 35,120 | 38,851 | 32,666 |
| Captured net tax capacity: | | | | |
| Retained by authority | 14,382 | 35,045 | 38,672 | 32,570 |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - | - |
| Amounts redeemed | - | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - | - |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

| | Tax Increment District | | | |
|---|------------------------|----------|----------|----------|
| | No. 20-1 | No. 21-1 | No. 22-1 | No. 23-1 |
| Original net tax capacity | \$ 134 | \$ 542 | \$ 450 | \$ 24 |
| Current net tax capacity | 28,510 | 30,618 | 33,206 | 16,310 |
| Captured net tax capacity: | | | | |
| Retained by authority | 28,376 | 30,076 | 32,756 | 16,286 |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - | - |
| Amounts redeemed | - | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - | - |

| | Tax Increment District | | | |
|---|------------------------|----------|----------|----------|
| | No. 24-1 | No. 25-1 | No. 26-1 | No. 27-1 |
| Original net tax capacity | \$ 2,008 | \$ 289 | \$ 4,840 | \$ 3,500 |
| Current net tax capacity | 23,718 | 29,635 | 27,500 | 13,137 |
| Captured net tax capacity: | | | | |
| Retained by authority | 21,710 | 29,346 | 22,660 | 9,637 |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - | - |
| Amounts redeemed | - | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - | - |

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

| | Tax Increment District | | | |
|---|------------------------|----------|----------|----------|
| | No. 28-1 | No. 29-1 | No. 30-1 | No. 31-1 |
| Original net tax capacity | \$ 56 | \$ 1,608 | \$ 401 | \$ 1,851 |
| Current net tax capacity | 590 | 1,608 | 401 | 1,851 |
| Captured net tax capacity: | | | | |
| Retained by authority | 534 | - | - | - |
| Shared with other taxing districts | - | - | - | - |
| Total general obligation tax increment bonds issued | - | - | - | - |
| Amounts redeemed | - | - | - | - |
| Outstanding bonds at December 31, 2005 | - | - | - | - |

I. Designated Fund Balance

Designated fund balance represents the portion which is based on tentative future spending plans. Fund balance has been designated at December 31, 2005 in the following funds:

General Fund

Designated:

| | |
|---|------------------|
| Subsequent years' appropriations | \$ 912,661 |
| General contingency for future compensated absences | <u>5,754,172</u> |

Totals \$ 6,666,833

Special Revenue Funds

| | Law | | | Totals |
|---|-------------------|----------------------|--------------------------|---------------------|
| | Library | Municipal Recreation | Enforcement Block Grants | |
| Designated: | | | | |
| Subsequent years' appropriations | \$ 304,705 | \$ 49,844 | \$ 41,797 | \$ 396,346 |
| General contingency for future compensated absences | <u>459,958</u> | <u>911,711</u> | - | <u>1,371,669</u> |
| Totals | <u>\$ 764,663</u> | <u>\$ 961,555</u> | <u>\$ 41,797</u> | <u>\$ 1,768,015</u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 3: Detailed Notes on All Funds (continued)

J. Restricted Net Assets

| | <u>Restricted Net Assets Imposed By</u> | | |
|-------------------------------------|---|---------------------|----------------------------|
| | <u>Grantors</u> | <u>Contributors</u> | <u>Legally Enforceable</u> |
| <u>Major Governmental Funds:</u> | | | |
| General Fund: | | | |
| Civic Music Endowment | \$ | \$ 32,565 | \$ |
| Construction Improvement Fund: | | | |
| Flood Control | 22,345,524 | | |
| Sales Tax Authorized Projects | | | 12,146,875 |
| <u>Nonmajor Governmental Funds:</u> | | | |
| Special Revenue Funds: | | | |
| CDBG Loans | 3,270,151 | | |
| Airport Operations | | | 4,015,170 |
| Total Governmental Activities | <u>25,615,675</u> | <u>32,565</u> | <u>16,162,045</u> |
| <u>Major Proprietary Funds:</u> | | | |
| Sewer Utility Fund: | | | |
| Debt Service | | | |
| Bond Requirements | | | |
| Electric Utility Fund: | | | |
| Service Territory Acquisitions | | | 660,387 |
| Total Business-Type Activities | | | <u>660,387</u> |
| Total Restricted Net Assets | <u>\$ 25,615,675</u> | <u>\$ 32,565</u> | <u>\$ 16,822,432</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, 2005**

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 \$2,534,996 reported in the Fund at December 31, 2005 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, 2005 and 2004 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> |
|-------------------|------------------------------------|---|-----------------------|------------------------------|
| 2005 | \$2,811,576 | \$ 8,231,625 | \$(8,508,205) | \$2,534,996 |
| 2004 | 2,548,498 | 9,374,439 | (9,111,361) | \$2,811,576 |

**CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005**

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, 2005. At year end the City's commitments with contractors and vendors is as follows:

| | |
|--|---------------------------------|
| <u>Construction Projects</u> | <u>Remaining Commitment</u> |
| Major Street Projects | \$ 2,126,227 |
| Sewer and Water Projects | 12,589,976 |
| Sidewalk Projects | 72,675 |
| Traffic Projects | 34,439 |
| Storm Water Projects | 83,645 |
| Storm Water / Storm Sewer Projects | 53,101 |
| Water Reclamation Projects | 29,905,706 |
| Airport Projects | 1,411,972 |
| Parks Projects - Various | 2,708,746 |
| Recreation Projects - Soldiers Field | 51,794 |
| Recreation Center Projects - Air Quality Improvement | 1,646 |
| Total Construction Projects | <u><u>\$ 49,039,927</u></u> |
| <u>Equipment Purchase Commitments</u> | |
| General Government Land and Buildings - Incident Command Vehicle | \$ 5,321 |
| General Government Land and Buildings - City Wide Area Network | 10,042 |
| General Government Land and Buildings - Building Permit Software | 143,885 |
| Equipment Revolving - Fire Tanker/Pumper | 245,142 |
| Equipment Revolving - Two Dump Trucks | 146,090 |
| Total Equipment Purchase Commitments | <u><u>\$ 550,480</u></u> |

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

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, 2005, 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.

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.

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.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4: Other Information (continued)

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 web at mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026. The following disclosures are made in accordance with Statement No. 27 of the Governmental Accounting Standards Board:

1. Cost-Sharing Multiple-Employer
Defined Benefit Pension Plans - Statewide
Public Employees Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Rochester are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

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

The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

CITY OF ROCHESTER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10% respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. PEPFF members are required to contribute 6.20% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The City of Rochester is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.30% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.0% and 10.5% respectively, effective January 1, 2006. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003 were \$1,871,477, \$1,782,126, and \$1,742,618, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2005, 2004, and 2003 were \$1,335,317, \$1,289,118, and \$1,311,160, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

F. Prior Period Adjustment

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments with their financial statements for the period ended December 31, 2002. For the year ended December 31, 2005 the City is retroactively reporting the street network and flood control infrastructure assets as required by this statement. As a result of capitalizing the street network and flood control infrastructure, the City has now capitalized all infrastructure assets as required by GASB No. 34.

The prior period adjustment for the governmental activities includes \$157,341,351 for the street network and flood control infrastructure assets.

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2005

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CITY OF ROCHESTER, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2005

SPECIAL REVENUE FUNDS

Library Fund:

The Library Fund was established in 1968 by Council resolution to account for all gifts, donations and contributions, all fees and such other monies collected from the operation of the Library and all taxes levied by the Common Council for Library purposes.

Municipal Recreation System Fund:

This fund was created by Council resolution, under the authority of City Charter Chapter XI to account for the activities of the Park and Recreation System.

Law Enforcement Block Grants Fund:

This fund was established in 1996, as required by the Department of Justice, to account for grant revenues and eligible expenditures.

Airport Operations Fund:

This fund was established in 1998 by Council resolution to account for the revenues and expenditures of the Rochester International Airport operations.

The F.E. Williams Estate Fund:

This fund was established to account for the gift of property made by Mr. Frank E. Williams to be used "for the acquiring of or the support of, or the maintenance of a playground or playgrounds, for children under 15 years of age."

Transit Fund: This fund was established to account for the financial resources received for the support of regular route, dial-a-ride and rideshare services.

Community Development Projects Fund:

This fund was established to account for the financial resources received under Title I of the Housing and Community Development Act of 1974.

DEBT SERVICE FUNDS

Tax Increment Bonds Fund:

These funds are used to account for the accumulation of resources (tax increment revenue) for payment of tax increment general obligation bonds and interest.

Airport Hangar Construction Notes Fund:

These funds are used to account for the accumulation of resources (hangar rental income) for payment of airport hangar construction notes.

Sales Tax Revenue Bonds Fund:

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

Transportation Sales Tax Note Fund:

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

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

December 31, 2005
With Comparative Totals for December 31, 2004

| | Special Revenue | | | | | |
|--|---------------------|-----------------------------------|------------------------------------|-----------------------|-------------------------|-------------------|
| | Library | Municipal Recreation System | Law Enforcement Block Grants | Airport Operations | F.E. Williams Estate | Transit |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 97,590 | \$ 635,265 | \$ 42,135 | \$ 182,005 | \$ 5,794 | \$ 51,803 |
| Investments | 1,283,800 | 1,875,400 | | 2,319,500 | 296,500 | 394,400 |
| Accrued interest receivable | 8,300 | 12,100 | | 15,000 | 1,900 | 2,500 |
| Accounts receivable (net of allowance for uncollectibles) | 259 | 340,897 | | 1,068,436 | 129 | 18,932 |
| Loans receivable | | | | | | |
| Taxes receivable delinquent | 34,015 | 35,998 | | 6,260 | | 422 |
| Special assessments receivable delinquent | | 430 | | | | |
| Due from other funds | 15,666 | | | | | |
| Due from other governmental units | 30,792 | 132,540 | | 135,709 | | 166,072 |
| Prepaid items | 6,510 | 6,603 | | | | |
| TOTAL ASSETS | \$ 1,476,932 | \$ 3,039,233 | \$ 42,135 | \$ 3,726,910 | \$ 304,323 | \$ 634,129 |
| LIABILITIES AND FUND BALANCE | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 57,166 | \$ 111,076 | \$ 194 | \$ 199,950 | \$ 1,977 | \$ 191,850 |
| Deposits payable | 6,816 | 131,371 | | | | |
| Accrued compensation and payroll taxes | 137,877 | 188,763 | | | | 52 |
| Accrued compensated absences | 13,077 | 27,282 | | | | 119 |
| Due to other funds | 11,340 | 161,625 | | 41,954 | | |
| Due to other governmental units | 8,957 | 98,307 | 144 | 39,876 | | 36 |
| Advances from other funds | | 1,290,060 | | | | |
| Deferred revenue | 34,015 | 36,428 | | 6,261 | | 422 |
| Total Liabilities | 269,248 | 2,044,912 | 338 | 288,041 | 1,977 | 192,479 |
| Fund Balance: | | | | | | |
| Reserved for prepaid items | 6,510 | 6,603 | | | | |
| Reserved for encumbrances | | 26,086 | | | | |
| Unreserved: | | | | | | |
| Designated for future compensated absences | 459,958 | 911,711 | | | | |
| Designated for subsequent years' appropriations | 304,705 | 49,844 | 41,797 | | | |
| Undesignated | 436,511 | 77 | | 3,438,869 | 302,346 | 441,650 |
| Total Fund Balance | 1,207,684 | 994,321 | 41,797 | 3,438,869 | 302,346 | 441,650 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 1,476,932 | \$ 3,039,233 | \$ 42,135 | \$ 3,726,910 | \$ 304,323 | \$ 634,129 |

| Community Development Projects | Total | Tax Increment Bonds | Airport Hangar Construction Notes | Debt Service | | Total | Total Nonmajor Governmental Funds | |
|--------------------------------|---------------------|---------------------|-----------------------------------|-------------------------|-------------------------------|-----------|-----------------------------------|---------------------|
| | | | | Sales Tax Revenue Bonds | Transportation Sales Tax Note | | 2005 | 2004 |
| \$ | \$ 1,014,592 | \$ | \$ | \$ | \$ | \$ | \$ 1,014,592 | \$ 1,407,437 |
| | 6,169,600 | | | | | | 6,169,600 | 5,672,217 |
| | 39,800 | | | | | | 39,800 | 33,000 |
| | 1,428,653 | | | | | | 1,428,653 | 1,307,435 |
| 3,270,151 | 3,270,151 | | | | | | 3,270,151 | 2,987,696 |
| | 76,695 | | | | | | 76,695 | 81,108 |
| | 430 | | | | | | 430 | 1,374 |
| | 15,666 | | | | | | 15,666 | 20,815 |
| 47,270 | 512,383 | | | | | | 512,383 | 314,317 |
| | 13,113 | | | | | | 13,113 | 10,385 |
| <u>\$ 3,317,421</u> | <u>\$12,541,083</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$12,541,083</u> | <u>\$11,835,784</u> |
| \$ 31,604 | \$ 593,817 | \$ | \$ | \$ | \$ | \$ | \$ 593,817 | \$ 583,588 |
| | 138,187 | | | | | | 138,187 | 149,491 |
| | 326,692 | | | | | | 326,692 | 302,497 |
| | 40,478 | | | | | | 40,478 | 41,168 |
| 15,666 | 230,585 | | | | | | 230,585 | 236,569 |
| | 147,320 | | | | | | 147,320 | 159,707 |
| | 1,290,060 | | | | | | 1,290,060 | 1,469,963 |
| 3,270,151 | 3,347,277 | | | | | | 3,347,277 | 3,070,178 |
| 3,317,421 | 6,114,416 | | | | | | 6,114,416 | 6,013,161 |
| | 13,113 | | | | | | 13,113 | 10,385 |
| | 26,086 | | | | | | 26,086 | 47,659 |
| | 1,371,669 | | | | | | 1,371,669 | 1,183,001 |
| | 396,346 | | | | | | 396,346 | 411,608 |
| | 4,619,453 | | | | | | 4,619,453 | 4,169,970 |
| | 6,426,667 | | | | | | 6,426,667 | 5,822,623 |
| <u>\$ 3,317,421</u> | <u>\$12,541,083</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$12,541,083</u> | <u>\$11,835,784</u> |

