

CITY OF RUSHFORD, MINNESOTA
FINANCIAL STATEMENTS
DECEMBER 31, 2006

CITY OF RUSHFORD, MINNESOTA

**FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2006**

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CITY OF RUSHFORD, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2006

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CITY OF RUSHFORD, MINNESOTA

CITY OFFICIALS AS OF DECEMBER 31, 2006

Les Ladewig	Mayor
Ronald Mierau	Council Member & <i>Mayor Pro-tem</i>
Nancy Benson	Council Member
Larry Johnson	Council Member
Laura Deering	Council Member
Windy Block	City Administrator
Kathy Zacher	Clerk-Treasurer

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CITY OF RUSHFORD, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rushford, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the City of Rushford, Minnesota'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. 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 Rushford, Minnesota, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund and Capital Improvement Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 11, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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 Rushford, Minnesota's basic financial statements. The introductory section, combining and individual non-major fund financial statements and supplementary information 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 non-major fund financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and supplementary information 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, Schafner and Associates, Ltd.

Rochester, Minnesota
March 23, 2007

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CITY OF RUSHFORD, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rushford, Minnesota, we offer readers of the City of Rushford's financial statements this narrative overview and analysis of the financial activities of the City of Rushford for the fiscal year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rushford exceeded its liabilities at the close of the most recent fiscal year by \$6,912,463 (*net assets*). Of this amount, \$2,969,893 (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 \$673,507.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$462,500 or 77 percent of total general fund expenditures. Given the uncertainty of state funding, to plan for the future and to be prepared for any contingencies, we believe this is an appropriate amount.
- As of the close of the current fiscal year, the City governmental funds reported combined ending fund balances of \$2,021,845. Approximately 18 percent of this total amount, or \$365,341 is reserved.
- The City of Rushford decreased total outstanding debt by \$459,346 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 Rushford's basic financial statements. The City of Rushford's basic financial statements are comprised of the following 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.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Rushford's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Rushford'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 Rushford 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 Rushford that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions

CITY OF RUSHFORD, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Rushford include general government, economic development, public safety, public works, parks and recreation, airport, library, and community center. The business-type activities of the City of Rushford includes the liquor, electric, water, and sewer funds. The government-wide financial statements can be found on pages 12-14 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 Rushford, 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 Rushford 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.

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 Rushford maintains twenty-two 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 capital improvements fund, both of which are considered to be major funds. Data from the other twenty 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 Rushford adopts an annual budget for its general, capital improvements, certain special revenue, and enterprise funds. Budgetary comparison statements have been provided for the general fund (pages 19-24), capital improvements fund (page 25), and the special revenue funds (pages 56-60) to demonstrate compliance with the budget. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds. The City of Rushford maintains one type of proprietary fund – enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rushford uses enterprise funds to account for its liquor, electric, water, and sewer operations.

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 liquor, electric, water, and sewer funds, all of which are considered to be major funds of the City of Rushford. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

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 30-48 of this report.

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

Other information. The combining statements referred to earlier in connection with non-major governmental funds can be found on pages 50-55 of this report.

IMPORTANT REMINDERS:

Infrastructure Assets. As allowed by Government Accounting Standards Board Opinion No. 34, the City has elected to record infrastructure assets prospectively, rather than retroactively for general government activities. 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 have never been recorded. Nonetheless, the City of Rushford has 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 acquisitions of infrastructure assets since January 1, 2004 have and will be recorded.

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 Rushford, assets exceeded liabilities by \$6,912,463 at the end of the most recent year.

The largest portion of the City of Rushford's net assets (50 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 Rushford uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Rushford'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 Rushford, Minnesota's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 2,271,612	\$ 2,260,443	\$ 1,588,087	\$ 1,316,268	\$ 3,859,699	\$ 3,576,711
Capital assets	<u>2,921,625</u>	<u>2,697,377</u>	<u>4,291,640</u>	<u>4,464,929</u>	<u>7,213,265</u>	<u>7,162,306</u>
Total assets	<u>5,193,237</u>	<u>4,957,820</u>	<u>5,879,727</u>	<u>5,781,197</u>	<u>11,072,964</u>	<u>10,739,017</u>
Long-term liabilities						
outstanding	1,799,652	2,143,214	2,070,932	2,192,414	3,870,584	4,335,628
Other liabilities	<u>55,720</u>	<u>50,386</u>	<u>234,197</u>	<u>114,047</u>	<u>289,917</u>	<u>164,433</u>
Total liabilities	<u>1,855,372</u>	<u>2,193,600</u>	<u>2,305,129</u>	<u>2,306,461</u>	<u>4,160,501</u>	<u>4,500,061</u>
Net assets:						
Invested in capital assets,						
net of related debt	1,171,942	554,163	2,284,830	2,272,515	3,456,772	2,826,678
Restricted	10,072	179,212	475,726	454,729	485,798	633,941
Unrestricted	<u>2,155,851</u>	<u>2,030,845</u>	<u>814,042</u>	<u>747,492</u>	<u>2,969,893</u>	<u>2,778,337</u>
Total net assets	<u>\$ 3,337,865</u>	<u>\$ 2,764,220</u>	<u>\$ 3,574,598</u>	<u>\$ 3,474,736</u>	<u>\$ 6,912,463</u>	<u>\$ 6,238,956</u>

A portion of the City of Rushford's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$2,969,893) may be used to meet the government's ongoing obligations to citizens and creditors.

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

At the end of the current fiscal year, the City of Rushford 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.

Governmental activities. Governmental activities increased the City of Rushford's net assets by \$573,645, or 85 percent of the total growth in the net assets of the City. The most significant change in governmental net assets is due to the effect of accounting for net assets under full accrual accounting, current year capital outlay, which was funded during the year, will be expensed over its useful life.

Business-type activities. Business-type activities increased the City of Rushford's net assets by \$99,862 accounting for 15 percent of the total growth in the City's net assets.

A condensed version of the Statement of Activities follows:

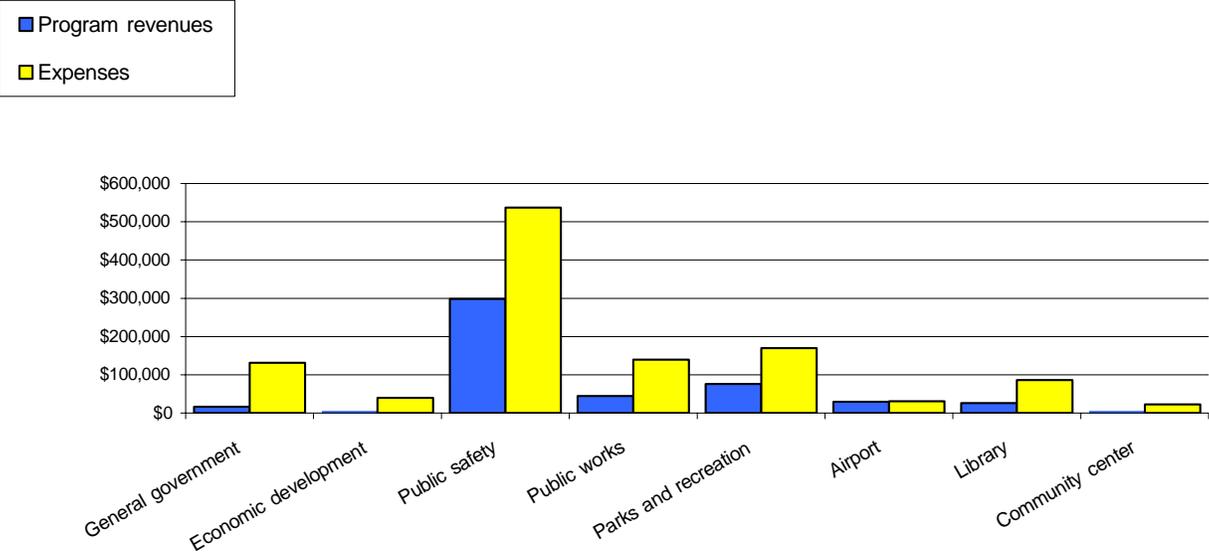
City of Rushford, Minnesota's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 304,851	\$ 315,219	\$ 1,257,693	\$ 1,279,261	\$ 1,562,544	\$ 1,594,480
Operating grants and contributions	129,110	100,056			129,110	100,056
Capital grants and contributions	64,926	39,913	63,358		128,284	39,913
General revenues:						
Property taxes	696,893	677,361			696,893	677,361
Grants and contributions not restricted to specific programs	463,227	399,279			463,227	399,279
Other	137,346	90,946	61,265	54,173	198,611	145,119
Total revenues	<u>1,796,353</u>	<u>1,622,774</u>	<u>1,382,316</u>	<u>1,333,434</u>	<u>3,178,669</u>	<u>2,956,208</u>
Expenses:						
General government	131,162	144,777			131,162	144,777
Economic development	39,847	23,357			39,847	23,357
Public safety	536,830	470,178			536,830	470,178
Public works	139,658	109,570			139,658	109,570
Parks and recreation	169,469	154,194			169,469	154,194
Airport	30,953	32,113			30,953	32,113
Library	86,475	77,389			86,475	77,389
Community center	22,445	22,351			22,445	22,351
Interest on long-term debt	74,713	88,849			74,713	88,849
Liquor			184,125	175,022	184,125	175,022
Utilities			1,089,485	831,821	1,089,485	831,821
Total expenses	<u>1,231,552</u>	<u>1,122,778</u>	<u>1,273,610</u>	<u>1,006,843</u>	<u>2,505,162</u>	<u>2,129,621</u>
Increase in net assets before transfers	564,801	499,996	108,706	326,591	673,507	826,587
Transfers	8,844	85,000	(8,844)	(85,000)		
Increase in net assets	573,645	584,996	99,862	241,591	673,507	826,587
Net assets, beginning of year	<u>2,764,220</u>	<u>2,179,224</u>	<u>3,474,736</u>	<u>3,233,145</u>	<u>6,238,956</u>	<u>5,412,369</u>
Net assets, end of year	<u>\$ 3,337,865</u>	<u>\$ 2,764,220</u>	<u>\$ 3,574,598</u>	<u>\$ 3,474,736</u>	<u>\$ 6,912,463</u>	<u>\$ 6,238,956</u>

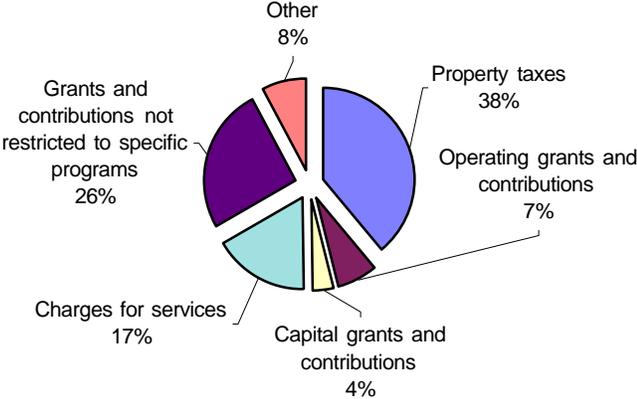
**CITY OF RUSHFORD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



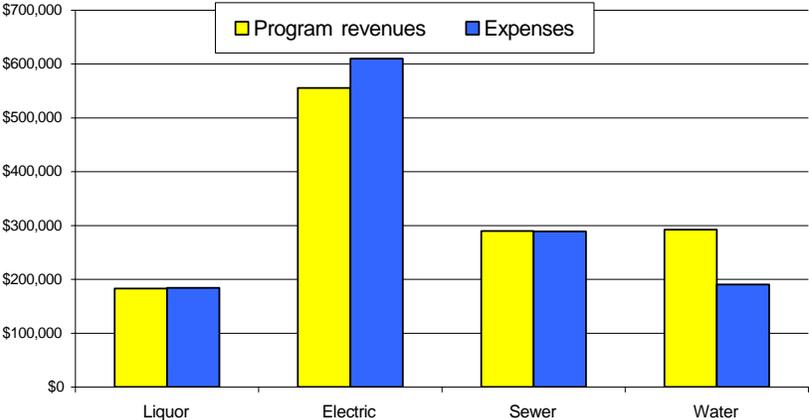
Revenues by Source - Governmental Activities



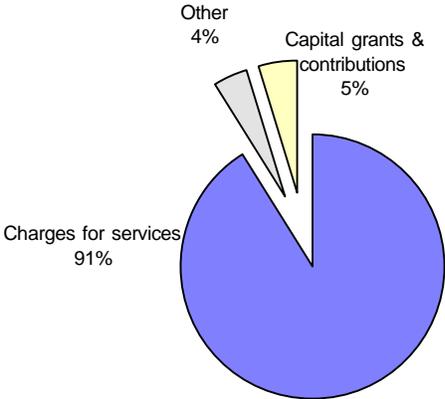
**CITY OF RUSHFORD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenditures. Since all four 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 RUSHFORD, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Rushford'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 Rushford'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 Rushford's governmental funds reported combined ending fund balances of \$2,021,845, an increase of \$64,651. Approximately 82 percent of this total amount, or \$1,656,504, 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 to repay interfund advances or other debt (\$365,341).

The general fund is the chief operating fund of the City of Rushford. At the end of the current fiscal year, unreserved fund balance of the general fund was \$462,500. 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 77 percent of total general fund expenditures.

The general fund's total fund balance decreased by \$99,570 during the current fiscal year. This year's decrease was primarily due a transfer of funds to the water utility for the repayment of interfund debt and a transfer of funds to the capital projects fund in anticipation of future projects and improvements. Revenues generally exceeded budget projections and expenditures were at or below planned levels.

The capital improvements fund increased its fund balance by \$176,780 for the year, as planned for future upgrades of equipment and for facility improvements.

The airport fund increased its fund balance by \$4,467, with two state grant projects yet to be completed and finalized. The firemen's fund increased its total fund balance by \$57,990. Fire fund balance is designated for fire truck replacement needs. The library fund decreased its fund balance by \$1,529, spending some reserves on upgrading computer equipment and inventory. The ambulance fund increased its fund balance by \$71,069, in part due to increased collections and an increased Medicare reimbursement policy. Ambulance fund balance is designated for equipment replacement needs. The EDA Revolving Loan Fund increased its fund balance by \$2,629, as loan payments continue to be made to the City in a timely manner. The Tenborg Community Center fund increased its fund balance by \$3,558 in preparation for equipment and facility upgrades.