CITY OF ROCHESTER, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Special Revenue | | | | | |
|--|---------------------|-----------------------------------|------------------------------------|-----------------------|-------------------------|-------------------|
| | Library | Municipal Recreation System | Law Enforcement Block Grants | Airport Operations | F.E. Williams Estate | Transit |
| REVENUES | | | | | | |
| General property taxes | \$ 3,702,328 | \$ 3,955,821 | \$ | \$ 693,785 | \$ | \$ 54,662 |
| Tax increments | | | | | | |
| Sales tax | | | | | | |
| Intergovernmental revenues | 1,074,720 | 348,651 | 51,551 | 330,431 | | 2,548,942 |
| Charges for services | 160,077 | 5,295,125 | | 2,586,231 | | 61,994 |
| Interest earnings | 16,594 | 40,039 | 304 | 70,478 | 7,986 | 16,001 |
| Net decrease in the fair value of investments | (6,700) | (9,300) | | (17,400) | (1,300) | (2,100) |
| Miscellaneous revenues | 142,923 | 75,000 | | 24,751 | 11,170 | 49,558 |
| Total Revenues | <u>5,089,942</u> | <u>9,705,336</u> | <u>51,855</u> | <u>3,688,276</u> | <u>17,856</u> | <u>2,729,057</u> |
| EXPENDITURES | | | | | | |
| Culture | 5,095,972 | | | | | |
| Park and recreation | | 10,061,749 | | | 17,352 | |
| Public safety | | | 35,203 | | | |
| Airport operations | | | | 2,860,315 | | |
| Transit | | | | | | 2,749,219 |
| Economic development/tourism | | | | | | |
| Debt service | | | | | | |
| Total Expenditures | <u>5,095,972</u> | <u>10,061,749</u> | <u>35,203</u> | <u>2,860,315</u> | <u>17,352</u> | <u>2,749,219</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(6,030)</u> | <u>(356,413)</u> | <u>16,652</u> | <u>827,961</u> | <u>504</u> | <u>(20,162)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | 461,407 | | 36,815 | | |
| Transfers out | (17,300) | | | (338,461) | (929) | |
| Total Other Financing Sources (Uses) | <u>(17,300)</u> | <u>461,407</u> | | <u>(301,646)</u> | <u>(929)</u> | |
| Net change in fund balances | (23,330) | 104,994 | 16,652 | 526,315 | (425) | (20,162) |
| Fund Balances - beginning | <u>1,231,014</u> | <u>889,327</u> | <u>25,145</u> | <u>2,912,554</u> | <u>302,771</u> | <u>461,812</u> |
| Fund Balances - ending | <u>\$ 1,207,684</u> | <u>\$ 994,321</u> | <u>\$ 41,797</u> | <u>\$ 3,438,869</u> | <u>\$ 302,346</u> | <u>\$ 441,650</u> |

| Community Development Projects | Total | Debt Service | | | | | Total Nonmajor Governmental Funds | |
|--------------------------------------|-------------|---------------------------|---|-------------------------------|-------------------------------------|-----------|--|--------------|
| | | Tax Increment Bonds | Airport Hangar Construction Notes | Sales Tax Revenue Bonds | Transportation Sales Tax Note | Total | 2005 | 2004 |
| \$ | \$8,406,596 | \$ | \$ | \$ | \$ | \$ | \$8,406,596 | \$ 7,597,229 |
| | | 199,190 | | | | 199,190 | 199,190 | 1,311,008 |
| 996,335 | 5,350,630 | | | 864,126 | 171,948 | 1,036,074 | 1,036,074 | 171,892 |
| | 8,103,427 | | | | | | 5,350,630 | 4,680,705 |
| | 151,402 | | | | | | 8,103,427 | 8,021,916 |
| | (36,800) | | | | | | 151,402 | 123,015 |
| 135,948 | 439,350 | | | | | | (36,800) | (37,700) |
| 1,132,283 | 22,414,605 | 199,190 | | 864,126 | 171,948 | 1,235,264 | 439,350 | 432,288 |
| | 5,095,972 | | | | | | 5,095,972 | 4,851,851 |
| | 10,079,101 | | | | | | 10,079,101 | 9,308,479 |
| | 35,203 | | | | | | 35,203 | 52,514 |
| | 2,860,315 | | | | | | 2,860,315 | 2,569,762 |
| | 2,749,219 | | | | | | 2,749,219 | 2,275,346 |
| 1,000,900 | 1,000,900 | | | | | | 1,000,900 | 866,536 |
| | | 199,190 | 57,535 | 864,126 | 171,948 | 1,292,799 | 1,292,799 | 3,808,938 |
| 1,000,900 | 21,820,710 | 199,190 | 57,535 | 864,126 | 171,948 | 1,292,799 | 23,113,509 | 23,733,426 |
| 131,383 | 593,895 | | (57,535) | | | (57,535) | 536,360 | (1,433,073) |
| (131,383) | 498,222 | | 57,535 | | | 57,535 | 555,757 | 2,712,029 |
| (131,383) | (488,073) | | | | | | (488,073) | (839,593) |
| (131,383) | 10,149 | | 57,535 | | | 57,535 | 67,684 | 1,872,436 |
| | 604,044 | | | | | | 604,044 | 439,363 |
| | 5,822,623 | | | | | | 5,822,623 | 5,383,260 |
| \$ | \$6,426,667 | \$ | \$ | \$ | \$ | \$ | \$6,426,667 | \$ 5,822,623 |

CITY OF ROCHESTER, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|--------------------|-------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| General property taxes | \$3,998,400 | \$3,726,266 | \$3,702,328 | \$ (23,938) | \$3,555,104 |
| Intergovernmental | 775,300 | 1,071,217 | 1,074,720 | 3,503 | 957,140 |
| Charges for services | 151,800 | 151,800 | 160,077 | 8,277 | 148,386 |
| Interest earnings | | 5,979 | 16,594 | 10,615 | 16,006 |
| Net decrease in the fair value of investments | | | (6,700) | (6,700) | (8,500) |
| Miscellaneous | | | | | |
| Contributions | | 128,418 | 134,600 | 6,182 | 118,025 |
| Other | 6,500 | 6,499 | 8,323 | 1,824 | 9,233 |
| Total Revenues | <u>4,932,000</u> | <u>5,090,179</u> | <u>5,089,942</u> | <u>(237)</u> | <u>4,795,394</u> |
| EXPENDITURES | | | | | |
| Public Library | 4,932,000 | 5,018,603 | 4,980,852 | 37,751 | 4,598,337 |
| Library - SELCO | | 69,559 | 24,992 | 44,567 | 26,866 |
| Gifts appropriations | | 335,096 | 90,128 | 244,968 | 226,648 |
| Total Expenditures | <u>4,932,000</u> | <u>5,423,258</u> | <u>5,095,972</u> | <u>327,286</u> | <u>4,851,851</u> |
| Excess (deficiency) of revenues over (under) expenditures | | <u>(333,079)</u> | <u>(6,030)</u> | <u>327,049</u> | <u>(56,457)</u> |
| OTHER FINANCING USES | | | | | |
| Transfers out | | | <u>(17,300)</u> | <u>(17,300)</u> | |
| Net change in fund balances | | (333,079) | (23,330) | 309,749 | (56,457) |
| Fund Balances - beginning | <u>1,231,014</u> | <u>1,231,014</u> | <u>1,231,014</u> | | <u>1,287,471</u> |
| Fund Balances - ending | <u>\$1,231,014</u> | <u>\$ 897,935</u> | <u>\$1,207,684</u> | <u>\$ 309,749</u> | <u>\$1,231,014</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, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|-------------------|-------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| General property taxes | \$ 4,275,250 | \$ 3,984,257 | \$ 3,955,821 | \$ (28,436) | \$ 3,345,145 |
| Intergovernmental | 23,078 | 314,071 | 348,651 | 34,580 | 311,369 |
| Charges for services | 5,323,056 | 5,327,931 | 5,295,125 | (32,806) | 5,415,854 |
| Interest earnings | 60,000 | 60,000 | 40,039 | (19,961) | 40,611 |
| Net decrease in the fair value of investments | | | (9,300) | (9,300) | (13,300) |
| Miscellaneous | | | | | |
| Contributions | 20,100 | 33,460 | 36,536 | 3,076 | 59,313 |
| Other | 28,050 | 29,961 | 38,464 | 8,503 | 24,575 |
| Total Revenues | <u>9,729,534</u> | <u>9,749,680</u> | <u>9,705,336</u> | <u>(44,344)</u> | <u>9,183,567</u> |
| EXPENDITURES | | | | | |
| Administration | 407,774 | 408,341 | 391,360 | 16,981 | 375,699 |
| Recreation Department | 557,943 | 566,328 | 575,489 | (9,161) | 550,471 |
| Golf | 1,353,885 | 1,363,753 | 1,369,660 | (5,907) | 1,317,079 |
| Tennis Center | 46,113 | 46,113 | 50,983 | (4,870) | 37,898 |
| Volleyball Center | 240,342 | 240,342 | 251,679 | (11,337) | 256,077 |
| Swimming Pools | 192,458 | 192,458 | 188,642 | 3,816 | 178,223 |
| Graham Arenas | 441,624 | 441,624 | 460,768 | (19,144) | 420,145 |
| Park | 3,113,770 | 3,132,888 | 3,099,384 | 33,504 | 2,779,317 |
| Plummer House | 59,626 | 60,381 | 70,598 | (10,217) | 60,664 |
| Recreation Center | 1,151,790 | 1,151,790 | 1,240,923 | (89,133) | 1,138,193 |
| UCR Field House | 107,380 | 107,380 | 118,413 | (11,033) | 112,005 |
| Mayo Civic Center | 2,056,829 | 2,086,366 | 2,243,850 | (157,484) | 2,082,708 |
| Total Expenditures | <u>9,729,534</u> | <u>9,797,764</u> | <u>10,061,749</u> | <u>(263,985)</u> | <u>9,308,479</u> |
| Excess (deficiency) of revenues over (under) expenditures | | <u>(48,084)</u> | <u>(356,413)</u> | <u>(308,329)</u> | <u>(124,912)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | 407 | 461,407 | 461,000 | 384,000 |
| Transfers out | | | | | (10,584) |
| Total Other Financing Sources (Uses) | | <u>407</u> | <u>461,407</u> | <u>461,000</u> | <u>373,416</u> |
| Net change in fund balances | | <u>(47,677)</u> | <u>104,994</u> | <u>152,671</u> | <u>248,504</u> |
| Fund Balances - beginning | <u>889,327</u> | <u>889,327</u> | <u>889,327</u> | | <u>640,823</u> |
| Fund Balances - ending | <u>\$ 889,327</u> | <u>\$ 841,650</u> | <u>\$ 994,321</u> | <u>\$ 152,671</u> | <u>\$ 889,327</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, 2005

With Comparative Totals for the Year Ended December 31, 2004

| | <u>Budgeted Amounts</u> | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|-------------------------|-----------------|---------------------------|---|---------------------------|
| | <u>Original</u> | <u>Final</u> | | | |
| REVENUES | | | | | |
| Intergovernmental | \$ | \$ 51,551 | \$51,551 | \$ | \$ 17,916 |
| Interest earnings | | 304 | 304 | | 572 |
| Total Revenues | | <u>51,855</u> | <u>51,855</u> | | <u>18,488</u> |
| EXPENDITURES | | | | | |
| Law enforcement block grant VII | | 5,072 | 5,072 | | 12,989 |
| Law enforcement block grant VIII | | | | | 39,525 |
| Law enforcement block grant IX | | <u>71,928</u> | <u>30,131</u> | <u>41,797</u> | |
| Total Expenditures | | <u>77,000</u> | <u>35,203</u> | <u>41,797</u> | <u>52,514</u> |
| Excess (deficiency) of revenues over (under) expenditures | | <u>(25,145)</u> | <u>16,652</u> | <u>41,797</u> | <u>(34,026)</u> |
| OTHER FINANCING SOURCES | | | | | |
| Transfers in | | | | | <u>1,991</u> |
| Net change in fund balances | | (25,145) | 16,652 | 41,797 | (32,035) |
| Fund Balances - beginning | <u>25,145</u> | <u>25,145</u> | <u>25,145</u> | | <u>57,180</u> |
| Fund Balances - ending | <u>\$ 25,145</u> | <u>\$</u> | <u>\$41,797</u> | <u>\$ 41,797</u> | <u>\$ 25,145</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, 2005