The debt service funds have a total fund balance of \$365,341 all of which is reserved for the payment of debt service. This fund balance remained essentially unchanged for the year, as transfers in from other funds provided monies for all debt service payments.

The Tax Increment Capital Project fund increased its fund balance by \$15,823 in part due to the sale of land in the Rush Creek Business Park and the Economic Development fund decreased its fund balance by \$807 due to increased expenses related to consultant services for business expansion/retention and special projects.

Proprietary funds. The City of Rushford's proprietary funds statements found on pages 26-29 provide the same type of information found in the government-wide financial statements, but in more detail.

CITY OF RUSHFORD, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The unrestricted assets in the respective proprietary funds are Liquor - \$145,674, Electric - \$1,761,533, Water - (\$18,364), and Sewer - \$159,415. The Liquor and Water Funds had net income before transfers for the year. The sewer utility net asset decrease of \$11,349 was due to larger than anticipated expenses and upgrades to the waste water treatment plant.

Water Utility rates were increased in 2006, with the base rate increasing approximately 5% as per the water rate schedule adopted in 2004. These rate increases are necessary to fund increased operating expenses and to finance upgrades and expansions in the system. The general fund transferred \$61,156 to the water fund to maintain positive net assets and to help keep the frequency of rate increases manageable.

Sewer Utility rates were increased in July 2006, the first time since 2003. Because of state mandated upgrades to the wastewater treatment plant and general maintenance needs of the system, a facility plan and rate study was completed in early 2006. The facility plan will help guide and plan for future upgrades and improvements to the wastewater treatment plant as well as the aging collection system.

Electric Utility rates were studied in 2004 with an average increase of 5.9% phased in over two years in 2005 and 2006. The increase was designed to help recover some of the increasing power supply costs and other increases in operating and maintenance expenses. Due to the change in our power supply contract, the entire rate structure was studied and re-evaluated in May of 2006 to create a more equitable classification for all customers, to offer energy saving incentives and to prepare for the expected increase in wholesale power costs. This overall percentage increase was 19%.

General Fund Budgetary Highlights

The City's general fund reserve has been spent down considerably in the past years. The 2006 budget anticipated continued reductions in state aid. The City amended its budget to recognize additional unplanned obligations during the year and was able to offset some of this increase with additional revenue streams, including increased transfers from Proprietary funds.

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

- Increase in various departmental budgets to appropriate intergovernmental revenues from state or federal grants.
- Increases in recreation expenditures and other fee-based activities with offsetting increases to charges for services revenue budgets.

Capital Asset and Debt Administration

Capital assets. The City of Rushford's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounts to \$7,213,265 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, and highways. The total decrease in the City of Rushford's reported investment in capital assets for the current fiscal year was \$50,959, after depreciation of \$517,250. Within the business type activities, the most significant additions related to water and sewer line upgrades; wastewater treatment plant and lift station equipment upgrades; electric line rebuilds; street light upgrades and replacement of HVAC equipment at the liquor store.

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

City of Rushford, Minnesota's Capital Assets (Net of Depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land	\$ 566,481	\$ 615,109	\$ 105,460	\$ 105,460	\$ 671,941	\$ 720,569
Buildings	1,378,795	1,415,333	3,750,781	3,784,392	5,129,576	5,199,725
Machinery and equipment	678,267	541,765	290,592	296,381	968,859	838,146
Infrastructure	197,644	125,170			197,644	125,170
Construction in progress	100,438		144,807	278,696	245,245	278,696
Total	<u>\$2,921,625</u>	<u>\$2,697,377</u>	<u>\$4,291,640</u>	<u>\$4,464,929</u>	<u>\$7,213,265</u>	<u>\$7,162,306</u>

Additional information on the City of Rushford's capital assets can be found in Note 6 (pages 38-39).

Long-term debt. At the end of the current fiscal year, the City of Rushford had \$3,826,227 in bonds and notes outstanding. Of this amount, \$2,862,544 comprises debt backed by the full faith and credit of the government and \$963,683 represents bonds or notes secured solely by specified revenue sources.

City of Rushford, Minnesota's Outstanding Debt

General Obligation and Revenue Bonds and Notes Payable

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 1,605,000	\$ 1,935,000	\$	\$	\$ 1,605,000	\$ 1,935,000
GO Revenue bonds			1,257,544	1,343,890	1,257,544	1,343,890
Revenue bonds			810,000	850,000	810,000	850,000
Notes payable	144,683	164,482	9,000	12,000	153,683	176,482
Total	<u>\$ 1,749,683</u>	<u>\$ 2,099,482</u>	<u>\$ 2,076,544</u>	<u>\$ 2,205,890</u>	<u>\$ 3,826,227</u>	<u>\$ 4,305,372</u>

The City's total bonds and notes payable decreased by \$479,145 during the current fiscal year. No new debt issued in 2006. A more detailed breakdown of these obligations can be found in Note 7 (page 41).

The City of Rushford maintains a Baa bond rating on its general obligation bonds from Moody's Investors Service.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Rushford/Fillmore County ended the first quarter of 2006 at 5.6 percent, and ended the fourth quarter of 2006 at 3.6 percent. This compares favorably to the state's average unemployment rate of 3.8 percent and the national average rate of 4.2 percent for the fourth quarter of 2006.
- The City recently contracted for a Housing Market Study which revealed a 7.8% increase in the Rushford market area population from 1990-2000 and a projected increase of 6.7% from 2000-2010. Much of the growth has been and is predicted to continue to be from households with children in search of affordable housing within commuting distance of Rochester or Winona. There are few large employers in the area, therefore, many residents travel to their employment. The largest employer in the County, TRW Electronics has been reducing their workforce and will be closing their operations in Rushford. This

CITY OF RUSHFORD, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

decrease may impact the community, although it is likely many former employees will commute for new jobs and many have spouses who will continue to work in the area which will mitigate negative impacts to the local housing market. The City and EDA have been aggressive in their efforts to find viable replacement businesses and to this point have been partially successful.

- The City's total market valuation increased by 8.2% for taxes payable year 2006. New construction accounted for a significant portion of this increase with the remainder due to state rate or assessment adjustments. For taxes payable year 2007, the total market valuation has increased by 7.5%. New residential growth has slowed with the majority of recent growth being seen in commercial class property. Rushford has a limited supply of affordable residential building space due in part to the difficulty in the orderly annexation of land from Rushford Village. Shifting demographics will play an important role in the overall housing needs in the City and will need to be considered carefully when reviewing potential housing developments or subdivisions.
- Rushford's aging sewer and water infrastructure, often necessitating major improvements, continues to be an area warranting careful planning and financing in order to provide citizens with quality services at affordable rates. State and Federal mandates have a significant impact on that planning, especially when the mandates are unfunded.
- Since significant reductions in local government aid in 2003 & 2004, local aid payments from the State of Minnesota have increased in 2006, although not back to the original 2003 amount. The City routinely puts aside reserves to guard against possible local government aid reductions, as well as to plan for future capital expansion and capital acquisitions.

Requests for Information

This financial report is designed to provide an overview of the City of Rushford'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 Rushford City Hall, Box 430, Rushford, MN 55971.

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

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CITY OF RUSHFORD, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2006

With Comparative Totals for December 31, 2005

	Governmental Activities	Business-Type Activities	Totals	
			2006	2005
ASSETS				
Cash and investments	\$ 2,028,233	\$ 678,404	\$ 2,706,637	\$ 2,431,166
Accrued interest receivable	5,606	2,565	8,171	5,817
Receivables (net of allowance for uncollectibles)	237,142	58,152	295,294	337,017
Accrued utility revenue		173,250	173,250	145,406
Internal balances	(24,491)	24,491		
Due from other governmental units	8,707		8,707	42,190
Inventory		42,373	42,373	40,187
Restricted cash and investments	10,072	598,647	608,719	566,264
Prepaid items	6,343	10,205	16,548	8,664
Capital assets:				
Nondepreciable	666,919	250,267	917,186	999,265
Depreciable, net	2,254,706	4,041,373	6,296,079	6,163,041
Total Assets	<u>5,193,237</u>	<u>5,879,727</u>	<u>11,072,964</u>	<u>10,739,017</u>
LIABILITIES				
Accounts payable	24,264	187,181	211,445	82,626
Accrued interest payable	27,594	14,879	42,473	47,813
Accrued compensation and taxes payable		15,632	15,632	14,036
Deposits payable	3,862	16,505	20,367	19,958
Noncurrent liabilities:				
Due within one year	357,461	137,121	494,582	348,581
Due in more than one year	1,442,191	1,933,811	3,376,002	3,987,047
Total Liabilities	<u>1,855,372</u>	<u>2,305,129</u>	<u>4,160,501</u>	<u>4,500,061</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,171,942	2,284,830	3,456,772	2,888,149
Restricted	10,072	475,726	485,798	462,479
Unrestricted	2,155,851	814,042	2,969,893	2,888,328
Total Net Assets	<u>\$ 3,337,865</u>	<u>\$ 3,574,598</u>	<u>\$ 6,912,463</u>	<u>\$ 6,238,956</u>

See Notes to Financial Statements

CITY OF RUSHFORD, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 131,162	\$ 14,502	\$ 1,765	\$
Economic development	39,847		3,925	500
Public safety	536,830	236,977	61,055	
Public works	139,658			44,427
Parks and recreation	169,469	35,251	40,861	
Airport	30,953	9,411		19,999
Library	86,475	4,764	21,504	
Community center	22,445	3,946		
Interest and other charges	74,713			
Total governmental activities	<u>1,231,552</u>	<u>304,851</u>	<u>129,110</u>	<u>64,926</u>
Business-Type activities:				
Liquor	184,125	183,129		
Electric	610,183	546,153		9,358
Sewer	288,861	270,061		20,000
Water	190,441	258,350		34,000
Total business-type activities	<u>1,273,610</u>	<u>1,257,693</u>		<u>63,358</u>
Total	<u>\$ 2,505,162</u>	<u>\$ 1,562,544</u>	<u>\$ 129,110</u>	<u>\$ 128,284</u>

General revenues:
 General property taxes
 Nonproperty taxes
 Intergovernmental revenues
 Interest earnings
 Gain on sale of land
 Miscellaneous revenues
 Transfers in (out)
 Total general revenues and transfers

Change in net assets
Net assets - beginning
Net assets - ending

See Notes to Financial Statements

FORM A-2

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals	
		2006	2005
\$ (114,895)		\$ (114,895)	\$ (125,878)
(35,422)		(35,422)	(19,555)
(238,798)		(238,798)	(215,568)
(95,231)		(95,231)	(79,794)
(93,357)		(93,357)	(83,724)
(1,543)		(1,543)	21,872
(60,207)		(60,207)	(53,446)
(18,499)		(18,499)	(17,412)
(74,713)		(74,713)	(88,849)
<u>(732,665)</u>		<u>(732,665)</u>	<u>(662,354)</u>
	(996)	(996)	17,712
	(54,672)	(54,672)	193,004
	1,200	1,200	(24,579)
	<u>101,909</u>	<u>101,909</u>	<u>86,281</u>
	<u>47,441</u>	<u>47,441</u>	<u>272,418</u>
<u>(732,665)</u>	<u>47,441</u>	<u>(685,224)</u>	<u>(389,936)</u>
696,893		696,893	677,361
1,983		1,983	2,466
463,227		463,227	399,279
45,278	25,832	71,110	60,679
61,260		61,260	
28,825	35,433	64,258	76,738
8,844	(8,844)		
<u>1,306,310</u>	<u>52,421</u>	<u>1,358,731</u>	<u>1,216,523</u>
573,645	99,862	673,507	826,587
<u>2,764,220</u>	<u>3,474,736</u>	<u>6,238,956</u>	<u>5,412,369</u>
<u>\$ 3,337,865</u>	<u>\$ 3,574,598</u>	<u>\$ 6,912,463</u>	<u>\$ 6,238,956</u>

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

**CITY OF RUSHFORD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006**

With Comparative Totals for December 31, 2005

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds	
				2006	2005
ASSETS					
Cash and investments	\$ 466,392	\$ 519,591	\$ 1,042,250	\$ 2,028,233	\$ 1,937,456
Restricted cash			10,072	10,072	7,750
Accrued interest receivable	535	110	4,961	5,606	3,104
Accounts receivable	2,936	14,866	71,954	89,756	77,520
Taxes receivable delinquent	5,384	463	8,573	14,420	8,327
Leases receivable			33,150	33,150	55,250
Special assessments receivable:					
Deferred		470	98,996	99,466	149,869
Delinquent			350	350	208
Due from other funds	1,100		8,500	9,600	1,110
Due from other governmental units	2,039	185	6,483	8,707	42,190
Prepaid expense	4,422		1,921	6,343	5,785
TOTAL ASSETS	\$ 482,808	\$ 535,685	\$ 1,287,210	\$ 2,305,703	\$ 2,288,569
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 11,060	\$ 9,845	\$ 3,359	\$ 24,264	\$ 14,615
Due to other funds			9,600	9,600	1,110
Advance from other funds			24,491	24,491	27,016
Deposits payable	3,862			3,862	3,864
Deferred revenue	5,386	14,899	201,356	221,641	284,770
Total Liabilities	20,308	24,744	238,806	283,858	331,375
Fund Balance:					
Reserved			365,341	365,341	367,276
Unreserved, designated:	99,362	510,941	552,524	1,162,827	1,006,056
Unreserved, undesignated, reported in:					
General fund	363,138			363,138	462,448
Special revenue funds			130,539	130,539	121,414
Total Fund Balance	462,500	510,941	1,048,404	2,021,845	1,957,194
TOTAL LIABILITIES AND FUND BALANCE	\$ 482,808	\$ 535,685	\$ 1,287,210	\$ 2,305,703	\$ 2,288,569

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

For the Year Ended December 31, 2006

With Comparative Totals for December 31, 2005

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds	
				2006	2005
REVENUES					
Property taxes	\$ 199,924	\$ 18,355	\$ 328,958	\$ 547,237	\$ 531,417
Tax increment revenues			143,425	143,425	141,136
Lodging taxes	1,983			1,983	2,466
Special assessments		543	60,289	60,832	63,069
Licenses and permits	18,584			18,584	17,182
Fines and forfeits	12,316			12,316	8,402
Intergovernmental revenues	303,487	228,000	47,525	579,012	509,671
Charges for services	35,251		229,479	264,730	247,089
Interest income	9,574	6,371	29,333	45,278	35,102
Miscellaneous revenues	12,676	5,180	182,857	200,713	77,640
TOTAL REVENUES	593,795	258,449	1,021,866	1,874,110	1,633,174
EXPENDITURES					
Current					
General government	102,378			102,378	105,405
Economic development			1,294	1,294	1,789
Public safety	304,625		323,895	628,520	389,961
Public works	75,433			75,433	73,601
Parks and recreation	119,773			119,773	104,545
Airport			39,124	39,124	34,848
Library			91,963	91,963	84,715
Community center			19,695	19,695	19,601
Capital outlay		161,669	149,629	311,298	220,307
Debt service			428,825	428,825	344,390
TOTAL EXPENDITURES	602,209	161,669	1,054,425	1,818,303	1,379,162
Excess (deficiency) of revenues over (under) expenditures	(8,414)	96,780	(32,559)	55,807	254,012
OTHER FINANCING SOURCES (USES)					
Transfers in	70,000	100,000	20,000	190,000	174,152
Transfers out	(161,156)	(20,000)		(181,156)	(89,152)
TOTAL OTHER FINANCING SOURCES (USES)	(91,156)	80,000	20,000	8,844	85,000
Net change in fund balances	(99,570)	176,780	(12,559)	64,651	339,012
FUND BALANCES, Beginning	562,070	334,161	1,060,963	1,957,194	1,618,182
FUND BALANCES, Ending	\$ 462,500	\$ 510,941	\$ 1,048,404	\$ 2,021,845	\$ 1,957,194

**CITY OF RUSHFORD, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
December 31, 2006**

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

Total governmental fund balances (page 15)		\$ 2,021,845
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 5,174,591	
Less: Accumulated depreciation	<u>(2,252,966)</u>	
		2,921,625
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	\$ 14,769	
Deferred special assessments	99,465	
Contracts receivable	49,018	
Other deferred receivables	<u>58,389</u>	
		221,641
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, compensated absences, and unamort bond issuance costs	\$ (1,799,652)	
Accrued interest	<u>(27,594)</u>	
		<u>(1,827,246)</u>
Net assets of governmental activities (page 12)		<u><u>\$ 3,337,865</u></u>

CITY OF RUSHFORD, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

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

Net change in fund balances - total governmental funds (page 16)	\$	64,651
<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-capital improvements	\$	311,298
Capital outlay-other governmental funds		183,015
Developer paid for infrastructure		34,000
Depreciation expense		<u>(229,181)</u>
		299,132
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
		(74,884)
<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, 2006	\$	221,641
Deferred revenue, December 31, 2005		<u>284,770</u>
		(63,129)
<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, compensated absences, and amortization of bond issuance costs	\$	343,562
Change in accrued interest		<u>4,313</u>
		<u>347,875</u>
Change in net assets of governmental activities (pages 13 and 14)	\$	<u><u>573,645</u></u>

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006			Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budgeted Amounts		Actual		
	Original	Final			
REVENUES					
Property Tax Levy					
Property taxes	\$ 170,412	\$ 170,412	\$ 170,336	\$ (76)	\$ 167,221
Market value credit	29,588	29,588	29,588		31,444
Total Property Tax Levy	200,000	200,000	199,924	(76)	198,665
Licenses and Permits					
Business	5,070	3,940	3,940		5,165
Nonbusiness	8,160	15,160	14,644	(516)	12,017
Total Licenses and Permits	13,230	19,100	18,584	(516)	17,182
Lodging Taxes					
	2,500	2,500	1,983	(517)	2,466
Intergovernmental Revenues					
Local government aid	229,705	229,705	229,705		164,079
Police aid	13,000	14,500	14,235	(265)	13,724
Fire relief aid	20,000	24,384	24,384		22,585
Snowmobile and canoe trail aids	21,950	33,398	33,398		28,201
Other aid	1,765	1,765	1,765		1,765
Total Intergovernmental Revenues	286,420	303,752	303,487	(265)	230,354
Fines and Forfeits					
	7,500	12,000	12,316	316	8,402
Charges For Services					
Swimming pool	30,100	29,100	29,138	38	30,309
Baseball and recreation	4,500	4,715	4,715		4,495
Park usage fees	900	1,300	1,398	98	2,229
Total Charges For Services	35,500	35,115	35,251	136	37,033
Interest Income					
	4,000	7,000	9,574	2,574	8,952
Miscellaneous Revenues					
	7,600	9,600	12,676	3,076	12,126
TOTAL REVENUES	\$ 556,750	\$ 589,067	\$ 593,795	\$ 4,728	\$ 515,180

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006		Actual Amounts	Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budgeted Amounts				
	Original	Final			
EXPENDITURES					
General Government					
Mayor and Council					
Salaries	\$ 9,000	\$ 9,000	\$ 8,500	\$ 500	\$ 7,980
Meetings and conferences	500	800	769	31	248
General supplies	1,150	1,250	740	510	425
Printing and publishing	5,000	5,300	5,242	58	5,559
Professional services	2,000	2,800	1,128	1,672	1,830
Insurance	1,600	1,300	1,295	5	1,298
Dues, subscriptions and fees	4,500	4,500	4,323	177	3,692
Miscellaneous	1,500	800	730	70	7,110
Total Mayor and Council	25,250	25,750	22,727	3,023	28,142
Election Judges					
Salaries	1,300	1,350	1,336	14	446
Employee benefits and retirement	10	10	7	3	6
General supplies	1,310	1,160	40	1,120	124
Printing and publishing	300	50	10	40	281
Miscellaneous	40	90	66	24	76
Total Election Judges	2,960	2,660	1,459	1,201	933
City Hall Administration					
Salaries	27,000	26,000	25,793	207	26,183
Employee benefits and retirement	4,916	4,916	4,918	(2)	6,108
Office supplies and expense	1,500	1,800	1,682	118	1,113
Meetings and conferences	200	200	10	190	210
General supplies	300	300	264	36	52
Telephone	2,500	2,500	2,356	144	2,374
Printing and publishing	2,750	2,250	1,133	1,117	1,071
Insurance	950	650	547	103	745
Repairs and maintenance	1,000	1,300	971	329	866
Radio maintenance	4,300	4,300	3,315	985	3,315
Dues, subscriptions and fees	1,600	1,600	1,297	303	1,311
Miscellaneous	700	900	716	184	152
Total City Hall Administration	47,716	46,716	43,002	3,714	43,500

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006				2005 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)	
	Original	Final			
General Government (Continued)					
Professional Services					
Legal and audit	\$ 17,725	\$ 18,225	\$ 17,689	\$ 536	\$ 21,155
Assessor	3,500	3,500	3,434	66	3,350
Cable television	10	10		10	
Total Professional Services	<u>21,235</u>	<u>21,735</u>	<u>21,123</u>	<u>612</u>	<u>24,505</u>
Building and Planning					
General supplies	115	315	291	24	53
Professional services	500	5,500	4,950	550	
Consultant	1,000	600	438	162	559
Telephone	10	45	47	(2)	7
Printing and publishing	100	150	122	28	30
Total Building and Planning	<u>1,725</u>	<u>6,610</u>	<u>5,848</u>	<u>762</u>	<u>649</u>
Municipal Building					
General supplies	950	950	756	194	526
Insurance	550	550	494	56	340
Utilities	6,650	6,900	6,123	777	5,837
Repairs and maintenance	1,750	1,400	846	554	973
Total Municipal Building	<u>9,900</u>	<u>9,800</u>	<u>8,219</u>	<u>1,581</u>	<u>7,676</u>
Total General Government	<u>108,786</u>	<u>113,271</u>	<u>102,378</u>	<u>10,893</u>	<u>105,405</u>
Public Safety					
Police Protection					
Salaries	159,000	162,990	162,437	553	149,981
Employee benefits and retirement	19,260	19,860	19,474	386	16,582
Office supplies and expense	1,200	1,025	819	206	819
Meetings and conferences	2,500	2,400	2,274	126	1,190
Gas, oil and supplies	9,000	9,000	8,291	709	6,675
General supplies	2,500	2,000	2,069	(69)	3,020
Professional services	10,200	9,200	8,586	614	8,292
Telephone	2,400	1,600	1,607	(7)	2,038
Insurance	7,700	7,450	6,891	559	6,433
Utilities	3,150	2,900	2,458	442	2,548
Repairs and maintenance	2,700	3,950	3,581	369	2,950
Dues, subscriptions and fees	400	400	364	36	239
Miscellaneous	325	3,562	3,477	85	757
Total Police Protection	<u>\$ 220,335</u>	<u>\$ 226,337</u>	<u>\$ 222,328</u>	<u>\$ 4,009</u>	<u>\$ 201,524</u>

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006				2005 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)	
	Original	Final			
Public Safety (Continued)					
Ambulance					
Per capita charges	\$ 6,784	\$ 6,784	\$ 6,784		\$ 3,392
Fire Protection					
Salaries	1,300	1,300	1,300		1,300
Employee benefits and retirement	2,250	2,250	2,250		2,250
Gas, oil and supplies	2,600	2,000	1,933	67	1,253
General supplies	4,500	5,800	5,171	629	2,231
Professional services	1,300	1,250	750	500	735
Telephone	450	400	404	(4)	397
Printing and publishing	25	150	134	16	30
Insurance	7,300	7,250	6,878	372	5,662
Utilities	2,950	3,000	3,062	(62)	2,908
Repairs and maintenance	350	550	429	121	39
Fire relief aid	20,000	24,384	24,384		22,585
Training and equipment reimbursement	5,400	5,900	4,336	1,564	4,102
Total Fire Protection	48,425	54,234	51,031	3,203	43,492
Building and Safety					
Salaries	2,800	2,800	2,799	1	2,693
Employee benefits and retirement	170	170	168	2	149
Professional services	7,220	14,220	14,187	33	12,072
Printing and publishing	3,600	275	230	45	165
Miscellaneous	580	610	560	50	479
Total Building and Safety	14,370	18,075	17,944	131	15,558
Civil Defense	430	470	477	(7)	320
Animal Control					
Salaries and wages	3,600	3,600	2,305	1,295	2,245
Insurance	90	110	85	25	65
Total Animal Control	3,690	3,710	2,390	1,320	2,310
Health and Welfare					
Health officer salary	100	100	100		100
Weed and insect control	3,705	3,795	3,571	224	3,726
Total Health and Welfare	3,805	3,895	3,671	224	3,826
Total Public Safety	\$ 297,839	\$ 313,505	\$ 304,625	\$ 8,880	\$ 270,422

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006				2005 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)	
	Original	Final			
Public Works					
Highways, Streets and Alleys					
Salaries	\$ 16,000	\$ 15,500	\$ 12,686	\$ 2,814	\$ 14,867
Employee benefits and retirement	2,600	2,400	1,877	523	2,104
Gas, oil and supplies	8,000	6,500	6,132	368	6,909
General supplies	6,050	6,750	5,948	802	5,750
Blacktop and surface materials	700	500	368	132	2,540
Professional services	200	200		200	48
Insurance	7,150	4,825	4,210	615	4,177
Repairs and maintenance	6,500	7,500	11,408	(3,908)	5,272
Miscellaneous	4,300	4,100	1,136	2,964	1,058
City garage expense	3,700	3,825	3,827	(2)	3,301
Street lighting	19,500	17,000	16,478	522	17,004
Total Highways, Streets and Alleys	74,700	69,100	64,070	5,030	63,030
Dikes					
Salaries	8,100	4,800	4,591	209	6,772
Employee benefits and retirement	1,280	930	848	82	1,153
Gas, oil and supplies	1,600	1,600	1,184	416	1,223
General supplies	300	200	146	54	145
Insurance	600	800	697	103	404
Utilities	700	700	747	(47)	394
Repairs and maintenance	1,200	1,500	1,218	282	385
Professional services	300	2,100	1,932	168	95
Total Dikes	14,080	12,630	11,363	1,267	10,571
Total Public Works	88,780	81,730	75,433	6,297	73,601
Parks and Recreation					
Park Department					
Salaries	9,300	6,800	6,017	783	6,772
Employee benefits and retirement	1,275	1,125	1,038	87	1,153
Gas and oil	1,600	1,300	1,219	81	1,329
General supplies	1,600	2,000	1,941	59	1,544
Telephone	20	20	4	16	11
Insurance	2,500	3,450	3,084	366	1,644
Utilities	1,950	4,800	4,744	56	1,680
Repairs and maintenance	5,400	3,800	3,700	100	4,239
Snowmobile trail assistance	21,600	33,048	33,048		27,851
Miscellaneous	50	50	94	(44)	98
Total Park Department	\$ 45,295	\$ 56,393	\$ 54,889	\$ 1,504	\$ 46,321