With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|--------------------|--------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| General property taxes | \$ 749,065 | \$ 698,084 | \$ 693,785 | \$ (4,299) | \$ 678,334 |
| Intergovernmental | 185,840 | 236,821 | 330,431 | 93,610 | 267,003 |
| Charges for services | 2,187,500 | 2,288,118 | 2,586,231 | 298,113 | 2,392,001 |
| Interest earnings | 42,500 | 42,500 | 70,478 | 27,978 | 48,542 |
| Net decrease in the fair value of investments | | | (17,400) | (17,400) | (11,000) |
| Miscellaneous | 18,000 | 18,000 | 24,751 | 6,751 | 18,000 |
| Total Revenues | <u>3,182,905</u> | <u>3,283,523</u> | <u>3,688,276</u> | <u>404,753</u> | <u>3,392,880</u> |
| EXPENDITURES | | | | | |
| Airport operations | 2,206,815 | 2,344,248 | 2,679,938 | (335,690) | 2,433,394 |
| US customs operations | 132,338 | 132,338 | 180,377 | (48,039) | 136,368 |
| Total Expenditures | <u>2,339,153</u> | <u>2,476,586</u> | <u>2,860,315</u> | <u>(383,729)</u> | <u>2,569,762</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>843,752</u> | <u>806,937</u> | <u>827,961</u> | <u>21,024</u> | <u>823,118</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | 36,815 | 36,815 | | |
| Transfers out | <u>(338,461)</u> | <u>(338,461)</u> | <u>(338,461)</u> | | <u>(803,145)</u> |
| Total Other Financing Sources (Uses) | <u>(338,461)</u> | <u>(301,646)</u> | <u>(301,646)</u> | | <u>(803,145)</u> |
| Net change in fund balances | 505,291 | 505,291 | 526,315 | 21,024 | 19,973 |
| Fund Balances - beginning | <u>2,912,554</u> | <u>2,912,554</u> | <u>2,912,554</u> | | <u>2,892,581</u> |
| Fund Balances - ending | <u>\$3,417,845</u> | <u>\$3,417,845</u> | <u>\$3,438,869</u> | <u>\$ 21,024</u> | <u>\$2,912,554</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, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|-------------------|-------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| Interest earnings | \$ 5,000 | \$ 5,000 | \$ 7,986 | \$ 2,986 | \$ 6,912 |
| Net decrease in fair value of investments | | | (1,300) | (1,300) | (1,400) |
| Miscellaneous | | | | | |
| Contributions | | | | | 3,657 |
| Rental of real property | 9,600 | 9,600 | 11,170 | 1,570 | 9,320 |
| Total Revenues | <u>14,600</u> | <u>14,600</u> | <u>17,856</u> | <u>3,256</u> | <u>18,489</u> |
| EXPENDITURES | | | | | |
| Contractual services | 5,149 | 5,149 | 1,984 | 3,165 | |
| Materials and supplies | | | 5,368 | (5,368) | |
| Capital outlay | | | 10,000 | (10,000) | |
| Total Expenditures | <u>5,149</u> | <u>5,149</u> | <u>17,352</u> | <u>(12,203)</u> | |
| Excess (deficiency) of revenues over (under) expenditures | <u>9,451</u> | <u>9,451</u> | <u>504</u> | <u>(8,947)</u> | <u>18,489</u> |
| OTHER FINANCING USES | | | | | |
| Transfers out | | | (929) | (929) | (23,024) |
| Net change in fund balances | 9,451 | 9,451 | (425) | (9,876) | (4,535) |
| Fund Balances - beginning | <u>302,771</u> | <u>302,771</u> | <u>302,771</u> | | <u>307,306</u> |
| Fund Balances - ending | <u>\$ 312,222</u> | <u>\$ 312,222</u> | <u>\$ 302,346</u> | <u>\$ (9,876)</u> | <u>\$ 302,771</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, 2005

With Comparative Totals for the Year Ended December 31, 2004

| | Budgeted Amounts | | 2005 Actual Amounts | Variance with Final Budget - Positive (Negative) | 2004 Actual Amounts |
|--|-------------------|-------------------|---------------------------|---|---------------------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| General property taxes | \$ 59,195 | \$ 55,163 | \$ 54,662 | \$ (501) | \$ 18,646 |
| Intergovernmental revenues | 2,548,922 | 2,552,954 | 2,548,942 | (4,012) | 2,384,775 |
| Charges for services | 84,216 | 84,216 | 61,994 | (22,222) | 65,675 |
| Interest earnings | | | 16,001 | 16,001 | 10,372 |
| Net decrease in the fair value of investments | | | (2,100) | (2,100) | (3,500) |
| Miscellaneous | | 32,741 | 49,558 | 16,817 | 63,291 |
| Total Revenues | <u>2,692,333</u> | <u>2,725,074</u> | <u>2,729,057</u> | <u>3,983</u> | <u>2,539,259</u> |
| EXPENDITURES | | | | | |
| Employee services | | | 7,668 | (7,668) | |
| Contractual services | 523,300 | 556,881 | 623,524 | (66,643) | 353,245 |
| Materials and supplies | 1,725 | 1,725 | 4,888 | (3,163) | 713 |
| Other charges | 2,103,007 | 2,103,007 | 2,113,139 | (10,132) | 1,921,388 |
| Total Expenditures | <u>2,628,032</u> | <u>2,661,613</u> | <u>2,749,219</u> | <u>(87,606)</u> | <u>2,275,346</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>64,301</u> | <u>63,461</u> | <u>(20,162)</u> | <u>(83,623)</u> | <u>263,913</u> |
| Net change in fund balances | 64,301 | 63,461 | (20,162) | (83,623) | 263,913 |
| Fund Balances - beginning | <u>461,812</u> | <u>461,812</u> | <u>461,812</u> | | <u>197,899</u> |
| Fund Balances - ending | <u>\$ 526,113</u> | <u>\$ 525,273</u> | <u>\$ 441,650</u> | <u>\$ (83,623)</u> | <u>\$ 461,812</u> |

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CITY OF ROCHESTER, MINNESOTA
COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES (CONTINUED)
INTERNAL SERVICE FUNDS
DECEMBER 31, 2005

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, 2005
With Comparative Totals for December 31, 2004

| | Equipment | Information | Self- | Totals | |
|---|---------------------|------------------------------|--------------------|---------------------|---------------------|
| | Revolving Fund | Technology Revolving Fund | Insurance Fund | 2005 | 2004 |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 115,585 | \$ 172,680 | \$ 854,370 | \$ 1,142,635 | \$ 2,829,948 |
| Investments | 6,120,000 | 2,763,500 | 9,131,700 | 18,015,200 | 15,210,387 |
| Accrued interest receivable | 39,500 | 17,800 | 58,900 | 116,200 | 88,500 |
| Total Current Assets | <u>6,275,085</u> | <u>2,953,980</u> | <u>10,044,970</u> | <u>19,274,035</u> | <u>18,128,835</u> |
| Noncurrent Assets: | | | | | |
| Capital assets: | | | | | |
| Machinery and equipment | 18,550,248 | 498,227 | | 19,048,475 | 17,804,219 |
| Less: Accumulated depreciation | (10,561,852) | (208,832) | | (10,770,684) | (9,899,189) |
| Total capital assets (net of accumulated depreciation) | <u>7,988,396</u> | <u>289,395</u> | | <u>8,277,791</u> | <u>7,905,030</u> |
| Total Assets | <u>14,263,481</u> | <u>3,243,375</u> | <u>10,044,970</u> | <u>27,551,826</u> | <u>26,033,865</u> |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | 34,203 | 4,816 | 2,324 | 41,343 | 374,785 |
| Deposits payable | | | 325,335 | 325,335 | 485,724 |
| Accrued compensation and payroll taxes | | | 18,450 | 18,450 | 17,876 |
| Due to other governmental units | | | 34,418 | 34,418 | 15,760 |
| Accrued claims | | | 1,675,902 | 1,675,902 | 1,748,018 |
| Total Current Liabilities | <u>34,203</u> | <u>4,816</u> | <u>2,056,429</u> | <u>2,095,448</u> | <u>2,642,163</u> |
| Noncurrent Liabilities: | | | | | |
| Accrued claims | | | 859,094 | 859,094 | 1,063,558 |
| Total Liabilities | <u>34,203</u> | <u>4,816</u> | <u>2,915,523</u> | <u>2,954,542</u> | <u>3,705,721</u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 7,988,396 | 289,395 | | 8,277,791 | 7,905,030 |
| Unrestricted | 6,240,882 | 2,949,164 | 7,129,447 | 16,319,493 | 14,423,114 |
| Total Net Assets | <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> |

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

For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

| | Equipment Revolving Fund | Information Technology Revolving Fund | Self- Insurance Fund | Totals | |
|---|--------------------------------|---|----------------------------|----------------------|----------------------|
| | | | | 2005 | 2004 |
| Operating Revenues: | | | | | |
| Charges for Services: | | | | | |
| Equipment rental | \$ 1,552,255 | \$ 173,097 | \$ | \$ 1,725,352 | \$ 1,691,373 |
| Copy center charges | 23,888 | | | 23,888 | 23,835 |
| Departmental workers' compensation charges | | | 180,813 | 180,813 | 186,200 |
| Departmental insurance charges | | | 9,426,780 | 9,426,780 | 7,555,217 |
| Departmental flex charges | | | 19,415 | 19,415 | 20,421 |
| Employee insurance charges | | | 1,447,584 | 1,447,584 | 1,229,264 |
| Employee flex benefit contributions | | | 548,155 | 548,155 | 524,716 |
| Total Operating Revenues | <u>1,576,143</u> | <u>173,097</u> | <u>11,622,747</u> | <u>13,371,987</u> | <u>11,231,026</u> |
| Operating Expenses: | | | | | |
| Copy center | 14,913 | | | 14,913 | 13,276 |
| Minor equipment | | 180,227 | | 180,227 | 211,380 |
| Workers' compensation benefits | | | 574,196 | 574,196 | 463,267 |
| Workers' compensation insurance premiums | | | 106,964 | 106,964 | 58,448 |
| Health insurance claims | | | 7,853,796 | 7,853,796 | 8,714,752 |
| Flex benefits | | | 575,238 | 575,238 | 537,213 |
| Property and liability insurance | | | 581,702 | 581,702 | 546,877 |
| Property and liability claims | | | 36,843 | 36,843 | 43,120 |
| Other | | 129,380 | | 129,380 | 34,214 |
| Depreciation | 1,557,700 | 73,036 | | 1,630,736 | 1,612,654 |
| Total Operating Expenses | <u>1,572,613</u> | <u>382,643</u> | <u>9,728,739</u> | <u>11,683,995</u> | <u>12,235,201</u> |
| Operating Income (Loss) | <u>3,530</u> | <u>(209,546)</u> | <u>1,894,008</u> | <u>1,687,992</u> | <u>(1,004,175)</u> |
| Nonoperating Revenues (Expenses): | | | | | |
| Interest earnings | 162,072 | 77,898 | 235,890 | 475,860 | 366,488 |
| Net decrease in the fair value of investments | (38,400) | (16,100) | (62,800) | (117,300) | (103,900) |
| Gain on disposal of property | 94,349 | | | 94,349 | 13,520 |
| Other income | 137 | 7,784 | 248 | 8,169 | 3,009 |
| Total Nonoperating Revenues (Expenses) | <u>218,158</u> | <u>69,582</u> | <u>173,338</u> | <u>461,078</u> | <u>279,117</u> |
| Income (Loss) Before Transfers and Contributions | 221,688 | (139,964) | 2,067,346 | 2,149,070 | (725,058) |
| Capital contributions | | 60,052 | | 60,052 | |
| Transfers in | | 64,520 | | 64,520 | 1,384,766 |
| Transfers out | (4,502) | | | (4,502) | |
| Change in Net Assets | 217,186 | (15,392) | 2,067,346 | 2,269,140 | 659,708 |
| Total Net Assets - beginning | <u>14,012,092</u> | <u>3,253,951</u> | <u>5,062,101</u> | <u>22,328,144</u> | <u>21,668,436</u> |
| Total Net Assets - ending | <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> |

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

For the Year Ended December 31, 2005
 With Comparative Totals for the Year Ended December 31, 2004

| | Equipment Revolving Fund | Information Technology Revolving Fund | Self- Insurance Fund | Totals | |
|--|--------------------------------|---|----------------------------|---------------------|---------------------|
| | | | | 2005 | 2004 |
| Cash Flows From Operating Activities: | | | | | |
| Cash received from other departments | \$ 1,576,143 | \$ 173,097 | \$ 9,627,008 | \$ 11,376,248 | \$ 9,693,416 |
| Cash received from employees | | | 1,995,739 | 1,995,739 | 1,539,146 |
| Cash paid to suppliers | 19,146 | (305,182) | (10,518,402) | (10,804,438) | (10,047,046) |
| Net Cash Provided by (Used in) Operating Activities | 1,595,289 | (132,085) | 1,104,345 | 2,567,549 | 1,185,516 |
| Cash Flows From Noncapital Financing Activities: | | | | | |
| Transfers in | | 64,520 | | 64,520 | 1,384,766 |
| Transfers out | (4,502) | | | (4,502) | |
| Net Cash Provided By (Used In) Noncapital Financing Activities | (4,502) | 64,520 | | 60,018 | 1,384,766 |
| Cash Flows From Capital and Related Financing Activities: | | | | | |
| Proceeds from sale of property | 96,546 | | | 96,546 | 17,658 |
| Acquisition of capital assets | (1,895,023) | (50,619) | | (1,945,642) | (761,980) |
| Other receipts | 137 | 7,784 | 248 | 8,169 | 3,009 |
| Net Cash Provided By (Used in) Capital and Related Financing Activities | (1,798,340) | (42,835) | 248 | (1,840,927) | (741,313) |
| Cash Flows From Investing Activities: | | | | | |
| Investment income | 153,772 | 74,898 | 219,490 | 448,160 | 367,786 |
| Net (increase) decrease in investments | (805,236) | (230,982) | (1,885,895) | (2,922,113) | (1,410,047) |
| Net Cash Provided By (Used in) Investing Activities | (651,464) | (156,084) | (1,666,405) | (2,473,953) | (1,042,261) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (859,017) | (266,484) | (561,812) | (1,687,313) | 786,708 |
| Cash and Cash Equivalents, Beginning of Year | 974,602 | 439,164 | 1,416,182 | 2,829,948 | 2,043,240 |
| Cash and Cash Equivalents, End of Year | \$ 115,585 | \$ 172,680 | \$ 854,370 | \$ 1,142,635 | \$ 2,829,948 |

CITY OF ROCHESTER, MINNESOTA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended December 31, 2005
With Comparative Totals for the Year Ended December 31, 2004

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 | |
|---|--------------------------------|---|----------------------------|---------------------|---------------------|
| | | | | 2005 | 2004 |
| Operating Income (Loss) | \$ 3,530 | \$ (209,546) | \$ 1,894,008 | \$ 1,687,992 | \$ (1,004,175) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation | 1,557,700 | 73,036 | | 1,630,736 | 1,612,654 |
| (Increase) Decrease In: | | | | | |
| Accounts receivable | | | | | 735 |
| Due from other funds | | | | | 801 |
| Increase (Decrease) In: | | | | | |
| Accounts payable | 34,059 | 4,425 | (371,926) | (333,442) | 366,251 |
| Deposits payable | | | (160,389) | (160,389) | (54,620) |
| Accrued compensation and payroll taxes | | | 574 | 574 | (28) |
| Due to other governmental units | | | 18,658 | 18,658 | 820 |
| Accrued claims | | | (276,580) | (276,580) | 263,078 |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 1,595,289</u> | <u>\$ (132,085)</u> | <u>\$ 1,104,345</u> | <u>\$ 2,567,549</u> | <u>\$ 1,185,516</u> |
| Non Cash Transactions: | | | | | |
| Receipt of contributed property | \$ 38,400 | \$ 60,052 | \$ 62,800 | \$ 60,052 | \$ 103,900 |
| Decrease in fair value of investments | | 16,100 | | 117,300 | |