CITY OF RUSHFORD, MINNESOTA
GENERAL FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006		Actual Amounts	Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Parks and Recreation (Continued)					
Swimming Pool					
Salaries	\$ 24,050	\$ 26,500	\$ 25,923	\$ 577	\$ 26,480
Employee benefits and retirement	2,100	2,000	1,983	17	2,026
Meetings and conferences	500	1,550	1,534	16	584
General supplies	4,400	5,700	5,720	(20)	3,364
Telephone	250	300	256	44	285
Printing and publishing	200	150	149	1	192
Insurance	3,150	2,875	2,619	256	2,101
Utilities	6,400	8,200	7,240	960	5,494
Repairs and maintenance	1,300	2,600	2,592	8	787
Miscellaneous	100	50	30	20	25
Total Swimming Pool	42,450	49,925	48,046	1,879	41,338
Recreation Programs					
Salaries	6,300	7,300	7,061	239	5,630
Employee benefits and retirement	550	550	540	10	431
General supplies	1,500	1,000	858	142	1,605
Insurance	275	200	197	3	131
Dues, subscriptions and fees	100	75	75		95
Mileage	800	1,100	1,034	66	800
Miscellaneous	175	175	160	15	(14)
Total Recreation Programs	9,700	10,400	9,925	475	8,678
Tourism	4,040	3,940	3,713	227	3,697
Tree Board					
Salaries	1,100	1,100	1,100		1,100
General supplies	325	325	173	152	157
Contractual services	13,000	13,000	1,895	11,105	3,198
Insurance	50	50	17	33	26
Miscellaneous	20	20	15	5	30
Total Tree Board	14,495	14,495	3,200	11,295	4,511
Total Parks and Recreation	115,980	135,153	119,773	15,380	104,545
TOTAL EXPENDITURES	611,385	643,659	602,209	41,450	553,973
EXCESS (DEFICIT) FINANCING SOURCES OVER USES					
	(54,635)	(54,592)	(8,414)	46,178	(38,793)
OTHER FINANCING SOURCES (USES)					
Transfers in	70,000	70,000	70,000		85,000
Transfers out		(161,156)	(161,156)		
Total other financing sources (uses)	70,000	(91,156)	(91,156)		85,000
Net change in fund balances	15,365	(145,748)	(99,570)	46,178	46,207
FUND BALANCE, January 1	562,070	562,070	562,070		515,863
FUND BALANCE, December 31	\$ 577,435	\$ 416,322	\$ 462,500	\$ 46,178	\$ 562,070

CITY OF RUSHFORD, MINNESOTA
CAPITAL IMPROVEMENTS FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006			Variance Favorable (Unfavorable)	2005 Actual Amounts	
	Budgeted Amounts		Actual			
	Original	Final				
REVENUES						
Property taxes	\$		\$ 18,621	\$ 18,355	(266)	\$ 132
Special assessments			500	543	43	574
Intergovernmental revenues		228,000	228,000	228,000		230,300
Interest income		3,500	5,000	6,371	1,371	5,213
Miscellaneous revenues		1,696	1,696	5,180	3,484	1,660
TOTAL REVENUES		233,196	253,817	258,449	4,632	237,879
EXPENDITURES						
Current						
Capital outlay		208,000	208,000	161,669	46,331	182,464
TOTAL EXPENDITURES		208,000	208,000	161,669	46,331	182,464
Excess (deficiency) of revenues over (under) expenditures		25,196	45,817	96,780	50,963	55,415
OTHER FINANCING SOURCES (USES)						
Transfers in			100,000	100,000		
Transfers out		(20,000)	(20,000)	(20,000)		(20,000)
Total other financing sources(uses)		(20,000)	80,000	80,000		(20,000)
Net change in fund balances		5,196	125,817	176,780	50,963	35,415
FUND BALANCES, Beginning		334,161	334,161	334,161		298,746
FUND BALANCES, Ending	\$	339,357	\$ 459,978	\$ 510,941	\$ 50,963	\$ 334,161

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CITY OF RUSHFORD, MINNESOTA
PROPRIETARY FUNDS
Statement of Net Assets
December 31, 2006

With Comparative Totals for December 31, 2005

	Enterprise Funds				Totals	
	Liquor Fund	Electric Department	Water Department	Sewer Department	2006	2005
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 105,086	\$ 529,431	\$ 32,923	\$ 10,964	\$ 678,404	\$ 493,710
Accrued interest receivable	535	1,353		677	2,565	2,713
Accounts receivable		37,726	9,492	10,934	58,152	45,843
Accrued utility revenue		132,753	15,681	24,816	173,250	145,406
Due from other funds						68,656
Advance to other funds		24,491			24,491	34,516
Merchandise inventory	42,373				42,373	40,187
Prepaid expense	8,012	337	613	1,243	10,205	2,879
Total Current Assets	<u>156,006</u>	<u>726,091</u>	<u>58,709</u>	<u>48,634</u>	<u>989,440</u>	<u>833,910</u>
Property and Equipment						
Property, plant and equipment	330,565	2,878,970	1,907,062	3,156,299	8,272,896	8,062,587
Less: Accumulated depreciation	<u>285,153</u>	<u>1,126,910</u>	<u>891,301</u>	<u>1,822,699</u>	<u>4,126,063</u>	<u>3,876,354</u>
Property and Equipment, Net	45,412	1,752,060	1,015,761	1,333,600	4,146,833	4,186,233
Construction work in process		20,031	112,544	12,232	144,807	278,696
Total Property and Equipment	<u>45,412</u>	<u>1,772,091</u>	<u>1,128,305</u>	<u>1,345,832</u>	<u>4,291,640</u>	<u>4,464,929</u>
Other Assets						
Restricted cash and cash equivalents		203,374	63,679	331,594	598,647	558,514
Total Assets	<u>201,418</u>	<u>2,701,556</u>	<u>1,250,693</u>	<u>1,726,060</u>	<u>5,879,727</u>	<u>5,857,353</u>
LIABILITIES						
Current Liabilities						
Accounts payable	5,848	106,999	70,876	3,458	187,181	68,011
Due to other funds						68,656
Advance from other funds						7,500
Current maturities of bonds payable		45,000	39,000	53,121	137,121	129,345
Accrued interest			6,197	8,682	14,879	15,906
Accrued sales tax	4,484	11,148			15,632	14,036
Deferred revenue		313			313	1,024
Customer deposits		16,192			16,192	15,070
Total Current Liabilities	<u>10,332</u>	<u>179,652</u>	<u>116,073</u>	<u>65,261</u>	<u>371,318</u>	<u>319,548</u>
Long-Term Liabilities						
Notes payable, net of current maturities, and bond issuance costs		737,399	488,866	643,424	1,869,689	2,001,598
Accrued compensated absences	11,952	22,972	11,928	17,270	64,122	61,471
Total Liabilities	<u>22,284</u>	<u>940,023</u>	<u>616,867</u>	<u>725,955</u>	<u>2,305,129</u>	<u>2,382,617</u>
Net Assets						
Invested in capital assets, net of related debt	45,412	989,692	600,439	649,287	2,284,830	2,333,986
Restricted		203,374	63,679	208,673	475,726	454,729
Unrestricted	133,722	568,467	(30,292)	142,145	814,042	686,021
Total Net Assets	<u>\$ 179,134</u>	<u>\$ 1,761,533</u>	<u>\$ 633,826</u>	<u>\$ 1,000,105</u>	<u>\$ 3,574,598</u>	<u>\$ 3,474,736</u>

**CITY OF RUSHFORD, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Revenues, Expenses
and Changes in Retained Earnings
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005**

	Enterprise Funds				Totals	
	Liquor Fund	Electric Department	Water Department	Sewer Department	2006	2005
Operating Revenues						
Sales	\$ 556,289	\$ 1,292,185	\$ 268,383	\$ 292,475	\$ 2,409,332	\$ 2,328,772
Cost of sales and production	373,160	746,032	10,033	22,414	1,151,639	1,049,511
Total Operating Revenues	183,129	546,153	258,350	270,061	1,257,693	1,279,261
Operating Expenses						
Distribution expense		197,329	132,411	221,907	551,647	557,806
General administration		151,821	39,098	42,378	233,297	175,823
Liquor store operating expenses	182,843				182,843	175,022
Total Operating Expenses	182,843	349,150	171,509	264,285	967,787	908,651
Operating Income (Loss)	286	197,003	86,841	5,776	289,906	370,610
Other Income (Expense)	12,157	(221,094)	(17,696)	(17,925)	(244,558)	(44,019)
Total Other Income (Expense)	12,157	(221,094)	(17,696)	(17,925)	(244,558)	(44,019)
Net Income (Loss) Before Transfers and Contributions	12,443	(24,091)	69,145	(12,149)	45,348	326,591
Capital contributions		9,358	34,000	20,000	63,358	
Transfers in			61,156		61,156	80,000
Transfers out	(30,000)	(40,000)			(70,000)	(165,000)
Net Income (Loss)	(17,557)	(54,733)	164,301	7,851	99,862	241,591
Net Assets, Beginning of Year	196,691	1,816,266	469,525	992,254	3,474,736	3,233,145
Net Assets, End of Year	\$ 179,134	\$ 1,761,533	\$ 633,826	\$ 1,000,105	\$ 3,574,598	\$ 3,474,736

CITY OF RUSHFORD, MINNESOTA
PROPRIETARY FUNDS
Combining Statement of Cash Flows
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Enterprise Funds				Totals	
	Liquor Fund	Electric Department	Water Department	Sewer Department	2006	2005
Cash Flows From Operating Activities						
Cash received from customers	\$ 556,289	\$ 1,262,482	\$ 266,383	\$ 284,436	\$ 2,369,590	\$ 2,172,607
Cash received from other sources	9,023	(186,703)			(177,680)	28,596
Cash paid to employees for services	(116,362)	(142,187)	(63,364)	(90,941)	(412,854)	(356,909)
Cash paid to suppliers	(431,231)	(631,348)	(42,775)	(85,928)	(1,191,282)	(1,239,908)
Net Cash Provided By Operating Activities	17,719	302,244	160,244	107,567	587,774	604,386
Cash Flows From Noncapital Financing Activities						
(Increase) decrease in due from other funds		68,656	(68,656)			
Transfers in (out)	(30,000)	(40,000)	61,156		(8,844)	(85,000)
Net Cash Provided By (Used In) Noncapital Financing Activities	(30,000)	28,656	(7,500)		(8,844)	(85,000)
Cash Flows From Capital and Related Financing Activities						
Capital contributions		9,358			9,358	
Proceeds from issuance of debt						15,000
Principal payment on long-term debt		(40,000)	(38,000)	(51,345)	(129,345)	(126,628)
Purchase of capital assets	(8,433)	(77,063)	(58,704)	(24,683)	(168,883)	(353,520)
Repayment of advances		10,025	(10,025)			2,029
Interest paid on debt		(49,202)	(16,794)	(25,216)	(91,212)	(99,186)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(8,433)	(146,882)	(123,523)	(101,244)	(380,082)	(562,305)
Cash Flows From Investing Activities						
Interest earnings on investments	3,134	14,958	1,236	6,651	25,979	26,413
Net Cash Provided By Investing Activities	3,134	14,958	1,236	6,651	25,979	26,413
Net Increase (Decrease) In Cash and Cash Equivalents						
	(17,580)	198,976	30,457	12,974	224,827	(16,506)
Cash and Cash Equivalents - January 1	122,666	533,829	66,145	329,584	1,052,224	1,068,730
Cash and Cash Equivalents - December 31	\$ 105,086	\$ 732,805	\$ 96,602	\$ 342,558	\$ 1,277,051	\$ 1,052,224
Shown on the Balance Sheet as:						
Cash and investments	\$ 105,086	\$ 529,431	\$ 32,923	\$ 10,964	\$ 678,404	\$ 493,710
Restricted cash and investments		203,374	63,679	331,594	598,647	558,514
Total	\$ 105,086	\$ 732,805	\$ 96,602	\$ 342,558	\$ 1,277,051	\$ 1,052,224

**Combining Reconciliation of Operating Income
To Net Cash Provided By Operating Activities**

	Enterprise Funds				Totals	
	Liquor Fund	Electric Department	Water Department	Sewer Department	2006	2005
Operating Income (Loss)	\$ 286	\$ 197,003	\$ 86,841	\$ 5,776	\$ 289,906	\$ 370,610
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	11,727	105,323	65,089	111,146	293,285	277,840
Miscellaneous non-operating income	9,023	(186,703)			(177,680)	28,596
Loss on disposal of capital assets	1,282	186,831		21	188,134	
(Increase) Decrease In:						
Accounts receivable		(6,984)	(1,596)	(3,729)	(12,309)	(8,785)
Other accounts receivable		(23,130)	(404)	(4,310)	(27,844)	(145,406)
Merchandise inventory	(2,186)				(2,186)	(4,379)
Prepaid insurance	(7,122)	(33)	(39)	(132)	(7,326)	7,684
Increase (Decrease) In:						
Accounts payable	4,420	27,735	9,969	(1,392)	40,732	66,696
Accrued wages	289	1,791	384	187	2,651	13,504
Deferred revenue		(711)			(711)	(1,446)
Customer deposits		1,122			1,122	(528)
Net Cash Provided by Operating Activities	\$ 17,719	\$ 302,244	\$ 160,244	\$ 107,567	\$ 587,774	\$ 604,386

Non Cash Transactions Paid

Purchase of capital assets included in accounts payable at year end	\$ 20,031	\$ 60,003	\$	\$ 80,034
Contribution of capital assets		34,000	20,000	54,000

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CITY OF RUSHFORD, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

CITY OF RUSHFORD , MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements of the City of Rushford, Minnesota, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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

In accordance with Statement No. 14 of the Governmental Accounting Standards Board, The Financial Reporting Entity, the City's financial statements include the primary government and the component units of the City of Rushford, defined as follows:

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Rushford.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Rushford are financially accountable or for which the nature or significance of their general relationship with the City of Rushford would, if excluded, cause the general purpose financial statements to be misleading or incomplete. Based on these criteria, there were no component units of the City of Rushford during 2006.

Specific organizations and the related accounting are as follows:

Rushford Volunteer Fire Department

The activities of this entity are included in the primary government financial statements of the City and are reported as a Special Revenue Fund type.

Rushford Volunteer Fire Department Relief Association

The activities of The Rushford Fire Relief, a separate legal entity, are not reported in the City of Rushford's financial statements as they are not considered a component unit under GASB No. 14.

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 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 is 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*.

CITY OF RUSHFORD , MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

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

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

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

Property 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 *capital improvements fund* accounts for the acquisition and construction of major capital facilities other than those financed by the enterprise funds.

The City reports the following major proprietary -enterprise funds:

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

The *liquor fund* accounts for the operations of the City owned liquor store.

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

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

CITY OF RUSHFORD, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City has no fiduciary funds.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Except where otherwise required, the City maintains all deposits in accounts in the name of the City. The deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and investments which is under the management of the City. Investments consist primarily of nonparticipating certificates of deposit recorded at cost, which approximates market value. For purposes of the General Purpose Financial Statements all investments are considered to be cash and cash equivalents.