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CITY OF ROCHESTER, MINNESOTA
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2005

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CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS
December 31, 2005

| | | | Amount | % |
|---|----------------|-----------------|-----------------------|----------------|
| Cash and Deposits: | | | | |
| US Bank - Rochester, Minnesota | | | \$ 32,565 | 0.02% |
| Wells Fargo Bank - Rochester, Minnesota | | | 14,368,583 | 6.80% |
| Northeast Bank, Minneapolis, Minnesota | | | 64,487 | 0.03% |
| Change Funds | | | 9,240 | 0.00% |
| | <u>Yield %</u> | <u>Maturity</u> | | |
| Cash Equivalents: | | | | |
| Commercial Paper | 3.83-4.42 | 2006 | 21,986,118 | 10.40% |
| Guaranteed Investment Contracts | 4.94-5.60 | 2006 | 4,201,995 | 1.99% |
| Short Term Government Trust | 3.8125 | 2006 | 3,669,789 | 1.74% |
| Sub-total Cash, Deposits and Cash Equivalents | | | <u>44,332,777</u> | <u>20.98%</u> |
| Investments: | | | | |
| Municipal Bond | 5.50 | 2024 | 12,806,108 | 6.06% |
| US Government and Agency Securities: | | | | |
| Federal Farm Credit Bank | 2.44-4.815 | 2006-2008 | 8,835,015 | 4.18% |
| Federal Home Loan Bank | 1.72-4.41 | 2006-2009 | 73,762,202 | 34.90% |
| Federal Home Loan Mortgage Corporation | 2.00-5.18 | 2006-2010 | 33,746,796 | 15.97% |
| Federal National Mortgage Association | 2.15-4.84 | 2006-2010 | 37,762,744 | 17.87% |
| US Treasury Notes | 2.30-4.62 | 2006-2008 | 88,373 | 0.04% |
| Sub-total Investments | | | <u>167,001,238</u> | <u>79.02%</u> |
| TOTAL | | | <u>\$ 211,334,015</u> | <u>100.00%</u> |

ALLOCATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS - ALL FUNDS

| Fund | Cash and Cash Equivalents | Restricted Assets | Investments | Total |
|------------------------|------------------------------|----------------------|-----------------------|-----------------------|
| General Fund | \$ 589,036 | \$ 32,565 | \$ 18,616,240 | \$ 19,237,841 |
| Special Revenue Funds | 1,014,592 | | 6,169,600 | 7,184,192 |
| Capital Project Funds | 5,749,225 | | 65,420,910 | 71,170,135 |
| Enterprise Funds | 19,464,006 | 53,355,306 | 21,764,700 | 94,584,012 |
| Internal Service Funds | 1,142,635 | | 18,015,200 | 19,157,835 |
| TOTAL | <u>\$ 27,959,494</u> | <u>\$53,387,871</u> | <u>\$ 129,986,650</u> | <u>\$ 211,334,015</u> |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CASH AND SECURITY FOR DEPOSIT
December 31, 2005

| | <u>Wells Fargo Bank</u> | <u>US Bank</u> | <u>Others</u> |
|--|-----------------------------|--------------------|-------------------|
| Security for Deposits: | | | |
| Federal National Mortgage Association | \$ 23,235,434 | \$ 742,419 | |
| Government National Mortgage Association | 4,332,737 | | |
| Federal Home Loan Mortgage Corp | 1,447,673 | | |
| TOTAL PAR VALUE OF SECURITIES | <u>\$ 29,015,844</u> | <u>\$ 742,419</u> | |
| Market Value of Securities | \$ 29,278,506 | \$ 738,063 | |
| 90% of security market value applicable to pledge requirement | 26,350,655 | 664,257 | |
| F.D.I.C. | 100,000 | 100,000 | \$ 100,000 |
| TOTAL SECURITY | <u>\$ 26,450,655</u> | <u>\$ 764,257</u> | <u>\$ 100,000</u> |
| Deposits: | | | |
| Book Balance | \$ 14,368,583 | \$ 32,565 | \$ 64,487 |
| Escrow Deposits | | 660,387 | |
| TOTAL APPLICABLE TO SECURITY | <u>\$ 14,368,583</u> | <u>\$ 692,952</u> | <u>\$ 64,487</u> |

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

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

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - ALL FUNDS
 December 31, 2005

| | <u>Total</u> | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Capital Project Funds</u> | <u>Enter- prise Funds</u> |
|--|-------------------|-------------------------|--------------------------------------|--------------------------------------|-----------------------------------|
| Delinquent Taxes by Year: | | | | | |
| Fiscal Year: | | | | | |
| 1998 | \$ 349 | \$ 217 | \$ 106 | \$ 23 | \$ 3 |
| 1999 | 378 | 227 | 118 | 30 | 3 |
| 2000 | 1,523 | 520 | 519 | 471 | 13 |
| 2001 | 1,861 | 1,064 | 627 | 152 | 18 |
| 2002 | 6,720 | 3,259 | 2,253 | 1,137 | 71 |
| 2003 | 13,845 | 5,923 | 5,725 | 2,032 | 165 |
| 2004 | 35,609 | 19,417 | 10,718 | 5,474 | |
| 2005 | <u>213,657</u> | <u>116,946</u> | <u>59,001</u> | <u>37,710</u> | |
| Total Delinquent Taxes on Records of the Olmsted County Auditor | 273,942 | 147,573 | 79,067 | 47,029 | 273 |
| Less: Estimated Uncollectible Delinquent Taxes | <u>(8,218)</u> | <u>(4,427)</u> | <u>(2,372)</u> | <u>(1,411)</u> | <u>(8)</u> |
| Net Delinquent Taxes Receivable | <u>\$ 265,724</u> | <u>\$ 143,146</u> | <u>\$ 76,695</u> | <u>\$ 45,618</u> | <u>\$ 265</u> |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF CHANGES IN CAPITAL ASSETS AND DEPRECIATION
EQUIPMENT REVOLVING FUND

For the Year Ended December 31, 2005

| | ASSETS | | | | Balance 12/31/2005 |
|--|----------------------|---------------------|-------------------|-----------------|-----------------------|
| | Balance 1/1/2005 | Additions | Retirements | Transfers | |
| Trucks, power operated equip- ment and autos: | | | | | |
| General Government: | | | | | |
| City Hall Maintenance | \$ 63,950 | \$ | \$ | \$ | \$ 63,950 |
| Copy Center | 48,160 | | | | 48,160 |
| Total General Government | <u>112,110</u> | | | | <u>112,110</u> |
| Public Safety: | | | | | |
| Police | 1,169,992 | 385,288 | 248,716 | (33,708) | 1,272,856 |
| Fire | 3,912,029 | 282,975 | 43,222 | | 4,151,782 |
| Building Safety | 254,460 | | | | 254,460 |
| Animal Control | 31,485 | | | | 31,485 |
| Total Public Safety | <u>5,367,966</u> | <u>668,263</u> | <u>291,938</u> | <u>(33,708)</u> | <u>5,710,583</u> |
| Public Works: | | | | | |
| Engineering | 375,312 | 19,795 | | 51,882 | 446,989 |
| Traffic Engineer | 431,811 | | 9,589 | | 422,222 |
| Street and Alley | 5,464,231 | 639,384 | 178,213 | (18,174) | 5,907,228 |
| Total Public Works | <u>6,271,354</u> | <u>659,179</u> | <u>187,802</u> | <u>33,708</u> | <u>6,776,439</u> |
| Parking | <u>167,562</u> | | | | <u>167,562</u> |
| Library | <u>180,815</u> | | | | <u>180,815</u> |
| Municipal Recreation System: | | | | | |
| Administration | 15,716 | | | | 15,716 |
| Recreation | 13,479 | 15,355 | 13,479 | | 15,355 |
| Golf | 1,067,959 | 224,531 | 141,457 | | 1,151,033 |
| Volleyball Center | 10,347 | | | | 10,347 |
| Graham Arena | 120,956 | | | | 120,956 |
| Park | 2,009,216 | 313,953 | 132,485 | (16,092) | 2,174,592 |
| Recreation Center | 46,510 | 10,490 | | 16,092 | 73,092 |
| Flood Control Maintenance | 230,358 | | | | 230,358 |
| Mayo Civic Center | 98,270 | 8,316 | | | 106,586 |
| Total Municipal Recreation System | <u>3,612,811</u> | <u>572,645</u> | <u>287,421</u> | | <u>3,898,035</u> |
| Sewer Utility Fund: | | | | | |
| Sewer Collection System | 617,959 | | | | 617,959 |
| Water Reclamation Plant | 1,086,086 | 14,008 | 13,349 | | 1,086,745 |
| Total Sewer Utility | <u>1,704,045</u> | <u>14,008</u> | <u>13,349</u> | | <u>1,704,704</u> |
| Total Machinery and Equipment | <u>\$ 17,416,663</u> | <u>\$ 1,914,095</u> | <u>\$ 780,510</u> | <u>\$</u> | <u>\$ 18,550,248</u> |

SCHEDULE 4

ALLOWANCE FOR DEPRECIATION

| Balance 1/1/2005 | Depreciation | Retirements | Transfers | Balance 12/31/2005 | Remaining Book Value |
|---------------------|---------------------|-------------------|-----------------|-----------------------|-------------------------|
| \$ 56,213 | \$ 3,199 | \$ | \$ | \$ 59,412 | \$ 4,538 |
| 33,605 | 5,446 | | | 39,051 | 9,109 |
| <u>89,818</u> | <u>8,645</u> | | | <u>98,463</u> | <u>13,647</u> |
| 825,150 | 228,475 | 248,715 | (33,708) | 771,202 | 501,654 |
| 1,599,803 | 222,863 | 43,222 | | 1,779,444 | 2,372,338 |
| 97,549 | 29,664 | | | 127,213 | 127,247 |
| 31,485 | | | | 31,485 | |
| <u>2,553,987</u> | <u>481,002</u> | <u>291,937</u> | <u>(33,708)</u> | <u>2,709,344</u> | <u>3,001,239</u> |
| 219,781 | 34,002 | | 49,581 | 303,364 | 143,625 |
| 209,633 | 30,834 | 9,589 | | 230,878 | 191,344 |
| 3,059,033 | 438,483 | 177,637 | (15,873) | 3,304,006 | 2,603,222 |
| <u>3,488,447</u> | <u>503,319</u> | <u>187,226</u> | <u>33,708</u> | <u>3,838,248</u> | <u>2,938,191</u> |
| 78,832 | 14,183 | | | 93,015 | 74,547 |
| <u>113,398</u> | <u>13,716</u> | | | <u>127,114</u> | <u>53,701</u> |
| 11,794 | 2,619 | | | 14,413 | 1,303 |
| 13,479 | 1,038 | 13,479 | | 1,038 | 14,317 |
| 580,223 | 148,485 | 122,368 | | 606,340 | 544,693 |
| 7,265 | 1,478 | | | 8,743 | 1,604 |
| 62,068 | 11,932 | | | 74,000 | 46,956 |
| 1,351,137 | 223,653 | 130,882 | (16,092) | 1,427,816 | 746,776 |
| 36,560 | 4,385 | | 16,092 | 57,037 | 16,055 |
| 108,590 | 31,530 | | | 140,120 | 90,238 |
| 37,898 | 10,919 | | | 48,817 | 57,769 |
| <u>2,209,014</u> | <u>436,039</u> | <u>266,729</u> | | <u>2,378,324</u> | <u>1,519,711</u> |
| 423,523 | 38,941 | | | 462,464 | 155,495 |
| 806,374 | 61,855 | 13,349 | | 854,880 | 231,865 |
| <u>1,229,897</u> | <u>100,796</u> | <u>13,349</u> | | <u>1,317,344</u> | <u>387,360</u> |
| <u>\$ 9,763,393</u> | <u>\$ 1,557,700</u> | <u>\$ 759,241</u> | <u>\$</u> | <u>\$ 10,561,852</u> | <u>\$ 7,988,396</u> |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE
 December 31, 2005

| | <u>INTEREST RATES AND DATES</u> | <u>ISSUE DATE</u> | <u>FINAL MATURITY DATE</u> | <u>ANNUAL SERIES PAYMENTS</u> | <u>AUTHOR- IZATION</u> | <u>ISSUED</u> | <u>RETIRED</u> | <u>OUTSTANDING</u> |
|---|--|-----------------------|------------------------------------|--|----------------------------|-------------------|------------------|--------------------|
| <u>General Obligation 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 | \$ 121,945 | \$ 2,547,435 |
| Total General Obligation Tax Increment Bonds | | | | | <u>2,768,500</u> | <u>2,669,380</u> | <u>121,945</u> | <u>2,547,435</u> |
| <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 | 200,000 | 10,258,673 |
| Total General Obligation Sales Tax Revenue Bonds | | | | | <u>10,458,673</u> | <u>10,458,673</u> | <u>200,000</u> | <u>10,258,673</u> |
| <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 | 820,000 (2006) 830,000 (2007) 865,000 (2008) 900,000 (2009) 930,000 (2010) 990,000 (2011) | 8,275,000 | 8,275,000 | 2,940,000 | 5,335,000 |
| Subtotal General Obligation Revenue Bonds | | | | | <u>8,275,000</u> | <u>8,275,000</u> | <u>2,940,000</u> | <u>5,335,000</u> |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2005

| | <u>INTEREST RATES AND DATES</u> | <u>ISSUE DATE</u> | <u>FINAL MATURITY DATE</u> | <u>ANNUAL SERIES PAYMENTS</u> | <u>AUTHOR- IZATION</u> | <u>ISSUED</u> | <u>RETIRED</u> | <u>OUTSTANDING</u> |
|--|---|-----------------------|------------------------------------|--|----------------------------|-------------------|------------------|--------------------|
| <u>General Obligation</u> | | | | | | | | |
| <u>Revenue Bonds: (continued)</u> | | | | | | | | |
| Wastewater Treatment Revenue Bonds 2004A dated November 1, 2004- str 2/1/11 | 3.0, 5.0 (2/1) | 11/1/2004 | 2/1/2026 | 330,000 (2006) 940,000 (2007) 950,000 (2008) 965,000 (2009) 985,000 (2010) 1,050,000 (2011) 1,355,000 (2012) 2,560,000 (2013) 3,820,000 (2014) 4,735,000 (2015) 4,930,000 (2016) 5,125,000 (2017) 5,340,000 (2018) 5,560,000 (2019) 5,795,000 (2020) 6,050,000 (2021) 6,320,000 (2022) 6,600,000 (2023) 6,905,000 (2024) 7,225,000 (2025) 6,195,000 (2026) | 83,735,000 | 83,735,000 | | 83,735,000 |
| Total General Obligation Revenue Bonds | | | | | <u>92,010,000</u> | <u>92,010,000</u> | <u>2,940,000</u> | <u>89,070,000</u> |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2005

| | 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 | 725,000 (2006) 755,000 (2007) 795,000 (2008) 830,000 (2009) 865,000 (2010) 905,000 (2011) 950,000 (2012) 995,000 (2013) 1,045,000 (2014) 1,095,000 (2015) 1,150,000 (2016) 1,210,000 (2017) 1,270,000 (2018) 1,335,000 (2019) 1,405,000 (2020) 1,475,000 (2021) 1,555,000 (2022) 1,635,000 (2023) 1,725,000 (2024) 1,815,000 (2025) 1,910,000 (2026) 2,010,000 (2027) 2,115,000 (2028) 2,225,000 (2029) 2,340,000 (2030) | 37,290,000 | 37,290,000 | 3,155,000 | 34,135,000 |
| Subtotal Revenue Bonds | | | | | 37,290,000 | 37,290,000 | 3,155,000 | 34,135,000 |

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF BONDS PAYABLE (CONTINUED)
 December 31, 2005

| | 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 | 640,000 (2006) 660,000 (2007) 685,000 (2008) 710,000 (2009) 740,000 (2010) 770,000 (2011) 805,000 (2012) 840,000 (2013) 875,000 (2014) 915,000 (2015) 960,000 (2016) 1,005,000 (2017) | 11,275,000 | 11,275,000 | 1,670,000 | 9,605,000 |
| Subtotal Revenue Bonds | | | | | 11,275,000 | 11,275,000 | 1,670,000 | 9,605,000 |
| <u>Revenue Bonds (continued):</u> | | | | | | | | |
| Electric Utility Note, Series 2005 | 3.98 (12/1) | 3/10/2005 | 12/1/2014 | 385,000 (2006) 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 | 345,000 | 5,420,000 |
| Total Revenue Bonds | | | | | 54,330,000 | 54,330,000 | 5,170,000 | 49,160,000 |
| TOTAL BONDS PAYABLE | | | | | <u>\$ 159,567,173</u> | <u>\$ 159,468,053</u> | <u>\$ 8,431,945</u> | <u>\$ 151,036,108</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.

SCHEDULE 6

CITY OF ROCHESTER, MINNESOTA
 SCHEDULE OF DEBT SERVICE REQUIREMENTS - ALL FUNDS
 December 31, 2005

| Year | Total (2) | | General Obligation (1) (3) (4) | | | | | | Revenue Bonds (5) | | | |
|------------|----------------------|----------------------|--|-------------------|--|----------------------|--------------------------------|-------------------|--------------------------------|----------------------|-----------------------------------|---------------------|
| | Principal | Interest | Wastewater Treatment Plant Revenue Refunding Bonds | | Wastewater Treatment Plant Revenue Bonds | | Sales Tax Revenue Note of 2001 | | Electric Utility Revenue Bonds | | Electric Utility Note Series 2005 | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 3,010,000 | \$ 6,691,755 | \$ 820,000 | \$ 199,825 | \$ 330,000 | \$ 4,098,400 | \$ 110,000 | \$ 61,920 | \$ 1,365,000 | \$ 2,126,344 | \$ 385,000 | \$ 205,266 |
| 2007 | 3,723,000 | 6,572,108 | 830,000 | 171,125 | 940,000 | 4,079,350 | 113,000 | 58,808 | 1,415,000 | 2,072,706 | 425,000 | 190,119 |
| 2008 | 3,881,000 | 6,436,405 | 865,000 | 142,075 | 950,000 | 4,051,000 | 116,000 | 55,610 | 1,480,000 | 2,015,394 | 470,000 | 172,326 |
| 2009 | 4,050,000 | 6,288,243 | 900,000 | 110,070 | 965,000 | 4,022,275 | 120,000 | 52,326 | 1,540,000 | 1,953,657 | 525,000 | 149,915 |
| 2010 | 4,223,000 | 6,129,519 | 930,000 | 75,870 | 985,000 | 3,993,025 | 123,000 | 48,930 | 1,605,000 | 1,887,606 | 580,000 | 124,088 |
| 2011 | 4,486,000 | 5,956,369 | 990,000 | 39,600 | 1,050,000 | 3,952,000 | 126,000 | 45,450 | 1,675,000 | 1,816,918 | 645,000 | 102,401 |
| 2012 | 3,955,000 | 5,754,739 | | | 1,355,000 | 3,891,875 | 130,000 | 41,884 | 1,755,000 | 1,743,131 | 715,000 | 77,849 |
| 2013 | 5,324,000 | 5,548,900 | | | 2,560,000 | 3,794,000 | 134,000 | 38,205 | 1,835,000 | 1,665,806 | 795,000 | 50,889 |
| 2014 | 6,758,000 | 5,272,827 | | | 3,820,000 | 3,634,500 | 138,000 | 34,412 | 1,920,000 | 1,583,948 | 880,000 | 19,967 |
| 2015 | 6,886,000 | 4,946,737 | | | 4,735,000 | 3,420,625 | 141,000 | 30,508 | 2,010,000 | 1,495,604 | | |
| 2016 | 7,185,000 | 4,607,485 | | | 4,930,000 | 3,179,000 | 145,000 | 26,518 | 2,110,000 | 1,401,967 | | |
| 2017 | 7,490,000 | 4,252,507 | | | 5,125,000 | 2,927,625 | 150,000 | 22,414 | 2,215,000 | 1,302,468 | | |
| 2018 | 6,764,000 | 3,879,701 | | | 5,340,000 | 2,666,000 | 154,000 | 18,168 | 1,270,000 | 1,195,533 | | |
| 2019 | 7,053,000 | 3,537,755 | | | 5,560,000 | 2,393,500 | 158,000 | 13,810 | 1,335,000 | 1,130,445 | | |
| 2020 | 7,363,000 | 3,179,989 | | | 5,795,000 | 2,109,625 | 163,000 | 9,339 | 1,405,000 | 1,061,025 | | |
| 2021 | 7,692,000 | 2,805,488 | | | 6,050,000 | 1,813,500 | 167,000 | 4,726 | 1,475,000 | 987,262 | | |
| 2022 | 7,875,000 | 2,414,074 | | | 6,320,000 | 1,504,250 | | | 1,555,000 | 909,824 | | |
| 2023 | 7,910,000 | 2,009,438 | | | 6,600,000 | 1,181,250 | | | 1,310,000 | 828,188 | | |
| 2024 | 8,630,000 | 1,585,975 | | | 6,905,000 | 843,625 | | | 1,725,000 | 742,350 | | |
| Thereafter | 26,160,000 | 3,022,976 | | | 13,420,000 | 645,250 | | | 12,740,000 | 2,377,726 | | |
| | <u>\$140,418,000</u> | <u>\$ 90,892,990</u> | <u>\$ 5,335,000</u> | <u>\$ 738,565</u> | <u>\$ 83,735,000</u> | <u>\$ 58,200,675</u> | <u>\$ 2,188,000</u> | <u>\$ 563,028</u> | <u>\$ 43,740,000</u> | <u>\$ 30,297,902</u> | <u>\$ 5,420,000</u> | <u>\$ 1,092,820</u> |

- (1) The General Obligation Unlimited Tax Levy Bonds are initially payable from sources other than general property tax: Tax Increment Bonds are payable from tax increment revenues; Sales Tax Bonds are payable from sales tax revenue and Wastewater Treatment Bonds are payable from sewer service charges.
- (2) Does not include notes payable of \$256,752.
- (3) Does not include the General Obligation Taxable Tax Increment Bonds 1997, District No. 7 which are structured without fixed principal maturities.
- (4) Does not include the General Obligation Taxable Sales Tax Revenue Bonds 2000 which are structured without fixed principal maturities.
- (5) The interest on the Electric Utility Note, Series 2005, is variable. The current rate of interest is 3.98%.

CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF PERSONNEL EXPENDITURES-ALL FUNDS
 For the Year Ended December 31, 2005

| | Number of Employees | | Salaries and Wages Amount | Pension | Employer Contributions | | | | Total Wages and Contributions | |
|--|---------------------|------------|---------------------------|--------------------|------------------------|--------------------|-----------------------|---------------------------|-------------------------------|-------------------------|
| | Full Time | All Other | | | Social Security | Group Insurance | Workers' Compensation | Unemployment Compensation | | Other (1) Contributions |
| <u>Government and Fiduciary Fund Types</u> | | | | | | | | | | |
| General Government | 59 | 3 | \$ 3,310,336 | \$ 177,180 | \$ 232,997 | \$ 562,349 | \$ 2,222 | \$ 5,889 | \$ 8,281 | \$ 4,299,254 |
| Police | 140 | | 8,943,107 | 796,191 | 147,142 | 1,639,331 | 39,164 | | 21,959 | 11,586,894 |
| <u>Public Safety</u> | | | | | | | | | | |
| Communications | 25 | | 1,231,509 | 68,011 | 91,329 | 234,156 | 551 | | 4,039 | 1,629,595 |
| Fire | 100 | | 6,687,691 | 605,500 | 83,209 | 1,142,191 | 53,497 | | 3,953 | 8,576,041 |
| Fire Hazmat Response Team | | | 15,431 | 1,435 | 64 | | 85 | | | 17,015 |
| Building Safety | 26 | | 1,559,073 | 84,904 | 114,453 | 372,177 | 2,064 | | 1,359 | 2,134,030 |
| Animal Control | 3 | | 128,856 | 7,051 | 9,612 | 33,228 | 1,202 | | | 179,949 |
| Flood Control | 2 | | 112,482 | 4,868 | 8,287 | 19,482 | 839 | | 64 | 146,022 |
| Public Works | 83 | 2 | 4,561,750 | 246,035 | 337,359 | 839,609 | 29,304 | | 7,150 | 6,021,207 |
| Music | 4 | | 243,633 | 12,674 | 18,051 | 47,409 | 223 | | 704 | 322,694 |
| Library | 50 | 70 | 2,927,650 | 153,230 | 217,464 | 480,100 | 3,161 | | 9,180 | 3,790,785 |
| Park and Recreation | 69 | 195 | 4,555,478 | 211,450 | 339,219 | 765,383 | 28,015 | 15,256 | 2,483 | 5,917,284 |
| TOTAL | 561 | 270 | \$34,276,996 | \$2,368,529 | \$1,599,186 | \$6,135,415 | \$ 160,327 | \$ 21,145 | \$ 59,172 | \$44,620,770 |
| <u>Proprietary Fund Types</u> | | | | | | | | | | |
| Parking | 4 | | \$ 216,859 | \$ 11,867 | \$ 16,134 | \$ 54,653 | \$ 1,133 | | \$ 364 | \$ 301,010 |
| Electric Utility | 172 | 13 | 12,086,165 | 642,893 | 866,549 | 2,002,104 | 22,884 | 19,452 | 4,291 | 15,644,338 |
| Water Utility | 20 | | 1,283,829 | 60,632 | 91,773 | 219,545 | 886 | | 385 | 1,657,050 |
| Sewer Utility | 35 | | 1,848,231 | 105,198 | 130,807 | 475,633 | 18,956 | | 1,376 | 2,580,201 |
| Storm Water Utility | 5 | 2 | 289,938 | 14,839 | 21,938 | 43,240 | 292 | | 792 | 371,039 |
| TOTAL | 236 | 15 | \$15,725,022 | \$ 835,429 | \$1,127,201 | \$2,795,175 | \$ 44,151 | \$ 19,452 | \$ 7,208 | \$20,553,638 |

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

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CITY OF ROCHESTER, MINNESOTA
STATISTICAL SECTION
DECEMBER 31, 2005

TABLE I

**CITY OF ROCHESTER, MINNESOTA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS**

| Fiscal Year | General Government (2) | Public Safety (3) | Public Works (4) | Culture/ Recreation | Library | Total |
|-------------|------------------------|-------------------|------------------|---------------------|--------------|---------------|
| 1996 | \$ 4,151,528 | \$ 18,739,707 | \$ 8,168,338 | \$ 7,175,824 | \$ 3,246,992 | \$ 41,482,389 |
| 1997 | 4,117,143 | 18,547,963 | 8,170,450 | 7,106,875 | 3,391,262 | 41,333,693 |
| 1998 | 4,461,136 | 18,939,105 | 9,674,681 | 7,665,990 | 3,537,181 | 44,278,093 |
| 1999 | 5,018,272 | 19,469,713 | 10,065,589 | 8,181,682 | 3,806,174 | 46,541,430 |
| 2000 | 5,442,316 | 20,479,801 | 11,464,730 | 8,837,149 | 3,946,256 | 50,170,252 |
| 2001 | 5,627,936 | 22,325,851 | 12,489,479 | 9,329,828 | 4,293,090 | 54,066,184 |
| 2002 | 7,694,733 | 23,951,743 | 13,180,006 | 9,610,192 | 4,627,973 | 59,064,647 |
| 2003 | 7,477,213 | 25,530,479 | 13,358,699 | 9,258,284 | 4,468,027 | 60,092,702 |
| 2004 | 7,560,105 | 26,002,843 | 12,239,832 | 10,076,801 | 4,851,851 | 60,731,432 |
| 2005 | 8,197,344 | 27,667,124 | 13,363,821 | 10,987,497 | 5,095,972 | 65,311,758 |

- (1) Includes General and Special Revenue Funds
- (2) Includes Economic Development/Tourism, Community Reinvestment and Unallocated
- (3) Includes Law Enforcement Block Grant
- (4) Includes Airport Operations and Transit