CITY OF RUSHFORD , MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Interfund Transactions

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 Taxes

Property tax levies are set by the City Council in October of each year and are certified to Fillmore 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, following, and are recorded as receivables by the City at that date. Revenues for 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 July and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. The amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental fund types because they are not known to be available to finance current expenditures.

Special Assessments

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Assessment collections are deferred over periods ranging from three to fifteen years with interest charges which vary. Revenue from these assessments is recognized as the annual installments become collectible. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. The amount of delinquent assessments receivable are fully offset by deferred revenue in the Governmental Fund Types because they are not known to be available to finance current expenditures.

Tax Increment Districts

Tax increment revenues received are recorded in the Debt Service Fund to the extent required to service bond principal and interest payments due plus 5 percent of such payments. Any remaining property tax revenues are recognized in the Capital Projects Funds for the tax increment district.

CITY OF RUSHFORD , MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Inventory

The inventory, representing liquor fund merchandise for resale in the Enterprise Fund, is valued at the lower of cost or market on a first-in, first-out basis.

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. 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.

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

Under GASB Statement No. 34 the City elected to report and depreciate new infrastructure assets effective January 1, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. As allowed by GASB #34 neither the historical cost nor the related depreciation of infrastructure acquired by the City or contributed to the City prior to January 1, 2004 had been reported in the financial statements .

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vacation, sick and compensatory time are accrued when earned in the government-wide financial statements and enterprise funds.

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Long-term liabilities expected to be financed from enterprise fund operations are accounted for in those funds.

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts and loans receivable. The City's accounts and loans receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Rushford.

E. Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the December 31, 2005 totals column have been reclassified to conform with the current year presentation.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General, Special Revenue, and Capital Improvement Funds.

Prior to the end of each year, the proposed operating budget for the fiscal year commencing the following January 1, is submitted to the City Council for their review. Public hearings are also conducted to obtain taxpayer comments. After this process has been concluded, the budget is legally enacted through the passage of a resolution. Budget amendments may be made by the City Council during the year. Revisions made during the current year were not material in relation to the original appropriations.

G. Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2006, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$943,065.

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2006, the City's cash and investments consisted of the following items, all of which are held in an internal investment pool:

<u>Cash on Hand</u>	
Change funds	\$ 769
Deposits	2,295,649
Certificates of deposit	<u>1,018,938</u>
Total	<u>\$ 3,315,356</u>

Recorded on the Statement of Net Assets as follows:

Cash and investments	\$ 2,706,637
Restricted cash and investments	<u>608,719</u>
Total	<u>\$ 3,315,356</u>

Investments Authorized by Minnesota Statutes

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 U.S. 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 into 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.

Collateralization of Cash Deposits

The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name.

Minnesota Statutes require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank 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. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has no investment policy that would limit its investment choices. The City's investment ratings are from Standard & Poor Investor Service.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. At December 31, 2006, there were no individual investments greater than 5 percent of the City's total investments.

3. Special Assessments Receivable

Year of Assessment:	Debt Service Funds	Capital Projects Funds	Total
1991	\$ 279	\$	\$ 279
1994	1,366		1,366
1999	4,609		4,609
2000	57,395		57,395
2002	30,006	470	30,476
2004	2,882		2,882
2006	2,459		2,459
Total	<u>\$ 98,996</u>	<u>\$ 470</u>	<u>\$ 99,466</u>

Revenue from these assessments is deferred until the annual installments become collectible.

4. Due From Other Governmental Units

Fund Type	Fillmore County	State of Minnesota	Total
General	\$ 2,039	\$	\$ 2,039
Special Revenue	938	2,643	3,581
Capital Project	531		531
Debt Service	2,556		2,556
Totals	<u>\$ 6,064</u>	<u>\$ 2,643</u>	<u>\$ 8,707</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Loans and Leases Receivable

Debt Service

In 1997, the City entered into an agreement to lease of a portion of the Bakery Block property to Winona General Hospital Association (Rushford Clinic). Semi-Annual lease payments are due under the lease through December 2007. The minimum lease payment will be at least equal to the annual principal and interest amounts due on the 1996 G.O. Improvement Bonds. Payments received under this lease totaled \$33,960 for the year ended December 31, 2006.

6. Capital Assets

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 615,109	\$	\$ 48,628	\$ 566,481
Construction in progress		100,438		100,438
Total capital assets, not being depreciated	<u>615,109</u>	<u>100,438</u>	<u>48,628</u>	<u>666,919</u>
Capital assets, being depreciated:				
Buildings and Improvements	2,588,720	40,754		2,629,474
Infrastructure	131,054	82,505		213,559
Machinery and equipment	1,436,141	304,616	76,118	1,664,639
Total capital assets, being depreciated	<u>4,155,915</u>	<u>427,875</u>	<u>76,118</u>	<u>4,507,672</u>
Less accumulated depreciation for:				
Buildings and Improvements	1,173,387	77,292		1,250,679
Infrastructure	5,884	10,031		15,915
Machinery and equipment	894,376	141,858	49,862	986,372
Total accumulated depreciation	<u>2,073,647</u>	<u>229,181</u>	<u>49,862</u>	<u>2,252,966</u>
Total capital assets, being depreciated, net	<u>2,082,268</u>	<u>198,694</u>	<u>26,256</u>	<u>2,254,706</u>
Governmental activities capital assets, net	<u>\$ 2,697,377</u>	<u>\$ 299,132</u>	<u>\$ 74,884</u>	<u>\$ 2,921,625</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 105,460	\$	\$	\$ 105,460
Construction in progress	<u>278,696</u>	<u>144,807</u>	<u>278,696</u>	<u>144,807</u>
Total capital assets, not being depreciated	<u>384,156</u>	<u>144,807</u>	<u>278,696</u>	<u>250,267</u>
Capital assets, being depreciated:				
Buildings and improvements	7,309,623	225,824	3,847	7,531,600
Machinery and equipment	<u>647,504</u>	<u>24,148</u>	<u>35,816</u>	<u>635,836</u>
Total capital assets, being depreciated	<u>7,957,127</u>	<u>249,972</u>	<u>39,663</u>	<u>8,167,436</u>
Less accumulated depreciation for:				
Buildings and improvements	3,525,231	259,064	3,476	3,780,819
Machinery and equipment	<u>351,123</u>	<u>29,005</u>	<u>34,884</u>	<u>345,244</u>
Total accumulated depreciation	<u>3,876,354</u>	<u>288,069</u>	<u>38,360</u>	<u>4,126,063</u>
Total capital assets, being depreciated, net	<u>4,080,773</u>	<u>(38,097)</u>	<u>1,303</u>	<u>4,041,373</u>
Business-type activities capital assets, net	<u>\$ 4,464,929</u>	<u>\$ 106,710</u>	<u>\$ 279,999</u>	<u>\$ 4,291,640</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 13,739
Public safety	93,016
Public works	47,094
Airport	15,497
Library	7,389
Park and recreation	49,696
Community center	<u>2,750</u>
Total depreciation expense - governmental activities	<u>\$229,181</u>
Business-Type Activities:	
Electric	\$ 103,351
Water	61,845
Sewer	111,147
Liquor	<u>11,726</u>
Total depreciation expense - business-type activities	<u>\$288,069</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt

A summary of changes in long-term debt during 2006 is as follows:

	Range of Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Accrued Interest
GOVERNMENTAL ACTIVITIES							
Bonds and Notes Payable:							
General obligation bonds:							
1996 Tax Increment Bonds	5.40% - 5.70%	\$ 70,000	\$	\$ 30,000	\$ 40,000	\$ 40,000	
1998 Improvement Bonds	4.38% - 4.50%	75,000		25,000	50,000	25,000	187
1999 Improvement Bonds	4.35% - 4.55%	40,000		20,000	20,000	20,000	378
2000 Improvement Bonds	5.30% - 5.80%	165,000		25,000	140,000	25,000	3,320
2001 Improvement Bonds	4.70% - 5.15%	495,000		65,000	430,000	65,000	8,954
2002 Improvement Bonds	4.50%	160,000		25,000	135,000	25,000	2,523
2004 Tax Increment Refunding Bonds	2.00% - 3.75%	930,000		140,000	790,000	140,000	9,464
Notes payable:							
2001 USDA Loan	4.88%	74,872		8,702	66,170	5,837	463
2002 USDA Loan	4.75%	89,610		11,097	78,513	11,624	2,305
Other Liabilities:							
Compensated Absences		43,732	6,237		49,969		
Governmental Activities							
Long-term Liabilities		2,143,214	6,237	349,799	1,799,652	357,461	27,594
BUSINESS-TYPE ACTIVITIES							
Bonds and Notes Payable:							
Note Payable	0.00%	12,000		3,000	9,000	3,000	
General Obligation Revenue Note:							
1999 Water Department	3.04%	596,000		35,000	561,000	36,000	6,197
1996A Sewer Department	3.43%	747,890		51,346	696,544	53,121	8,682
Revenue Bonds:							
2000 Electric Department	5.25 - 6.10%	850,000		40,000	810,000	45,000	
Less: Unamortized Discount		(74,947)		(5,213)	(69,734)		
Other Liabilities:							
Compensated Absences		61,471	2,651		64,122		
Business-type Activities							
Long-term Liabilities		2,192,414	2,651	124,133	2,070,932	137,121	14,879
Total							
		<u>\$ 4,335,628</u>	<u>\$ 8,888</u>	<u>\$ 473,932</u>	<u>\$ 3,870,584</u>	<u>\$ 494,582</u>	<u>\$ 42,473</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding at December 31, 2006, excluding compensated absences, are summarized as below:

Years	General Obligation Improvement Bonds		General Obligation Tax Increment Bonds/ Refunding Bonds		General Obligation Revenue Bonds/Notes		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2007	\$ 160,000	\$ 35,510	\$ 180,000	\$ 23,318	\$	\$	\$ 17,461	\$ 5,753
2008	145,000	28,114	140,000	17,538			17,096	6,118
2009	120,000	20,974	150,000	13,913			17,914	5,300
2010	135,000	14,509	55,000	11,213			18,771	4,443
2011	135,000	7,595	55,000	9,563			19,670	3,544
2012-2016	80,000	2,060	250,000	18,398			47,409	7,195
2017-2021							6,362	310
Totals	<u>\$ 775,000</u>	<u>\$ 108,762</u>	<u>\$ 830,000</u>	<u>\$ 93,943</u>	<u>\$</u>	<u>\$</u>	<u>\$ 144,683</u>	<u>\$ 32,663</u>

<u>Business-Type Activities</u>								
2007					\$ 134,121	\$ 87,596	\$ 3,000	\$
2008					136,959	82,280	3,000	
2009					144,860	76,823	3,000	
2010					147,827	70,952		
2011					155,862	64,980		
2012-2016					884,389	221,364		
2017-2021					463,526	40,962		
Totals	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,067,544</u>	<u>\$ 644,957</u>	<u>\$ 9,000</u>	<u>\$</u>

Under the terms of various bond and installment note agreements, the City is required to maintain reserves for system replacement and debt service. The City also sets aside \$19,135 each year in the Sewer Fund for equipment replacement. Restricted net assets and restricted cash balances at December 31 were as follows:

	2006	2005
Bond Agreement Restrictions:		
Sewer system replacement	\$ 116,800	\$ 105,120
Debt Service		
Sewer Revenue Note of 1996	91,874	88,045
PFA Water Loan of 1999	63,679	61,090
Electric Revenue Bonds of 2000	203,374	200,474
Restricted Net Assets	475,727	454,729
Debt Service		
USDA Fire Hall/ Police Garage of 2002	3,931	3,144
USDA Fire Truck/Camera of 2003	6,141	4,606
Municipal Restriction:		
Equipment replacement - Sewer Fund	122,920	103,785
Total Restricted Cash	<u>\$ 608,719</u>	<u>\$ 566,264</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (Continued)

The City of Rushford is the administering authority for the following tax increment finance district:

City of Rushford Tax Increment Financing Plan, No. 1.

The district is a redevelopment type, authorized under Minnesota law chapter 472(A), established in 1980 and will continue until December 31, 2008.

Original base tax capacity including modifications	\$ 34,063
Current net tax capacity	163,486
Captured net tax capacity Retained by authority	129,423
Shared with other taxing authorities	
General Obligation Tax Increment Bonds Issues by year of issue:	
1982	\$ 200,000
1983	410,000
1984	250,000
1985	70,000
1986	30,000
1990	120,000
1994	455,000
1995	1,335,000
1996	270,000
2004	990,000
Loans incurred:	
\$150,000 Loan from City of Rushford Utilities Enterprise Fund	150,000
\$52,102 Loan from City of Rushford Economic Development Capital Project Fund	<u>52,102</u>
Total Bonds and Loans Issued	4,332,102
Less: Amounts retired	<u>3,542,102</u>
Total Outstanding Tax Increment Bonds at December 31, 2006	<u>\$ 790,000</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Segment Information for Enterprise Funds

The City maintains Enterprise Funds, which provide utilities services and operate an on and off sale liquor store. Segment information for the year ended December 31, 2006 is as follows:

	<u>Liquor Fund</u>	<u>Utilities Fund</u>
Net Operating Revenues	\$ 183,129	\$ 1,074,564
Operating Expenses:		
Depreciation	11,727	281,555
Other	171,116	503,389
Operating Income	286	289,620
Nonoperating Revenues (Expenses) net	12,157	(256,715)
Net Income Before Operating Transfers	12,443	52,905
Property and Equipment Additions	8,433	394,779
Net Working Capital	133,722	472,448
Transfers from (to) other funds	(30,000)	21,156
Total Assets	201,418	5,678,309
Total Net Assets	179,134	3,395,464

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Individual Fund Disclosures

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
Special Revenue Fund:		
EDA Revolving Loan Fund	\$	\$ 24,491
Enterprise Funds:		
Electric Fund	<u>24,491</u>	
Total	<u>\$ 24,491</u>	<u>\$ 24,491</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 70,000	\$ 161,156
Special Revenue Funds:		
Fire Fund	20,000	
Capital Project Funds:		
Capital improvements	100,000	20,000
Enterprise Funds:		
Utilities Fund	61,156	40,000
Liquor Fund		<u>30,000</u>
Total	<u>\$ 251,156</u>	<u>\$ 251,156</u>

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 1,100	\$
Fire & Police Garage Debt Service		725
Fire Rescue Rig Debt Service		375
Fire Fund	8,500	
Fire Mill Rate Fund		<u>8,500</u>
Total	<u>\$ 9,600</u>	<u>\$ 9,600</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Fund Balance and Net Assets

The City has reserved or designated portions of the fund balance and net assets in several funds. The reserved fund balance and net assets represents the portion not available for expenditures or legally segregated for specific future use. A summary of designated and reserved fund and net assets at December 31, 2006 is as follows:

<u>Fund</u>	<u>Designated Amount</u>
General Fund	
Cash and investments designated for future equipment purchases	\$ 99,362
Special Revenue Funds:	
Firemen's Fund	
Cash and investments designated for future equipment purchases	98,511
Firemen's Mill Rate Fund	
Cash and investments designated for future equipment purchases	54,515
Ambulance Fund	
Cash and investments designated for future equipment purchases	303,372
Capital Project Funds	
Cash and investments designated for future capital expenditures	<u>607,067</u>
Total Designated	<u>\$ 1,162,827</u>
	<u>Reserved Amount</u>
Debt Service	
Tax Increment and General Obligation Improvement Bonds	
Cash and investments reserved for debt service	<u>\$ 365,341</u>
Enterprise Fund	
Restricted for future debt service and capital expenditures	<u>\$ 475,726</u>

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans - Statewide

Plan Description

All full-time and certain part-time employees of the City of Rushford are covered by defined benefit pension 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 PEPFF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and for 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 is the 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 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.