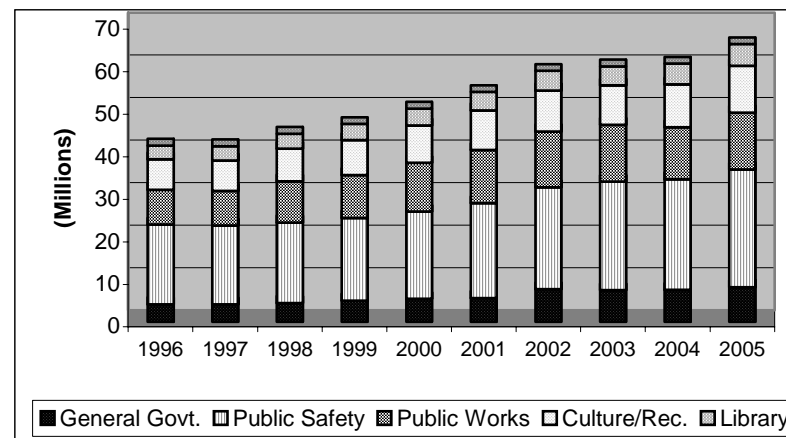
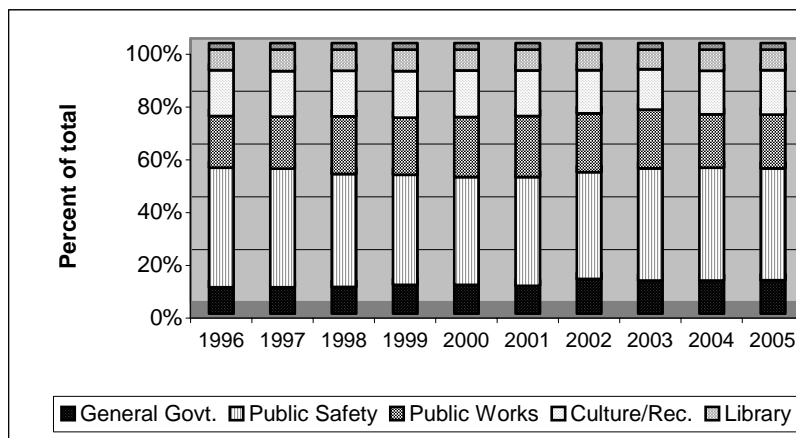


TABLE II

**CITY OF ROCHESTER, MINNESOTA
GENERAL GOVERNMENTAL AND SPECIAL REVENUES BY SOURCE (1)**

| Fiscal Year | Taxes (2) | Licenses And Permits | Inter-Governmental Revenue | Charges For Services | Fines And Forfeits | Miscellaneous Revenues | Total |
|-------------|---------------|----------------------|----------------------------|----------------------|--------------------|------------------------|---------------|
| 1996 | \$ 15,623,492 | \$ 1,378,228 | \$ 13,703,978 | \$ 4,735,638 | \$ 227,696 | \$ 914,551 | \$ 36,583,583 |
| 1997 | 16,144,807 | 1,829,172 | 14,395,128 | 5,207,055 | 298,180 | 693,527 | 38,567,869 |
| 1998 | 16,666,551 | 2,089,061 | 14,820,225 | 6,932,927 | 354,644 | 1,207,581 | 42,070,989 |
| 1999 | 16,911,642 | 2,588,584 | 14,710,492 | 7,485,728 | 423,285 | 836,807 | 42,956,538 |
| 2000 | 15,302,309 | 2,805,189 | 14,975,186 | 7,950,457 | 444,225 | 5,994,203 | 47,471,569 |
| 2001 | 20,176,651 | 2,779,127 | 15,171,666 | 8,182,950 | 476,688 | 1,658,168 | 48,445,250 |
| 2002 | 20,998,164 | 2,181,469 | 18,061,017 | 9,510,572 | 490,632 | 482,096 | 51,723,950 |
| 2003 | 23,248,688 | 2,284,715 | 14,903,894 | 10,181,204 | 489,804 | 461,186 | 51,569,491 |
| 2004 | 26,790,749 | 3,383,898 | 15,235,021 | 10,881,836 | 489,227 | 575,082 | 57,355,813 |
| 2005 | 29,106,672 | 3,570,176 | 15,067,526 | 11,049,751 | 402,795 | 688,757 | 59,885,677 |

(1) Includes General and Special Revenue Funds
(2) Includes Hotel-Motel Tax and Franchise Taxes

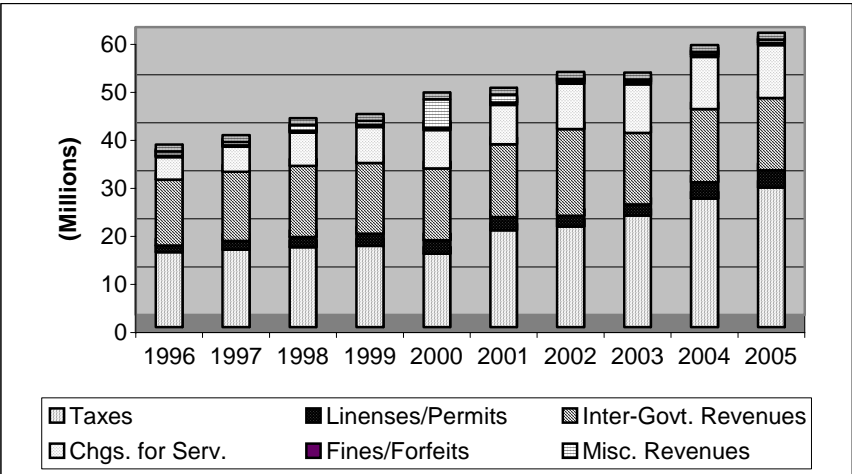
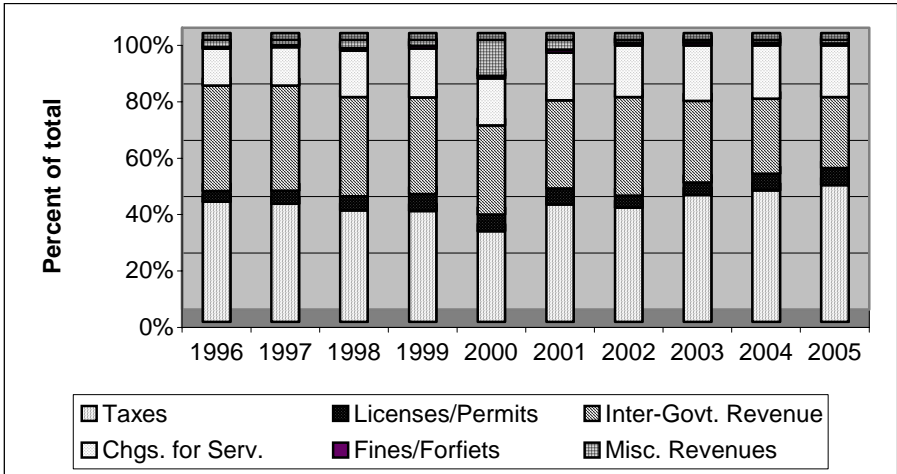


TABLE III

**CITY OF ROCHESTER, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

| Fiscal Year | Total Tax Levy (1) | Current Collections | | Delinquent Collections | Total Collections | % Of Total Tax Levy | Total Delinquent Taxes (2) | Delinquent Taxes As A % Of Total Tax Levy |
|-------------|----------------------------|----------------------------|---------------------|------------------------|-------------------|---------------------|----------------------------|---|
| | | Amount (1) | % Of Total Tax Levy | | | | | |
| 1996 | \$ 14,746,075 4,282,077 | \$ 14,589,043 4,282,077 | 99.18% | \$ 186,082 | \$ 19,057,202 | 100.15% | \$ | 0.00% |
| 1997 | 15,147,909 4,370,077 | 15,016,545 4,370,077 | 99.33 | 156,725 | 19,543,347 | 100.13 | | 0.00 |
| 1998 | 15,678,086 4,370,774 | 15,543,788 4,370,774 | 99.33 | 105,142 | 20,019,704 | 99.85 | 349 | 0.00 |
| 1999 | 16,087,180 4,368,552 | 15,997,336 4,368,552 | 99.56 | 84,182 | 20,450,070 | 99.97 | 378 | 0.00 |
| 2000 | 17,600,000 4,369,974 | 17,374,147 4,369,974 | 98.97 | 81,932 | 21,826,053 | 99.34 | 1,523 | 0.01 |
| 2001 | 18,970,957 4,370,953 | 18,847,216 4,370,953 | 99.47 | 201,754 | 23,419,923 | 100.33 | 1,861 | 0.01 |
| 2002 | 20,438,982 2,041,073 | 20,263,091 2,041,073 | 99.22 | 102,971 | 22,407,135 | 99.68 | 6,281 | 0.03 |
| 2003 | 22,867,100 2,083,656 | 22,510,212 2,083,656 | 98.57 | 134,020 | 24,727,888 | 99.11 | 13,845 | 0.06 |
| 2004 | 25,100,811 2,088,301 | 24,842,761 2,088,301 | 99.05 | 286,743 | 27,217,805 | 100.11 | 35,609 | 0.13 |
| 2005 | 30,167,456 2,203,160 | 29,854,020 2,203,160 | 99.03 | 60,920 | 32,118,100 | 99.22 | 210,281 | 0.65 |

(1) Second amount is the HACA and Equalization Aid adjustment for years 1996 - 2001 and market value credit for 2002 - 2005.

(2) On records of Olmsted County Auditor before allowance for uncollectible and excludes Tax Increment Districts.

TABLE IV

CITY OF ROCHESTER, MINNESOTA
TAX CAPACITY AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

| Fiscal Year | Real Property | | Personal Property | | Total | | % of Tax Capacity to Total Estimated Market Value |
|-------------|---------------|------------------------|-------------------|------------------------|------------------|----------------------------|---|
| | Tax Capacity | Estimated Market Value | Tax Capacity | Estimated Market Value | Tax Capacity (1) | Estimated Market Value (1) | |
| 1997 | \$ 62,364,416 | \$ 2,835,168,300 | \$ 780,290 | \$ 17,173,715 | \$ 63,144,706 | \$ 2,852,342,015 | 2.21% |
| | | | | | 59,713,715 | 2,772,412,336 | 2.15 |
| 1998 | 56,997,061 | 2,920,138,600 | 791,108 | 17,439,092 | 57,788,169 | 2,937,577,692 | 1.97 |
| | | | | | 54,835,153 | 2,855,008,537 | 1.92 |
| 1999 | 54,102,977 | 3,096,167,400 | 631,540 | 18,304,469 | 54,734,517 | 3,114,471,869 | 1.76 |
| | | | | | 52,080,784 | 2,992,047,069 | 1.74 |
| 2000 | 59,455,277 | 3,444,768,100 | 654,431 | 19,503,400 | 60,109,708 | 3,464,271,500 | 1.74 |
| | | | | | 57,186,771 | 3,308,032,200 | 1.73 |
| 2001 | 67,070,403 | 3,873,614,700 | 622,362 | 18,559,600 | 67,692,765 | 3,892,174,300 | 1.74 |
| | | | | | 64,293,994 | 3,672,366,000 | 1.75 |
| 2002 | 56,758,188 | 4,526,307,800 | 394,054 | 19,550,600 | 57,152,242 | 4,545,858,400 | 1.26 |
| | | | | | 54,427,635 | 4,283,599,300 | 1.27 |
| 2003 | 63,783,214 | 5,158,173,100 | 493,262 | 24,938,100 | 64,276,476 | 5,183,111,200 | 1.24 |
| | | | | | 61,120,057 | 4,866,060,700 | 1.26 |
| 2004 | 69,480,548 | 5,722,379,100 | 510,278 | 25,454,100 | 69,990,826 | 5,747,833,200 | 1.22 |
| | | | | | 66,852,309 | 5,448,462,400 | 1.23 |
| 2005 | 78,600,356 | 6,390,285,710 | 610,070 | 29,020,600 | 79,210,426 | 6,419,306,310 | 1.23 |
| | | | | | 78,104,210 | 6,403,581,010 | 1.22 |
| 2006 | 85,437,761 | 7,002,553,700 | 679,693 | 34,513,900 | 86,117,454 | 7,037,067,600 | 1.22 |
| | | | | | 84,983,357 | 7,015,198,500 | 1.21 |

(1) Second amounts are net of Tax Increment.

NOTE - Valuations are determined as of January 1 of year preceding tax collection year.

TABLE V

**CITY OF ROCHESTER, MINNESOTA
PROPERTY TAX RATES AND TAX LEVIES
DIRECT AND OVERLAPPING GOVERNMENTS
YEARS ENDED DECEMBER 31, 1996 THROUGH 2006**

| Fiscal Year | City | School | County | Total |
|----------------------|----------|----------|----------|-----------|
| <u>Tax Rates (1)</u> | | | | |
| 1996 | 26.695 % | 62.478 % | 38.352 % | 127.525 % |
| 1997 | 25.410 | 66.398 | 37.095 | 128.903 |
| 1998 | 28.637 | 63.224 | 41.845 | 133.706 |
| 1999 | 30.961 | 59.386 | 47.138 | 137.485 |
| 2000 | 30.840 | 60.084 | 46.645 | 137.569 |
| 2001 | 29.558 | 53.146 | 44.642 | 127.346 |
| 2002 | 41.376 | 27.961 | 58.608 | 127.945 |
| 2003 | 40.873 | 26.417 | 57.057 | 124.347 |
| 2004 | 40.743 | 25.966 | 55.782 | 122.491 |
| 2005 | 41.620 | 25.388 | 51.786 | 118.794 |
| 2006 | 41.672 | 24.881 | 50.831 | 117.384 |

(1) Percent of Net Tax Capacity Value

| <u>Property Tax Levies (2)</u> | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|
| 1996 | \$ 14,746,072 | \$ 34,518,040 | \$ 21,223,777 | \$ 70,487,889 |
| 1997 | 15,147,909 | 39,582,964 | 22,150,803 | 76,881,676 |
| 1998 | 15,678,086 | 38,817,756 | 22,945,770 | 77,441,612 |
| 1999 | 16,087,180 | 35,126,450 | 24,549,840 | 75,763,470 |
| 2000 | 17,600,000 | 37,895,489 | 26,674,769 | 82,170,258 |
| 2001 | 18,970,957 | 37,894,626 | 28,702,125 | 85,567,708 |
| 2002 | 20,438,982 | 20,866,438 | 31,898,948 | 73,204,368 |
| 2003 | 22,867,100 | 22,505,010 | 34,873,270 | 80,245,380 |
| 2004 | 25,100,811 | 23,385,500 | 37,291,877 | 85,778,188 |
| 2005 | 30,167,456 | 26,126,417 | 40,449,531 | 96,743,404 |
| 2006 | 32,947,171 | 28,791,700 | 43,103,525 | 104,842,396 |

(2) HACA adjusted levy from 1996 - 2001, excludes market value credit of \$2,041,073 in 2002, \$2,083,656 in 2003, \$2,088,301 in 2004, \$2,203,160 in 2005, and \$2,212,334 in 2006.

TABLE VI

**CITY OF ROCHESTER, MINNESOTA
PRINCIPAL TAXPAYERS**

| <u>Taxpayers (1)</u> | <u>2004 (for taxes payable in 2005)</u> | | <u>% of Total City Tax Capacity</u> |
|------------------------|---|-----------------------------|---|
| | <u>Estimated Market Value</u> | <u>Net Tax Capacity</u> | |
| Mayo Properties | \$ 250,430,000 | \$ 4,969,205 | 6.27% |
| IBM Corporation | 74,312,300 | 1,460,742 | 1.84 |
| MEPC | 53,680,400 | 1,072,108 | 1.35 |
| IRET Properties | 39,421,900 | 546,202 | 0.69 |
| Kahler-Sunstone | 23,416,900 | 466,838 | 0.59 |
| BGD5 - LTD Partnership | 22,500,000 | 449,250 | 0.57 |
| Seneca Foods | 21,401,800 | 403,538 | 0.51 |
| Utilicorp United | 20,129,200 | 401,800 | 0.51 |
| Mortenson Development | 19,149,400 | 382,238 | 0.48 |
| Leslie E Nelson | 17,372,500 | 323,160 | 0.41 |
| Others | <u>5,877,491,910</u> | <u>68,735,345</u> | <u>86.78</u> |
| TOTAL | <u>\$ 6,419,306,310</u> | <u>\$ 79,210,426</u> | <u>100.00%</u> |

(1) Source: Olmsted County Assessor.

TABLE VII

**CITY OF ROCHESTER, MINNESOTA
SPECIAL ASSESSMENT LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

| Fiscal Year | Total Levy | Current Collections | | Prior Years | Total Collections | % Total Collections to Total Levy | Total Delinquent Assessments at Year End(1) |
|----------------|------------|---------------------|----------------------------|-------------|----------------------|--|--|
| | | Amount | Collection of % of Levy | | | | |
| 1996 | \$ 754,509 | \$ 700,979 | 92.91% | \$ 36,488 | \$ 737,467 | 97.74% | \$ 138,606 |
| 1997 | 824,694 | 778,869 | 94.44 | 118,945 | 897,814 | 108.87 | 69,773 |
| 1998 | 741,705 | 705,641 | 95.14 | 24,010 | 729,651 | 98.37 | 81,826 |
| 1999 | 796,969 | 758,196 | 95.13 | 41,706 | 799,902 | 100.37 | 72,394 |
| 2000 | 532,323 | 516,777 | 97.08 | 26,362 | 543,139 | 102.03 | 61,578 |
| 2001 | 600,205 | 568,471 | 94.71 | 22,743 | 591,214 | 98.50 | 69,671 |
| 2002 | 566,155 | 536,092 | 94.69 | 23,788 | 559,880 | 98.89 | 52,087 |
| 2003 | 488,403 | 466,752 | 95.57 | 10,459 | 477,211 | 97.71 | 56,560 |
| 2004 | 637,020 | 621,189 | 97.51 | 14,021 | 635,210 | 99.72 | 55,361 |
| 2005 | 655,158 | 639,392 | 97.59 | 8,223 | 647,615 | 98.85 | 25,918 |

(1) On records of Olmsted County Auditor before allowance for uncollectible.

TABLE VIII

**CITY OF ROCHESTER, MINNESOTA
RATIO OF NET BONDED DEBT
TO ESTIMATED MARKET VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

| Levy Year | Gross Bonded Debt (1) | Available For Debt Service | Net Bonded Debt | Estimated Market Value | % of Net Bonded Debt to Estimated Market Value | Estimated Population | Net Bonded Debt Per Capita |
|--------------|-----------------------------|----------------------------------|-----------------------|---------------------------|---|-------------------------|----------------------------------|
| 1996 | \$ 10,960,000 | \$ 6,927,824 | \$ 4,032,176 | \$2,852,342,015 | 14.00% | 77,209 | \$ 52 |
| 1997 | 11,973,080 | 6,305,983 | 5,667,097 | 2,937,577,692 | 0.19 | 78,276 | 72 |
| 1998 | 12,667,080 | 1,026,904 | 11,640,176 | 3,114,471,869 | 0.37 | 80,186 | 145 |
| 1999 | 10,606,025 | 256,293 | 10,349,732 | 3,464,271,500 | 0.30 | 82,019 | 126 |
| 2000 | 36,044,380 | 3,705 | 36,040,675 | 3,892,174,300 | 0.93 | 85,806 | 420 |
| 2001 | 35,828,053 | 3,056 | 35,824,997 | 4,545,858,400 | 0.79 | 88,858 | 403 |
| 2002 | 34,742,284 | 3,056 | 34,739,228 | 5,183,111,200 | 0.67 | 91,264 | 381 |
| 2003 | 15,665,434 | | 15,665,434 | 5,747,833,200 | 0.27 | 93,037 | 168 |
| 2004 | 15,357,552 | | 15,357,552 | 6,419,306,310 | 0.24 | 94,820 | 162 |
| 2005 | 14,994,108 | | 14,994,108 | 7,037,067,600 | 0.21 | 97,191 | 154 |

2005

| | | |
|-----|--|--|
| (1) | Excludes: Wastewater Treatment Plant Refunding Bonds Wastewater Treatment Plant Revenue Bonds Electric Utility Revenue Bonds | \$ 5,335,000 83,735,000 43,740,000 |
| | | <u>\$ 132,810,000</u> |

CITY OF ROCHESTER, MINNESOTA
COMPUTATION OF DIRECT AND INDIRECT GENERAL OBLIGATION BONDED DEBT
AND LEGAL DEBT MARGIN

December 31, 2005

Direct Debt:

| | Gross Debt (1) | Less: Debt Service Funds | Net Direct Debt |
|--------------------------------|----------------------|-----------------------------|----------------------|
| General Obligation Debt: | | | |
| Supported by Sales Tax Revenue | \$ 12,446,673 | \$ | \$ 12,446,673 |
| Supported by Tax Increments | 2,547,435 | | 2,547,435 |
| Total | \$ 14,994,108 | \$ | \$ 14,994,108 |

(1) From Table VIII

Indirect Debt:

| <u>Governmental Unit</u> | 2005/06 Net Tax Capacity | Net G.O. Debt Outstanding | Debt Applicable to Value in City | |
|---------------------------|-----------------------------|---------------------------------|-------------------------------------|----------------------|
| | | | Percent | Amount |
| Olmsted County | \$ 118,760,363 | \$ 19,002,335 | 71.56% | \$ 13,598,071 |
| I.S.D. #535 | 99,582,184 | 74,537,616 | 85.34% | 63,610,401 |
| Total City Portion | | | | \$ 77,208,472 |

General Obligation Net Direct Debt and Indirect Debt:

| <u>Governmental Unit</u> | Debt Outstanding | Portion Chargeable to City | |
|--|---------------------|-------------------------------|----------------------|
| | | Percent | Amount |
| City of Rochester | \$ 14,994,108 | 100.00% | \$ 14,994,108 |
| Olmsted County | 19,002,335 | 71.56% | 13,598,071 |
| I.S.D. #535 | 74,537,616 | 85.34% | 63,610,401 |
| Total General Obligation Direct and Indirect Debt | | | \$ 92,202,580 |

The legal debt limit for municipalities in Minnesota is 2% of the market value of taxable property. This limit applies only to the City's general obligation tax levy bonds and excludes improvement, revenue, tax increment and sales tax supported bonds. The City has no General Obligation debt chargeable against this debt limit at December 31, 2005. The legal debt limit and the legal debt margin are the same...computed as follows...\$7,037,067,600 x 2% = \$140,741,352.

CITY OF ROCHESTER, MINNESOTA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> | <u>Total General Expenditures (1)</u> | <u>Percent of General Debt Service To General Expenditures</u> |
|--------------------|------------------|-----------------|---------------------------|---------------------------------------|--|
| 1996 | \$0 | \$0 | \$0 | \$ 41,482,389 | 0% |
| 1997 | 0 | 0 | 0 | 41,333,693 | 0 |
| 1998 | 0 | 0 | 0 | 44,278,093 | 0 |
| 1999 | 0 | 0 | 0 | 46,541,430 | 0 |
| 2000 | 0 | 0 | 0 | 50,170,252 | 0 |
| 2001 | 0 | 0 | 0 | 54,066,184 | 0 |
| 2002 | 0 | 0 | 0 | 59,064,647 | 0 |
| 2003 | 0 | 0 | 0 | 60,092,702 | 0 |
| 2004 | 0 | 0 | 0 | 60,731,432 | 0 |
| 2005 | 0 | 0 | 0 | 65,311,758 | 0 |

This table relates to general bonded debt supported by tax levy only and does not include improvement, tax increment and sales tax bonds.

(1) Includes General and Special Revenue Funds.

TABLE XI

**CITY OF ROCHESTER, MINNESOTA
REVENUE BOND COVERAGE
SEWER UTILITY FUND
LAST TEN FISCAL YEARS**

| Fiscal Year | Operating Revenues And Taxes | Expenses (1) | Net Revenue Available For Debt Service | Debt Service Requirements | | | Coverage |
|----------------|------------------------------------|--------------|---|---------------------------|--------------|--------------|----------|
| | | | | Principal | Interest | Total | |
| 1996 | \$ 7,414,662 | \$ 4,271,338 | \$ 3,143,324 | \$ 600,000 | \$ 1,143,537 | \$ 1,743,537 | 1.80 |
| 1997 | 7,650,701 | 4,376,207 | 3,274,494 | 650,000 | 1,106,038 | 1,756,038 | 1.86 |
| 1998 | 8,109,712 | 4,577,996 | 3,531,716 | 700,000 | 1,065,088 | 1,765,088 | 2.00 |
| 1999 | 9,094,645 | 4,874,292 | 4,220,353 | 550,000 | 565,575 | 1,115,575 | 3.78 |
| 2000 | 8,819,470 | 5,025,474 | 3,793,996 | 575,000 | 538,625 | 1,113,625 | 3.41 |
| 2001 | 9,287,829 | 5,416,409 | 3,871,420 | 625,000 | 509,875 | 1,134,875 | 3.41 |
| 2002 | 9,214,760 | 5,076,108 | 4,138,652 | 655,000 | 357,882 | 1,012,882 | 4.09 |
| 2003 | 9,723,010 | 5,235,911 | 4,487,099 | 730,000 | 280,724 | 1,010,724 | 4.44 |
| 2004 | 9,407,246 | 5,344,214 | 4,063,032 | 770,000 | 272,522 | 1,042,522 | 3.90 |
| 2005 | 10,208,056 | 5,916,334 | 4,291,722 | 785,000 | 3,301,374 | 4,086,374 | 1.05 |

(1) Before Depreciation

TABLE XII

**CITY OF ROCHESTER, MINNESOTA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

| Year | Population (1) | Per Capita Income (2) | Public School Enrollment (3) | | | Unemployment (4) | | |
|------|----------------|-----------------------------|------------------------------|-----------|--------|------------------|--------|-------|
| | | | Elementary | Secondary | Total | City | County | State |
| 1996 | 77,209 | \$ 27,413 | 7,434 | 7,743 | 15,177 | 3.1% | 3.0% | 4.0% |
| 1997 | 78,276 | 28,456 | 7,305 | 8,154 | 15,459 | 2.2 | 2.2 | 3.3 |
| 1998 | 80,186 | 30,690 | 7,278 | 8,460 | 15,738 | 1.6 | 1.6 | 2.5 |
| 1999 | 82,019 | 32,359 | 6,947 | 8,621 | 15,568 | 2.1 | 2.0 | 2.8 |
| 2000 | 85,806 | 33,283 | 6,911 | 8,513 | 15,424 | 2.8 | 2.7 | 3.3 |
| 2001 | 88,858 | 35,110 | 6,829 | 9,040 | 15,869 | 2.7 | 2.5 | 3.7 |
| 2002 | 91,264 | 33,829 | 6,707 | 9,229 | 15,936 | 4.0 | 3.6 | 4.4 |
| 2003 | 93,037 | N/A | 7,058 | 8,952 | 16,010 | 4.4 | 4.2 | 5.0 |
| 2004 | 94,820 | N/A | 7,124 | 8,404 | 15,528 | 4.1 | 3.9 | 4.7 |
| 2005 | 97,191 | N/A | 7,172 | 8,277 | 15,449 | 3.5 | 3.4 | 4.0 |

Sources: (1) State Demographers Estimate/2000-Census Bureau
(2) Bureau of Economic Analysis
(3) Independent School District #535
(4) Minnesota Department of Jobs & Training

**CITY OF ROCHESTER, MINNESOTA
BUILDING PERMITS AND PROPERTY VALUES
LAST TEN FISCAL YEARS**

| Year | Building Permits (1) | | | | | | Estimated Market Value (2) | | |
|------|----------------------|---------------|--------------------|---------------------------|---------------|----------------|----------------------------|------------------|----------------|
| | Residential | | Multiple Dwellings | Commercial/ Industrial | All Other | Total Value | No. | Real Estate | Tax Exempt |
| | No. | Value | | | | | | | |
| 1996 | 324 | \$ 39,630,333 | \$ 21,703,173 | \$ 18,806,751 | \$ 43,815,222 | \$ 123,955,479 | 1,897 | \$ 2,689,632,900 | \$ 568,388,500 |
| 1997 | 428 | 55,411,803 | 22,933,864 | 30,453,607 | 90,871,683 | 199,670,957 | 2,275 | 2,835,168,300 | 586,171,200 |
| 1998 | 532 | 70,870,692 | 30,630,426 | 24,899,581 | 130,738,907 | 257,139,606 | 2,695 | 2,920,138,600 | 587,888,400 |
| 1999 | 645 | 88,993,665 | 31,737,871 | 73,818,538 | 191,481,590 | 386,031,664 | 3,060 | 3,096,167,400 | 819,313,500 |
| 2000 | 675 | 91,078,509 | 61,453,937 | 75,862,813 | 201,604,821 | 430,000,080 | 3,308 | 3,444,768,100 | 873,519,300 |
| 2001 | 817 | 109,918,621 | 9,436,966 | 79,063,377 | 190,042,283 | 388,461,247 | 3,676 | 3,873,614,700 | 1,210,176,300 |
| 2002 | 945 | 142,814,310 | 57,721,772 | 37,499,269 | 84,224,977 | 322,260,328 | 4,016 | 4,526,307,800 | 1,286,533,100 |
| 2003 | 694 | 152,657,659 | 22,912,404 | 58,869,216 | 71,418,397 | 305,857,676 | 4,133 | 5,158,173,100 | 1,042,848,400 |
| 2004 | 962 | 180,862,207 | 13,535,627 | 28,361,848 | 110,038,503 | 332,798,185 | 4,108 | 6,562,101,500 | 1,250,386,800 |
| 2005 | 701 | 138,544,716 | 26,267,199 | 56,596,304 | 165,701,329 | 387,109,548 | 3,615 | 7,037,067,600 | 1,566,263,300 |

Sources: (1) City Building Safety Department
(2) Olmsted County Assessor

NOTE - Beginning in 2001, the City revised the classifications of residential and multiple dwelling properties.