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

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans - Statewide (Continued)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members are required to contribute 7.0% of their annual covered salary in 2006. That rate will increase to 7.8% in 2007. The City of Rushford is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7% respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$29,004, \$26,711, and \$29,015, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$15,864, \$13,451, and \$12,815, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

12. Defined Contribution Pension Plan - Volunteer Fire Relief Association

Plan Description - The City contributes to the City of Rushford Fire Department Relief Association ("Association"), a single employer public employee retirement plan for the City's fire fighters.

Volunteer fire fighters of the City are members of the Rushford Fire Department Relief Association. The Association by-laws provide that each member has a right to an equal share of: (1) Fire state aid received by the Relief Association; (2) Municipal contributions; and (3) Forfeitures by former members who have not returned to active service for at least 5 years. Upon written request from members, the Association shall pay the total accrued amount to each fire fighter who has: (a) At least 20 years of active service in the fire department prior to resignation; (b) Reached the age of 50 years; and (c) Been a member of the Association for at least 10 years. The by-laws also provide that a fire fighter with at least 10 years of active service but who has not reached the age of 50 years, may retire from the department and be placed on the deferred pension roll. These provisions are in accordance with Minnesota Statute 424A.02, Subd. 4.

Volunteers of the fire department pay annual dues of \$1 each. During 2006, at the Association's direction, the City did not levy any property taxes for the benefit of the Association.

Related Party Investments - During 2006 and as of December 31, 2006 the Association held no securities issued by the City or other related parties.

Contributions Made - The City remitted to the Association the State Aid received in 2006 totaling \$24,384 together with an additional contribution of \$2,250 from the City General Fund.

Ten-Year Historical Trend Information - Ten-year historical trend information related to the pension plan is unavailable.

CITY OF RUSHFORD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Commitments and Contingencies

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 carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2006.

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on those contributions will be sufficient to satisfy claims liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,000,000 per claim for plan year 2006. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

CITY OF RUSHFORD, MINNESOTA

**COMBINING AND INDIVIDUAL
FUND STATEMENTS**

DECEMBER 31, 2006

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CITY OF RUSHFORD, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2006

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources requiring separate accounting because of legal, regulatory or grant provisions or administrative action.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related fiscal changes.

Capital Projects Funds

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by the enterprise funds.

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

With Comparative Totals for December 31, 2005

	Special Revenue							
	Airport Operations	Volunteer Fire Department	Fire Mill Rate	Library	Ambulance	EDA Revolving Loan	Tenborg Community Center	Total
ASSETS								
Cash and investments	\$ 27,054	\$ 83,887	\$ 62,605	\$ 76,036	\$ 275,510	\$ 6,194	\$ 61,993	\$ 593,279
Accrued interest receivable		161	410		4,390			4,961
Accounts receivable	1,142	6,050			39,048	24,491	623	71,354
Special assessments receivable:								
Deferred								
Delinquent	350							350
Prepaid expense	745			128	1,029			1,902
Taxes receivable - delinquent				1,642			484	2,126
Leases receivable								
Due from other funds		8,500						8,500
Due from other governmental units	2,776			622			183	3,581
Restricted cash								
TOTAL ASSETS	\$ 32,067	\$ 98,598	\$ 63,015	\$ 78,428	\$ 319,977	\$ 30,685	\$ 63,283	\$ 686,053
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 1,816	\$ 87	\$	\$ 149	\$ 737	\$	\$ 570	\$ 3,359
Due to other funds			8,500					8,500
Advance from other funds						24,491		24,491
Deferred revenue	20,281			1,642	15,868	24,491	484	62,766
Total Liabilities	<u>22,097</u>	<u>87</u>	<u>8,500</u>	<u>1,791</u>	<u>16,605</u>	<u>48,982</u>	<u>1,054</u>	<u>99,116</u>
Fund Balance								
Reserved								
Unreserved								
Designated		98,511	54,515		303,372			456,398
Undesignated	9,970			76,637		(18,297)	62,229	130,539
Total Fund Balance	<u>9,970</u>	<u>98,511</u>	<u>54,515</u>	<u>76,637</u>	<u>303,372</u>	<u>(18,297)</u>	<u>62,229</u>	<u>586,937</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 32,067	\$ 98,598	\$ 63,015	\$ 78,428	\$ 319,977	\$ 30,685	\$ 63,283	\$ 686,053

Debt Service

Tax Increment District		1999					2002 G.O.
2004	1996	G.O.	1998	1999 & 2000	2001	Refunding	
G.O. Refunding	G.O.	Refunding	G.O.	G.O.	G.O.	Bonds	
Bonds	Improvement	Bonds	Improvement	Improvement	Improvement		
\$ 155,065	\$ 318	\$ 21,343	\$ 2,860	\$ 71,402	\$ 58,409	\$ 44,367	
1,366		279	4,609	59,854	32,888		
967	33,150	316	707	683	1,802	288	
369		119	266	292	682	537	
<u>\$ 157,767</u>	<u>\$ 33,468</u>	<u>\$ 22,057</u>	<u>\$ 8,442</u>	<u>\$ 132,231</u>	<u>\$ 93,781</u>	<u>\$ 45,192</u>	
\$	\$	\$	\$	\$	\$	\$	
2,333	33,150	594	5,316	60,571	34,690	254	
<u>2,333</u>	<u>33,150</u>	<u>594</u>	<u>5,316</u>	<u>60,571</u>	<u>34,690</u>	<u>254</u>	
155,434	318	21,463	3,126	71,660	59,091	44,938	
<u>155,434</u>	<u>318</u>	<u>21,463</u>	<u>3,126</u>	<u>71,660</u>	<u>59,091</u>	<u>44,938</u>	
<u>\$ 157,767</u>	<u>\$ 33,468</u>	<u>\$ 22,057</u>	<u>\$ 8,442</u>	<u>\$ 132,231</u>	<u>\$ 93,781</u>	<u>\$ 45,192</u>	

FORM D-1

Debt Service			Capital Project			Total Nonmajor Governmental Funds	
Fire & Police Garage	Fire Rescue Rig	Total	Tax Increment	Blandin Grant	Economic Development	2006	2005
\$ 21	\$ 26	\$ 353,811	\$ 55,186	\$ 12,583	\$ 27,391	\$ 1,042,250	\$ 1,035,975
			600			4,961	2,375
		98,996				71,954	60,632
						98,996	148,929
						350	208
					19	1,921	1,799
314	455	5,532			915	8,573	5,110
		33,150				33,150	55,250
						8,500	
118	172	2,555			347	6,483	38,422
3,931	6,141	10,072				10,072	7,750
<u>\$ 4,384</u>	<u>\$ 6,794</u>	<u>\$ 504,116</u>	<u>\$ 55,786</u>	<u>\$ 12,583</u>	<u>\$ 28,672</u>	<u>\$ 1,287,210</u>	<u>\$ 1,356,450</u>
\$ 375	\$ 725	\$ 1,100	\$	\$	\$	\$ 3,359	\$ 1,808
						9,600	1,110
						24,491	27,016
313	454	137,675			915	201,356	265,553
688	1,179	138,775			915	238,806	295,487
3,696	5,615	365,341				365,341	367,276
			55,786	12,583	27,757	552,524	572,273
						130,539	121,414
<u>3,696</u>	<u>5,615</u>	<u>365,341</u>	<u>55,786</u>	<u>12,583</u>	<u>27,757</u>	<u>1,048,404</u>	<u>1,060,963</u>
<u>\$ 4,384</u>	<u>\$ 6,794</u>	<u>\$ 504,116</u>	<u>\$ 55,786</u>	<u>\$ 12,583</u>	<u>\$ 28,672</u>	<u>\$ 1,287,210</u>	<u>\$ 1,356,450</u>

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

FORM D-2

With Comparative Totals for December 31, 2005

	Special Revenue						
	Airport Operations	Volunteer Fire Department	Fire Mill Rate	Library	Ambulance	EDA Revolving Loan	Tenborg Community Center
REVENUES							
Property tax	\$ 12,940	\$	\$	\$ 60,621	\$	\$	\$ 17,885
Tax increments							
Intergovernmental	19,999			23,826			
Charges for services	9,411	20,852	44,744	4,764	149,708		
Special assessments							
Interest income	337	3,895	3,633	1,223	11,279	1,398	1,422
Miscellaneous	904	16,082			6,354	2,525	3,946
TOTAL REVENUES	43,591	40,829	48,377	90,434	167,341	3,923	23,253
EXPENDITURES							
Public safety		118,819	108,804		96,272		
Airport	39,124						
Library				91,963			
Debt services							
Capital outlay							
Economic development						1,294	
Community center							19,695
TOTAL EXPENDITURES	39,124	118,819	108,804	91,963	96,272	1,294	19,695
Excess (deficiency) of revenues over (under) expenditures	4,467	(77,990)	(60,427)	(1,529)	71,069	2,629	3,558
OTHER FINANCING SOURCES (USES)							
Bond proceeds							
Transfers in		20,000					
Transfer out							
TOTAL OTHER FINANCING SOURCES		20,000					
Net change in fund balances	4,467	(57,990)	(60,427)	(1,529)	71,069	2,629	3,558
FUND BALANCES, Beginning	5,503	156,501	114,942	78,166	232,303	(20,926)	58,671
FUND BALANCES, Ending	\$ 9,970	\$ 98,511	\$ 54,515	\$ 76,637	\$ 303,372	\$ (18,297)	\$ 62,229

Tax Increment District		Debt Service				
2004 G.O. Refunding Bonds	1996 G.O. Improvement	1999 G.O. Refunding Bonds	1998 G.O. Improvement	1999 & 2000 G.O. Improvement	2001 G.O. Improvement	2002 G.O. Refunding Bonds
\$ 35,679	\$ 4,952	\$ 11,681	\$ 25,879	\$ 25,143	\$ 66,371	\$ 10,642
126,856						
601		7,264	2,043	10,907	20,003	19,471
748	(30)	132	92	657	76	367
	29,008					
<u>163,884</u>	<u>33,930</u>	<u>19,077</u>	<u>28,014</u>	<u>36,707</u>	<u>86,450</u>	<u>30,480</u>
164,619	33,960	21,355	28,375	34,113	88,551	31,638
<u>164,619</u>	<u>33,960</u>	<u>21,355</u>	<u>28,375</u>	<u>34,113</u>	<u>88,551</u>	<u>31,638</u>
(735)	(30)	(2,278)	(361)	2,594	(2,101)	(1,158)
(735)	(30)	(2,278)	(361)	2,594	(2,101)	(1,158)
156,169	348	23,741	3,487	69,066	61,192	46,096
<u>\$ 155,434</u>	<u>\$ 318</u>	<u>\$ 21,463</u>	<u>\$ 3,126</u>	<u>\$ 71,660</u>	<u>\$ 59,091</u>	<u>\$ 44,938</u>

FORM D-2

ice		Capital Project				Total Nonmajor Governmental Funds	
Fire & Police Garage	Fire Rescue Rig	Total	Tax Increment	Blandin Grant	Economic Development	2006	2005
\$ 11,570	\$ 16,765	\$ 203,730	\$	\$	\$ 33,782	\$ 328,958	\$ 332,620
		131,808	11,617			143,425	141,136
					3,700	47,525	49,017
		60,289				229,479	210,056
18	(5)	2,055	3,812	15	264	60,289	62,495
		29,008	111,288	12,750		29,333	20,937
						182,857	63,854
11,588	16,760	426,890	126,717	12,765	37,746	1,021,866	880,115
						323,895	119,539
						39,124	34,848
						91,963	84,715
10,861	15,353	428,825				428,825	344,390
			110,894	182	38,553	149,629	37,843
						1,294	1,789
						19,695	19,601
10,861	15,353	428,825	110,894	182	38,553	1,054,425	642,725
727	1,407	(1,935)	15,823	12,583	(807)	(32,559)	237,390
						20,000	89,152
							(69,152)
						20,000	20,000
727	1,407	(1,935)	15,823	12,583	(807)	(12,559)	257,390
2,969	4,208	367,276	39,963		28,564	1,060,963	803,573
\$ 3,696	\$ 5,615	\$ 365,341	\$ 55,786	\$ 12,583	\$ 27,757	\$ 1,048,404	\$ 1,060,963