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF INSURANCE IN FORCE
END OF FISCAL YEAR 2005**

| Type of Coverage and Name of Company | Policy Number | Policy Period | | Details of Coverage | Policy Limits | Annual Premium |
|--|-----------------------|---------------|-----------|--|---|-------------------|
| | | From | To | | | |
| Property, Extended Coverage League of MN Cities Trust (C.O. Brown) | CMC26424 | 8/22/2005 | 8/22/2006 | Building and contents public and institutional property form with replacement cost coverage \$200,000 aggregate deductible Contractors' Equipment, Bookmobile contents, Signs at Rec Center, \$200,000 aggregate deductible | \$ 124,997,754 | \$ 92,186 |
| Property, Extended Coverage American Protection Ins., CNA Insurance Company (C.O. Brown) | C2071898832 | 6/22/2005 | 6/22/2006 | Building & contents at Water Reclamation Plant \$25,000 deductible | 109,107,418 | 89,336 |
| Property, Extended Coverage Travelers Insurance (C.O. Brown) | P-630-709K7014-TIL-05 | 9/1/2005 | 9/1/2006 | Building & contents at Mayo Civic Center \$10,000 deductible, includes money & securities | 60,402,404 2,701,125 Personal Prop. 50,000 Money & Sec. | 62,283 |
| Auto Liability & Property Damage League of MN Cities Trust (C.O. Brown) | CMC26424 | 8/22/2005 | 8/22/2006 | \$1,000,000 combined single limit, \$200,000 aggregate deductible. Buses carry \$5,000 deductible | 1,000,000 17,292,297 Vehicle value | 272,731 |
| Comprehensive General Liability Excludes Public Utility League of MN Cities Trust (C.O. Brown) | CMC26424 | 8/22/2005 | 8/22/2006 | BI \$1,000,000 combined single limit. Includes personal injury coverage's. \$200,000 aggregate deductible | 1,000,000 | 320,988 |

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF INSURANCE IN FORCE (CONTINUED)
END OF FISCAL YEAR 2005**

| Type of Coverage and Name of Company | Policy Number | Policy Period | | Details of Coverage | Policy Limits | Annual Premium |
|---|------------------|---------------|-----------|--|--|-------------------|
| | | From | To | | | |
| Boiler Insurance Cincinnati Ins. Co. (Hirman) | BEP2662286 | 8/1/2005 | 8/1/2006 | Boilers and steam piping in various City buildings. Portable tanks and air tanks, \$1,500 deductible | \$ 2,500,000 | \$ 5,410 |
| Money and Securities CNA Insurance Company (C.O. Brown) | C2071898832 | 6/22/2005 | 6/22/2006 | Money & securities inside and outside premises. Includes depositors forgery bond. \$100 deductible. Includes Public Utility | 1,000 to 10,000 per location 50,000 forgery bond | 3,100 |
| Public Employees Blanket Bond CAN Insurance Company (C.O. Brown) | C2071898832 | 6/22/2005 | 6/22/2006 | Faithful performance blanket bond by position on all employees. Includes Public Utility | | |
| Treasurers' Bond, State Surety Co. (Hirman) | RPO 457120 | 6/15/2005 | 6/15/2006 | Bond on City Treasurer | 50,000 | 225 |
| Flood Insurance Redland Ins. Co. (Hirman) | Various | Various | | Flood insurance on flood plain property values up to \$249,000 on each building & contents \$4,000 deductible both building and contents | Building 309,000 Contents 33,600 | 1,397 |

**CITY OF ROCHESTER, MINNESOTA
SCHEDULE OF INSURANCE IN FORCE (CONTINUED)
END OF FISCAL YEAR 2005**

| Type of Coverage and Name of Company | Policy Number | Policy Period | | Details of Coverage | Policy Limits | Annual Premium |
|---|------------------|---------------|------------|---|------------------|-------------------|
| | | From | To | | | |
| PUBLIC UTILITY DEPARTMENT INSURANCE | | | | | | |
| All Risk Property Insurance Starr Technical Risks Agency, Inc. (Hartford Steam) (C.O. Brown) | STA4102481 | 12/31/2004 | 12/31/2005 | <u>Property & Boiler:</u> Blanket Coverage Replacement Cost All Risk Coverage \$250,000 deductible based on location \$350,000 Deductible for Gas Turbine Location | \$ 150,000,000 | \$ 532,771 |
| Excess Liability Associated Electric and Gas Insurance (C.O. Brown) | X0342A1A03 | 12/31/2004 | 12/31/2005 | \$1,000,000 deductible Includes: Product liability Failure to supply Pollution liability Joint Venture coverage | 20,000,000 | 69,385 |
| General Liability & Auto League of MN Cities Trust (C.O. Brown) | CMC 25954 | 12/31/2004 | 12/31/2005 | \$1,000,000 combined single limit \$25,000 deductible per occurrence \$100,000 aggregate deductible | 1,000,000 | 118,328 |

**CITY OF ROCHESTER, MINNESOTA
MISCELLANEOUS STATISTICAL DATA**

December 31, 2005

| | |
|--------------------------------|-----------------|
| Date of Incorporation | August 5, 1858 |
| First Charter Adopted | August 22, 1904 |
| Date Present Charter Adopted | April 1, 1962 |
| Form of Government | Mayor - Council |
| Area: | Square Miles: |
| 1950 | 5.15 |
| 1960 | 9.21 |
| 1965 | 10.26 |
| 1970 | 14.25 |
| 1975 | 15.84 |
| 1980 | 19.07 |
| 1985 | 23.17 |
| 1990 | 29.76 |
| 1995 | 36.41 |
| 2000 | 43.09 |
| 2005 | 50.90 |
| Miles of Streets: | Miles of Sewer: |
| Streets - paved 482.80 | Storm 254.40 |
| | Sanitary 455.70 |
| Electric Department: | |
| Number of customers | 45,586 |
| Average daily consumption | 3,393 MWH |
| Annual retail sales | 1,238,446 MWH |
| Miles of distribution line | 678.36 |
| Water Department: | |
| Number of customers | 34,761 |
| Average daily consumption | 16,204 CCF |
| Annual sales | 5,914,560 CCF |
| Miles of watermain | 542.5 |
| Number of fire hydrants | 6,361 |
| Number of street lights | 8,299 |
| Fire Protection: | |
| Number of stations | 4 |
| Number of authorized employees | 103 |

CITY OF ROCHESTER, MINNESOTA
MISCELLANEOUS STATISTICAL DATA (CONTINUED)

December 31, 2005

| | | | |
|--------------------|--|------|--------|
| Police Protection: | | | |
| | Number of stations | | 1 |
| | Number of Police Department authorized employees | | 172 |
| | Number of Communications Center authorized employees | | 25 |
| | Adult Detention Center capacity (1) | | 178 |
| | Work Release Center capacity (1) | | 90 |
| | Juvenile treatment facility capacity (1) | | 25 |
| | Part I Crimes | | 2,743 |
| | Part II Crimes | | 3,813 |
| | Total Part I & II Crimes | | 6,556 |
| | Total Arrests for Part I & II Crimes | | 3,646 |
| Recreation: | | | |
| | Number of acres of parks | | 3,030 |
| | Number of parks | | 96 |
| | Number of playgrounds | | 75 |
| | Number of golf courses | | 4 |
| | Number of swimming pools | | 2 |
| | Number of beaches | | 1 |
| | Number of tennis courts | | 43 |
| Employees: | | | |
| | Full-time | | 797 |
| | Other | | 285 |
| | Total | | 1,082 |
| Elections: | | | |
| | Registered voters - last general and municipal election | | 52,890 |
| | Number of votes cast last general and municipal election | | 49,878 |
| | Percentage of registered voters voting | | 94.31% |
| Population: (2) | | | |
| 1940 | 26,312 | 1970 | 53,766 |
| 1950 | 29,885 | 1980 | 57,906 |
| 1960 | 40,663 | 1990 | 70,745 |
| 1965 | 47,797 | 2000 | 85,806 |

(1) Function of Olmsted County

(2) Source: Census Bureau

**CITY OF ROCHESTER, MINNESOTA
MISCELLANEOUS STATISTICAL DATA (CONTINUED)**

December 31, 2005

Education: (1)

Number of schools by type:

| | |
|-----------------------------|----|
| Senior high schools (9-12) | 3 |
| Middle schools (6-8) | 4 |
| Elementary schools (K-5) | 16 |
| Nonpublic schools | 14 |
| Charter Schools | 2 |
| Community Technical college | 1 |

ISD 535:

| | |
|--|--------|
| Number of public school administrative personnel | 53 |
| Number of public school support staff | 1,000 |
| Number of public school teachers | 1,125 |
| Number of public school paraprofessionals | 451 |
| Number of public school students - Birth through 12th grade (including care & treatment, out-of-district and preschool handicapped) | 16,096 |

Enrollment:

| | |
|----------------------------------|-------|
| Grades K-5, Elementary | 7,172 |
| Grades 6-8, Middle School | 3,261 |
| Grades 9-12, Senior High | 5,016 |
| Special programs, birth-grade 12 | 291 |

| | |
|-----------------------------|-------|
| Nonpublic school enrollment | 2,989 |
|-----------------------------|-------|

| | |
|------------------------|-----|
| Home school enrollment | 475 |
|------------------------|-----|

| | |
|---------------------------|----|
| Charter school enrollment | 51 |
|---------------------------|----|

(1) Source: Independent School District #535

CITY OF ROCHESTER, MINNESOTA
MISCELLANEOUS STATISTICAL DATA (CONTINUED)
December 31, 2005

Income and Trade (1)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Effective Buying Income: | | | | | | | | | |
| Total EBI (000): | | | | | | | | | |
| City of Rochester | \$ 1,335,749 | \$ 1,389,541 | \$ 1,478,205 | \$ 1,672,223 | \$ 1,818,104 | \$ 2,000,025 | \$ 1,888,058 | \$ 1,916,960 | \$ 2,011,768 |
| Olmsted County | 1,943,533 | 2,037,886 | 2,174,920 | 2,356,036 | 2,555,064 | 2,805,919 | 2,761,338 | 2,865,478 | 3,008,098 |
| Median Household EBI: | | | | | | | | | |
| City of Rochester | \$ 37,897 | \$ 39,497 | \$ 40,823 | \$ 43,582 | \$ 46,011 | \$ 46,842 | \$ 43,087 | \$ 42,441 | \$ 43,644 |
| Olmsted County | 38,895 | 40,513 | 41,821 | 43,973 | 46,318 | 47,098 | 45,254 | 45,411 | 46,389 |
| State | 34,346 | 35,737 | 37,050 | 39,126 | 41,098 | 42,245 | 41,662 | 41,846 | 42,930 |
| Percent of Households With EBI's in Excess of \$20,000: | | | | | | | | | |
| City of Rochester | 76.90% | 78.20% | 79.30% | 80.70% | 82.00% | 85.30% | 83.60% | 83.10% | 83.80% |
| Olmsted County | 78.30 | 79.00 | 80.00 | 81.20 | 82.60 | 85.80 | 85.20 | 85.00 | 85.70 |
| State | 72.90 | 74.10 | 75.20 | 76.70 | 78.10 | 81.60 | 82.40 | 82.40 | 83.10 |
| Retail Sales: | | | | | | | | | |
| Total Retail Sales (000): | | | | | | | | | |
| City of Rochester | \$ 1,346,506 | \$ 1,354,201 | \$ 1,429,128 | \$ 1,861,372 | \$ 2,041,501 | \$ 2,156,447 | \$ 2,210,178 | \$ 2,354,603 | \$ 2,508,022 |
| Olmsted County | 1,422,216 | 1,441,724 | 1,526,406 | 2,256,982 | 2,470,736 | 2,584,096 | 2,605,380 | 2,805,091 | 3,006,316 |
| Retail Sales Per Household: | | | | | | | | | |
| City of Rochester | \$ 44,293 | \$ 44,693 | \$ 46,250 | \$ 56,749 | \$ 59,346 | \$ 61,613 | \$ 61,394 | \$ 64,333 | \$ 67,420 |
| Olmsted County | 32,998 | 33,296 | 34,456 | 49,065 | 51,154 | 52,629 | 51,694 | 54,574 | 57,482 |
| State | 25,661 | 26,303 | 27,600 | 40,086 | 42,185 | 40,904 | 39,487 | 41,168 | 43,354 |

Note: The decline in the EBI in 1995 is the result of a reclassification of items included in the calculation of Effective Buying Income.

(1) Source: Sales and Marketing Management, "Survey of Buying Power."