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CITY OF RUSHFORD, MINNESOTA
AIRPORT FUND
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget Favorable (Unfavorable)	2005 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property taxes collected	\$ 11,077	\$ 11,077	\$ 11,017	\$ (60)	\$ 10,863
Market value credit	1,923	1,923	1,923		1,655
Property Tax Levy	13,000	13,000	12,940	(60)	12,518
Intergovernmental Revenues					
State grants	20,324	20,324	19,999	(325)	25,196
Charges for Services					
Land leases	325	2,448	3,621	1,173	1,529
Hangar rentals	5,400	5,400	5,400		5,325
Fuel and utilities	750	750	390	(360)	832
Total Charges For Services	6,475	8,598	9,411	813	7,686
Interest Income	50	300	337	37	174
Miscellaneous Revenues			904	904	
TOTAL REVENUES	39,849	42,222	43,591	1,369	45,574
EXPENDITURES					
Airport					
Salaries	3,600	3,600	3,600		3,500
General supplies	500	500	357	143	99
Fuel	1,300	1,000	892	108	923
Professional services	800	800	535	265	629
Insurance	4,580	4,590	4,283	307	3,476
Utilities	3,235	3,250	2,778	472	2,828
Repairs and maintenance	1,600	1,900	1,713	187	3,400
Dues, subscriptions and fees	1,200	1,200	1,066	134	1,290
Taxes on property	200	232	232		198
Capital outlay	15,000	28,000	23,668	4,332	18,505
TOTAL EXPENDITURES	32,015	45,072	39,124	5,948	34,848
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	\$ 7,834	\$ (2,850)	\$ 4,467	7,317	\$ 10,726

CITY OF RUSHFORD, MINNESOTA
FIREMEN'S FUND
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Budgeted Amounts		2006 Actual Amounts			Variance with Final Budget Favorable (Unfavorable)	2005 Actual Amounts
	Original	Final	General	Mill Rate	Total		
REVENUES							
Charges For Services							
Reimbursement from City of Rushford	\$ 12,000	\$ 15,000	\$ 3,432	\$	\$ 3,432	\$ (11,568)	\$ 4,052
Township contributions	34,698	44,745		44,744	44,744	(1)	56,718
Fire calls, contracts and water hauling	7,000	6,500	17,420		17,420	10,920	7,000
Total Charges For Services	53,698	66,245	20,852	44,744	65,596	(649)	67,770
Interest Income		5,500	3,895	3,633	7,528	2,028	6,561
Miscellaneous Revenues							
Donations	4,500	9,600	16,082		16,082	6,482	6,195
Benefit dances and meetings					-	-	11,804
Total Miscellaneous	4,500	9,600	16,082		16,082	6,482	17,999
TOTAL REVENUES	58,198	81,345	40,829	48,377	89,206	7,861	92,330
EXPENDITURES							
Public Safety							
Salaries	12,500	12,500	12,308		12,308	(192)	8,478
Office supplies							557
Meeting and conferences	4,900	4,900	4,615		4,615	(285)	6,072
General supplies	2,200	3,700	2,110	1,305	3,415	(285)	3,300
Benefit dances	5,000	300	195		195	(105)	4,946
Repairs and maintenance	2,200	4,200	107	3,736	3,843	(357)	2,267
Dues, subscriptions and fees	1,500	1,300	1,057		1,057	(243)	998
Miscellaneous	1,800	3,800	1,511	1,917	3,428	(372)	1,464
Capital outlay	2,500	199,000	96,916	101,846	198,762	(238)	2,347
TOTAL EXPENDITURES	32,600	229,700	118,819	108,804	227,623	(2,077)	30,429
Excess (deficit) revenues over (under) expenditures	25,598	(148,355)	(77,990)	(60,427)	(138,417)	9,938	61,901
OTHER FINANCING SOURCES (USES)							
Transfers in	20,000	20,000	20,000		20,000		86,801
Transfers out							(66,801)
Total other financing sources (uses)	20,000	20,000	20,000		20,000		20,000
EXCESS (DEFICIT) FINANCING SOURCES OVER USES	\$ 45,598	\$ (128,355)	\$ (57,990)	\$ (60,427)	\$ (118,417)	\$ 9,938	\$ 81,901

CITY OF RUSHFORD, MINNESOTA
LIBRARY FUND
Statement of Revenues and Expenditures - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget Favorable (Unfavorable)	2005 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property taxes collected	\$ 51,976	\$ 51,976	\$ 51,597	\$ (379)	\$ 50,891
Market value credit	9,024	9,024	9,024		9,930
Property Tax Levy	61,000	61,000	60,621	(379)	60,821
Intergovernmental Revenues					
County apportionment and other revenue	20,000	21,500	21,504	4	18,921
Local government aid	2,322	2,322	2,322		1,700
Total Intergovernmental Revenues	22,322	23,822	23,826	4	20,621
Interest Income					
	1,000	1,000	1,223	223	1,122
Miscellaneous Revenues					
Fines, books and other	3,000	5,000	4,764	(236)	5,022
TOTAL REVENUES	87,322	90,822	90,434	(388)	87,586
EXPENDITURES					
Library					
Librarian salary	57,582	57,582	54,713	2,869	48,465
Employee benefits and retirement	7,850	7,850	6,841	1,009	6,812
Office supplies	1,250	850	687	163	876
General supplies	1,350	1,350	1,021	329	916
Professional services	600	600	603	(3)	560
Telephone	900	900	710	190	795
Insurance	1,250	1,250	1,164	86	742
Utilities	1,600	1,600	1,486	114	1,416
Repairs and maintenance	1,550	1,350	848	502	877
Dues, subscriptions and fees	1,200	1,400	1,443	(43)	1,245
Computer line fee	5,700	5,700	5,696	4	4,716
Miscellaneous	2,000	2,200	2,026	174	2,092
Capital outlay	14,300	17,452	14,725	2,727	15,203
TOTAL EXPENDITURES	97,132	100,084	91,963	8,121	84,715
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	\$ (9,810)	\$ (9,262)	\$ (1,529)	\$ 7,733	\$ 2,871

CITY OF RUSHFORD, MINNESOTA
AMBULANCE FUND
Statement of Revenues and Expenditures - Budget and Actual
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Budgeted Amounts		2006	Variance with	2005
	Original	Final	Actual Amounts	Final Budget Favorable (Unfavorable)	Actual Amounts
REVENUES					
Charges For Services					
Fees from runs	\$ 90,000	\$ 120,000	\$ 137,274	\$ 17,274	\$ 114,232
City and township contracts	7,934	7,934	7,934		15,868
County assistance	4,500	4,500	4,500		4,500
Total Charges For Services	102,434	132,434	149,708	17,274	134,600
Interest Income	4,000	8,200	11,279	3,079	7,049
Miscellaneous Revenues					
Other		5,600	6,354	754	800
Total Miscellaneous revenues		5,600	6,354	754	800
TOTAL REVENUES	106,434	146,234	167,341	21,107	142,449
EXPENDITURES					
Public Safety					
Salaries	48,500	53,900	53,712	188	47,830
Office supplies and expense	1,100	1,100	1,082	18	858
Meeting and conferences	13,000	13,000	12,711	289	12,738
Gas, oil and supplies	2,700	3,300	3,259	41	2,554
General supplies	7,800	9,300	9,136	164	7,992
Professional services	600	850	793	57	569
Telephone	1,300	1,300	1,275	25	1,287
Insurance	5,550	4,650	4,317	333	4,368
Utilities	2,200	2,700	2,766	(66)	1,989
Repairs and maintenance	3,500	2,250	1,854	396	2,967
Dues, subscriptions and fees	600	850	833	17	361
Miscellaneous	600	2,200	2,164	36	573
Capital outlay	2,000	2,500	2,370	130	5,024
TOTAL EXPENDITURES	89,450	97,900	96,272	1,628	89,110
EXCESS FINANCING SOURCES OVER USES	\$ 16,984	\$ 48,334	\$ 71,069	\$ 22,735	\$ 53,339

CITY OF RUSHFORD, MINNESOTA
TENBORG COMMUNITY CENTER FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	Budgeted Amounts		2006 Actual Amounts	Variance with Final Budget Favorable (Unfavorable)	2005 Actual Amounts
	Original	Final			
REVENUES					
Property Tax Levy					
Property taxes collected	\$ 15,337	\$ 15,337	\$ 15,222	\$ (115)	\$ 14,984
Market value credit	2,663	2,663	2,663		2,482
Property Tax Levy	18,000	18,000	17,885	(115)	17,466
Interest Income	900	1,100	1,422	322	1,368
Other Revenues					
Rental fees	1,500	1,500	1,455	(45)	2,435
SEMCAC	2,527	2,491	2,491		2,504
Total Other Revenues	4,027	3,991	3,946	(45)	4,939
TOTAL REVENUES	22,927	23,091	23,253	162	23,773
EXPENDITURES					
General Government					
Cleaning expense	11,300	11,300	10,735	565	10,699
General supplies	900	900	519	381	802
Telephone	450	450	459	(9)	448
Professional services	375	325	325		315
Insurance	1,600	1,200	1,098	102	1,129
Utilities	6,300	6,300	5,901	399	5,310
Repairs and maintenance	1,000	1,000	658	342	898
Capital outlay	500	500		500	
TOTAL EXPENDITURES	22,425	21,975	19,695	2,280	19,601
EXCESS REVENUES OVER EXPENDITURES	\$ 502	\$ 1,116	\$ 3,558	\$ 2,442	\$ 4,172

CITY OF RUSHFORD, MINNESOTA

ENTERPRISE FUNDS

December 31, 2006

CITY OF RUSHFORD, MINNESOTA
LIQUOR FUND
Comparative Balance Sheets
December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 105,086	\$ 122,666
Accrued Interest	535	535
Merchandise inventory	42,373	40,187
Prepaid insurance	8,012	890
Total Current Assets	156,006	164,278
Property and Equipment		
Building	258,424	262,271
Furniture and equipment	72,141	87,203
Total	330,565	349,474
Less: Accumulated depreciation	285,153	299,486
Net Property, Plant and Equipment	45,412	49,988
TOTAL ASSETS	\$ 201,418	\$ 214,266
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 5,848	\$ 1,416
Accrued wages	11,952	11,663
Accrued sales tax	4,484	4,496
Total Liabilities	22,284	17,575
Net Assets	179,134	196,691
TOTAL LIABILITIES AND NET ASSETS	\$ 201,418	\$ 214,266

CITY OF RUSHFORD, MINNESOTA
LIQUOR FUND
Statement of Revenues, Expenses
and Changes in Net Assets
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006	2005
Operating Revenues		
Total sales	\$ 556,289	\$ 576,959
Cost of sales	373,160	384,225
Gross Profit	183,129	192,734
Operating Expenses		
Salaries and wages	103,356	99,008
Employee benefits and retirement	13,295	12,627
Office supplies	912	688
General supplies	7,213	6,999
Contracted services	9,117	8,784
Advertising	1,775	1,792
Telephone	601	566
Utilities	11,784	11,259
Insurance	14,799	13,051
Repairs and maintenance	4,087	4,054
Depreciation	11,727	11,828
Licences, dues and subscriptions	3,878	4,148
Miscellaneous expense	299	218
Total Operating Expenses	182,843	175,022
Operating Income	286	17,712
Other Income (Loss)		
Interest income	3,134	2,323
Rental income	10,305	8,369
Loss on disposal of capital assets	(1,282)	
Total Other Income	12,157	10,692
Net Income Before Transfers	12,443	28,404
Transfers out	(30,000)	(110,000)
Net Income (Loss)	(17,557)	(81,596)
Net Assets, Beginning of Year	196,691	278,287
Net Assets, End of Year	\$ 179,134	\$ 196,691

**CITY OF RUSHFORD, MINNESOTA
LIQUOR FUND
Gross Profit Schedule
December 31, 2006**

With Comparative Totals for December 31, 2005

	Liquor	Beer	Misc	Totals	
				2006	2005
Sales					
On sale	\$ 47,095	\$ 80,172	\$ 9,818	\$ 137,085	\$ 143,819
Off sale	112,843	297,932	8,429	419,204	433,140
Total Sales	159,938	378,104	18,247	556,289	576,959
Cost of Sales					
Inventory, January 1	22,268	16,883	1,036	40,187	35,809
Purchases	92,175	267,230	13,655	373,060	386,293
Freight	2,286			2,286	2,310
Total	116,729	284,113	14,691	415,533	424,412
Less: Inventory, December 31	20,704	20,052	1,617	42,373	40,187
Total Cost of Sales	96,025	264,061	13,074	373,160	384,225
Gross Profit	\$ 63,913	\$ 114,043	\$ 5,173	\$ 183,129	\$ 192,734
Gross Profit Percentage 2006	40%	30%	28%	33%	33%

Gross Profit Percentage:

2005	42%	30%	27%	33%
2004	42%	29%	22%	33%
2003	43%	28%	21%	32%
2002	43%	29%	21%	32%
2001	42%	29%	26%	32%
2000	41%	28%	29%	32%
1999	40%	29%	29%	32%
1998	40%	28%	33%	32%
1997	38%	29%	29%	32%
1996	38%	28%	26%	31%

CITY OF RUSHFORD, MINNESOTA
UTILITIES FUND
ELECTRIC DEPARTMENT
Statement of Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006		Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budget	Actual		
Operating Revenues				
Consumer sales and rentals	\$ 1,291,000	\$ 1,292,185	\$ 1,185	\$ 1,196,925
Cost of Production				
Purchased power	800,000	746,032	53,968	636,466
Net Operating Revenue	491,000	546,153	55,153	560,459
Operating Expenses				
Distribution				
Salaries	39,300	40,336	(1,036)	37,950
Gas, oil and supplies	1,000	955	45	1,034
General supplies	2,500	2,230	270	2,496
Professional services	20,000	19,579	421	20,345
Repairs and maintenance	108,200	28,909	79,291	34,120
Depreciation and amortization	90,000	105,320	(15,320)	99,345
Total Distribution	261,000	197,329	63,671	195,290
General Administration				
Salaries	104,500	103,642	858	78,557
Employee benefits and retirement	18,500	18,559	(59)	14,314
Office supplies and expense	1,700	1,736	(36)	1,121
Professional services	9,600	8,871	729	13,709
Postage	3,700	3,542	158	3,933
Printing and publishing	1,200	719	481	700
Insurance	8,200	7,693	507	6,860
Dues, subscriptions and fees	4,800	4,647	153	(953)
Miscellaneous	28,400	2,412	25,988	2,622
Total General Administration	180,600	151,821	28,779	120,863
Total Operating Expenses	441,600	349,150	92,450	316,153
Operating Income	49,400	197,003	147,603	244,306
Other Income (Expense)				
Interest expense	(89,202)	(49,202)	40,000	(51,302)
Interest income	31,018	14,811	(16,207)	14,547
Penalty income	6,000	8,586	2,586	6,252
Service fee - refuse billings	4,000	4,655	655	7,828
Loss on disposal of capital assets		(186,831)	(186,831)	
Legal settlement		(25,000)	(25,000)	
Compost site fees	2,300	2,268	(32)	1,240
Miscellaneous income	5,000	9,619	4,619	4,907
Total Other Income (Expense)	(40,884)	(221,094)	(180,210)	(16,528)
Net Income (Loss) Before Transfers and Contributions	8,516	(24,091)	(32,607)	227,778
Capital contributions		9,358	9,358	
Transfers out	(40,000)	(40,000)		(55,000)
Net Income (Loss)	\$ (31,484)	\$ (54,733)	\$ (23,249)	\$ 172,778

CITY OF RUSHFORD, MINNESOTA
UTILITIES FUND
WATER DEPARTMENT
Statement of Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006		Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budget	Actual		
Operating Revenues				
Consumer sales and rentals	\$ 271,800	\$ 268,383	\$ (3,417)	\$ 274,681
Cost of Production				
Utilities and fuel oil	10,000	10,033	(33)	8,901
Net Operating Revenue	261,800	258,350	(3,450)	265,780
Operating Expenses				
Distribution				
Salaries	47,800	45,267	2,533	45,619
Gas, oil and supplies	10,500	9,971	529	6,104
General supplies	2,000	990	1,010	696
Professional services	31,000	1,825	29,175	4,781
Repairs and maintenance	62,500	8,508	53,992	17,681
Depreciation and amortization	60,000	65,089	(5,089)	59,779
Sewage and water testing	1,000	761	239	749
Total Distribution	214,800	132,411	82,389	135,409
General Administration				
Salaries	18,500	18,481	19	8,612
Employee benefits and retirement	9,100	8,732	368	6,876
Office supplies and expense	600	599	1	419
Professional services	2,550	2,435	115	1,845
Postage	350	307	43	124
Printing and publishing	900	650	250	661
Insurance	4,200	3,933	267	3,225
Dues, subscriptions and fees	1,700	1,669	31	696
Miscellaneous	6,200	2,292	3,908	1,056
Total General Administration	44,100	39,098	5,002	23,514
Total Operating Expenses	258,900	171,509	87,391	158,923
Operating Income	2,900	86,841	83,941	106,857
Other Income (Expense)				
Interest expense	(69,318)	(18,932)	50,386	(20,576)
Interest income	1,100	1,236	136	1,053
Total Other Income (Expense)	(68,218)	(17,696)	50,522	(19,523)
Net Income Before Transfers and Contributions	(65,318)	69,145	134,463	87,334
Capital contributions		34,000	34,000	
Transfers in	61,156	61,156		80,000
Net Income (Loss)	\$ (4,162)	\$ 164,301	\$ 168,463	\$ 167,334

CITY OF RUSHFORD, MINNESOTA
UTILITIES FUND
SEWER DEPARTMENT
Statement of Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2006
With Comparative Totals for December 31, 2005

	2006		Variance Favorable (Unfavorable)	2005 Actual Amounts
	Budget	Actual		
Operating Revenues				
Consumer sales and rentals	\$ 300,700	\$ 292,475	\$ (8,225)	\$ 280,207
Cost of Production				
Utilities and fuel oil	23,000	22,414	586	19,919
Net Operating Revenue	277,700	270,061	(7,639)	260,288
Operating Expenses				
Distribution				
Salaries	77,900	74,653	3,247	73,419
Gas, oil and supplies	1,500	1,081	419	1,207
General supplies	4,000	3,309	691	7,542
Professional services	29,000	16,035	12,965	24,557
Repairs and maintenance	106,000	11,355	94,645	9,795
Depreciation	95,000	111,146	(16,146)	106,888
Sewage and water testing	4,600	4,328	272	3,699
Total Distribution	318,000	221,907	96,093	227,107
General Administration				
Salaries	17,000	16,475	525	7,081
Employee benefits and retirement	12,400	12,296	104	10,118
Professional services	2,500	2,369	131	2,160
Printing and publishing	900	840	60	750
Insurance	5,300	4,902	398	4,874
Dues, subscriptions and fees	3,300	2,990	310	3,126
Miscellaneous	2,650	2,506	144	3,337
Total General Administration	44,050	42,378	1,672	31,446
Total Operating Expenses	362,050	264,285	97,765	258,553
Operating Income (Loss)	(84,350)	5,776	90,126	1,735
Other Income (Expense)				
Interest expense	(76,561)	(24,576)	51,985	(26,314)
Interest income	7,000	6,651	(349)	7,654
Total Other Income (Expense)	(69,561)	(17,925)	51,636	(18,660)
Net Income Before Contributions	(153,911)	(12,149)	141,762	(16,925)
Capital contributions		20,000	20,000	
Net Income (Loss)	\$ (153,911)	\$ 7,851	\$ 141,762	\$ (16,925)

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CITY OF RUSHFORD, MINNESOTA
SUPPLEMENTAL SCHEDULES

CITY OF RUSHFORD, MINNESOTA
Summary of Cash and Investments
December 31, 2006

CHANGE FUNDS	<u>\$ 769</u>
 CHECKING ACCOUNTS	
<i>Rushford State Bank:</i>	
General checking account #100-044	<u>2,275,582</u>
TOTAL CHECKING ACCOUNTS	<u>2,275,582</u>
 SAVINGS ACCOUNTS	
<i>Rushford State Bank:</i>	
Money market funds account #4001422	3,073
Firemen's money market funds account #4006178	4,049
<i>Associated Bank:</i>	
Money market funds account #710755900	<u>12,945</u>
TOTAL SAVINGS ACCOUNTS	<u>20,067</u>
 TOTAL CHANGE FUNDS AND DEMAND ACCOUNTS	<u><u>\$ 2,296,418</u></u>

CITY OF RUSHFORD, MINNESOTA
Summary of Cash and Investments
December 31, 2006

INVESTMENTS

<u>TYPE</u>	<u>NUMBER</u>	<u>RATE</u>	<u>AMOUNT</u>
<i>Associated Bank</i>			
Certificate	#2000022987	3.94%	\$ 12,558
Certificate	#2100012480	5.10%	100,000
Certificate	#2100012481	3.55%	100,000
Certificate	#2100013740	4.65%	62,781
<i>Rushford State Bank</i>			
Certificate	#45803	4.06%	100,000
Certificate	#45802	4.06%	100,000
Certificate	#45563	5.00%	20,000
Certificate	#45564	5.00%	20,000
Certificate	#45565	5.00%	20,000
Certificate	#45571	5.00%	34,394
Certificate	#45613	3.15%	21,633
Certificate	#45674	5.25%	28,116
Certificate	#45793	5.35%	100,000
Certificate	#45854	4.90%	100,000
Certificate	#60051	4.00%	21,232
Certificate	#60201	5.09%	27,666
Certificate	#60266	5.25%	150,000
<i>Colonial Savings and Loan</i>			
Government National Mortgage Association Certificate	#4124130SF	9.50%	<u>558</u>
TOTAL INVESTMENTS			1,018,938
TOTAL CHANGE FUNDS AND DEMAND ACCOUNTS (from prior page)			<u>2,296,418</u>
TOTAL CASH AND INVESTMENTS, December 31, 2006			<u><u>\$ 3,315,356</u></u>

**CITY OF RUSHFORD, MINNESOTA
ENTERPRISE FUNDS
Debt Retirement Schedule
December 31, 2006**

\$1,301,818 SERIES 1996A
G.O. SEWER REVENUE NOTE

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 53,121	\$ 23,440	\$ 76,561
2008	54,959	21,602	76,561
2009	56,860	19,701	76,561
2010	58,827	17,734	76,561
2011	60,862	15,699	76,561
2012	62,968	13,593	76,561
2013	65,146	11,415	76,561
2014	67,400	9,161	76,561
2015	69,731	6,830	76,561
2016	72,144	4,417	76,561
2017	74,526	1,922	76,448
TOTAL	\$ 696,544	\$ 145,514	\$ 842,058

\$765,000 SERIES 1999
G.O. WATER REVENUE NOTE

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 36,000	\$ 17,054	\$ 53,054
2008	37,000	15,960	52,960
2009	38,000	14,835	52,835
2010	39,000	13,680	52,680
2011	40,000	12,494	52,494
2012	42,000	11,278	53,278
2013	43,000	10,002	53,002
2014	44,000	8,694	52,694
2015	46,000	7,356	53,356
2016	47,000	5,958	52,958
2017	48,000	4,530	52,530
2018	50,000	3,070	53,070
2019	51,000	1,550	52,550
TOTAL	\$ 561,000	\$ 126,461	\$ 687,461

\$15,000 NOTE PAYABLE OF 2005
WATER NOTE

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 3,000	\$	\$ 3,000
2008	3,000		3,000
2009	3,000		3,000
TOTAL	\$ 9,000	\$	\$ 9,000

**CITY OF RUSHFORD, MINNESOTA
ENTERPRISE FUNDS
Debt Retirement Schedule
December 31, 2006**

\$1,070,000 SERIES 2000
ELECTRIC REVENUE BONDS

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 45,000	\$ 47,102	\$ 92,102
2008	45,000	44,718	89,718
2009	50,000	42,287	92,287
2010	50,000	39,538	89,538
2011	55,000	36,787	91,787
2012	60,000	33,680	93,680
2013	60,000	30,290	90,290
2014	65,000	26,810	91,810
2015	70,000	23,040	93,040
2016	70,000	18,840	88,840
2017	75,000	14,640	89,640
2018	80,000	10,065	90,065
2019	85,000	5,185	90,185
TOTAL	\$ 810,000	\$ 372,982	\$ 1,182,982

CITY OF RUSHFORD, MINNESOTA
GENERAL LONG-TERM DEBT
Debt Retirement Schedules
December 31, 2006

\$250,000 GENERAL OBLIGATION
IMPROVEMENT BONDS OF 1998

YEAR	PRINCIPAL	INTEREST	AMOUNT
2007	\$ 25,000	\$ 2,250	\$ 27,250
2008	25,000	1,126	26,126
TOTAL	\$ 50,000	\$ 3,376	\$ 53,376

\$145,000 GENERAL OBLIGATION
IMPROVEMENT REFUNDING BONDS OF 1999

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 20,000	\$ 455	\$ 20,455

\$240,000 GENERAL OBLIGATION
IMPROVEMENT BONDS OF 2000

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 25,000	\$ 7,308	\$ 32,308
2008	25,000	5,907	30,907
2009	25,000	4,483	29,483
2010	30,000	2,900	32,900
2011	35,000	1,015	36,015
TOTAL	\$ 140,000	\$ 21,613	\$ 161,613

\$680,000 GENERAL OBLIGATION
IMPROVEMENT BONDS OF 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 65,000	\$ 19,984	\$ 84,984
2008	70,000	16,693	86,693
2009	70,000	13,228	83,228
2010	75,000	9,584	84,584
2011	70,000	5,905	75,905
2012	80,000	2,060	82,060
TOTAL	\$ 430,000	\$ 67,454	\$ 497,454

CITY OF RUSHFORD, MINNESOTA
GENERAL LONG-TERM DEBT
Debt Retirement Schedules
December 31, 2006

\$200,000 GENERAL OBLIGATION
IMPROVEMENT REFUNDING BONDS OF 2002

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 25,000	\$ 5,513	\$ 30,513
2008	25,000	4,388	29,388
2009	25,000	3,263	28,263
2010	30,000	2,025	32,025
2011	30,000	675	30,675
TOTAL	\$ 135,000	\$ 15,864	\$ 150,864

\$270,000 GENERAL OBLIGATION
IMPROVEMENT BONDS OF 1996 PAYABLE FROM
TAX INCREMENT DEBT SERVICE FUND

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 40,000	\$ 2,280	\$ 42,280

\$990,000 GENERAL OBLIGATION
REFUNDING BONDS OF 2004A PAYABLE FROM
TAX INCREMENT DEBT SERVICE FUND

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 140,000	\$ 21,038	\$ 161,038
2008	140,000	17,538	157,538
2009	150,000	13,913	163,913
2010	55,000	11,213	66,213
2011	55,000	9,563	64,563
2012	60,000	7,778	67,778
2013	60,000	5,798	65,798
2014	65,000	3,608	68,608
2015	65,000	1,214	66,214
TOTAL	\$ 790,000	\$ 91,663	\$ 881,663

CITY OF RUSHFORD, MINNESOTA
GENERAL LONG-TERM DEBT
Debt Retirement Schedules
December 31, 2006

\$99,000 USDA LOAN OF 2001

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 5,837	\$ 2,024	\$ 7,861
2008	4,920	2,941	7,861
2009	5,160	2,701	7,861
2010	5,411	2,450	7,861
2011	5,675	2,186	7,861
2012	5,952	1,909	7,861
2013	6,242	1,619	7,861
2014	6,546	1,315	7,861
2015	6,865	996	7,861
2016	7,200	661	7,861
2017	6,362	310	6,672
TOTAL	\$ 66,170	\$ 19,112	\$ 85,282

\$120,000 USDA LOAN OF 2002

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 11,624	\$ 3,729	\$ 15,353
2008	12,176	3,177	15,353
2009	12,754	2,599	15,353
2010	13,360	1,993	15,353
2011	13,995	1,358	15,353
2012	14,604	695	15,299
TOTAL	\$ 78,513	\$ 13,551	\$ 92,064



AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

We have audited the financial statements of the City of Rushford, Minnesota as of and for the year ended December 31, 2006, and have issued our report thereon dated March 23, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Rushford, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the use of the City of Rushford, Minnesota and is not intended to be, and should not be, used by anyone other than those specified parties.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
March 23, 2007