

Scope of Report

This publication is intended to facilitate the understanding of city financial operations by citizens, local government officials, and other policy makers. The report summarizes, through data tables and charts, the financial operations of Minnesota cities for calendar year 2003. These cities are required to annually submit annual financial reports to the Office of the State Auditor.

For the second year, this publication combines both cities over and under 2,500 in population. The return to this format should allow readers to examine the trends in all cities rather than just for those over or under 2,500 in population.

The data presented in this report is divided into governmental funds and proprietary funds. The governmental funds consist of the General, Special Revenue, Capital Projects, and Debt Service Funds. The first section provides an overview of all cities and compares cities over and under 2,500 in population. The second section of the report presents a detailed overview of the financial operations of cities over 2,500 in population. The third section provides a detailed overview of the financial operations of cities under 2,500 in population.

Following the overviews, Tables 4 through 7 present a summary of the activities in the governmental funds of cities over 2,500 in population. Tables 8 through 10 present a summary of the activities in the governmental funds of cities under 2,500 in population. Tables 11 through 13 present the data by individual city.

The enterprise or proprietary funds of cities are presented separately from the governmental funds. Minnesota cities operate many types of public service enterprises. The enterprises furnish a variety of services and operate wholly or in large part with revenues derived from the sale of goods or services. The financial operations of the municipal public service enterprises (excluding municipal liquor stores) are presented in tables 14 through 22. Footnotes used in the analysis of the enterprise operations are described at the end of the enterprise fund section. Table 23 details the financial operations of municipal liquor operations.¹

Table 24 lists the bonded and other long-term debt outstanding as of December 31, 2003, by individual city. Other long-term debt refers to liabilities such as long-term lease agreements, installment purchase contracts, and notes.

Tables 25 and 26 present an analysis of the 2002 and 2003 unreserved fund balances in the General and Special Revenue Funds of all cities reporting on a modified accrual basis. Table 25 details the actual unreserved fund balances, the percentage change in unreserved fund balances from 2002 to 2003, and a comparison to 2003 total current expenditures. Table 26 presents the fund balance data sorted by unreserved fund balances as a percent of total current expenditures. This table also classifies the fund balances based on standards set by the Office of the State Auditor. An analysis of unreserved fund balances for cities using a cash basis of accounting is not provided. Those cities

¹ A separate and more detailed analysis of municipal liquor operations is available in the Office of the State Auditor's publication, *An Analysis of Minnesota's Municipal Liquor Store Operations in 2003*.

using a cash basis of accounting report a single cash balance for all governmental funds at the end of the fiscal year. Cities using a modified accrual basis of accounting report separate fund balances for all of their governmental funds and denote the amounts that are reserved and unreserved. Because of the accounting differences, a comparative analysis of unreserved fund balances is not appropriate for cities that use a cash basis of accounting. Appendix B provides a more detailed discussion of fund balances.

Accounting Difference for Cities Over and Under 2,500 in Population

For cities in Minnesota, the classification as over or under 2,500 in population helps to determine the type of governmental accounting to which they must adhere. All cities over 2,500 in population must have an annual audit that follows Generally Accepted Accounting Principals (GAAP), which is a modified accrual basis of accounting. Modified Accrual Basis Accounting recognizes an economic transaction or event as revenues in the operating statement when the revenues are both measurable and available to liquidate liabilities of the current period. Available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Similarly, expenditures are generally recognized when an event or transaction is expected to draw on current spendable resources.

Cities under 2,500 may opt to use a cash basis of accounting. In 2003, 345 of the 644 small cities (54 percent) opted to use a cash basis of accounting. Cash basis accounting provides for the recording of revenues when received in cash and the recording of expenditures when paid in cash. While cash basis accounting may be allowed under Minnesota Statutes, it does not facilitate as accurate a reporting of financial position as generally accepted accounting principals.

The 2000 census decreased the number of cities classified as under 2,500 in population from 668 to 646. From 1991 to 2000, cities were classified as over or under 2,500 in population based on the 1990 census. This was true even if their estimated population changed. From 2001 through 2011, cities will be classified based on the 2000 census. Due to population growth, the following cities are no longer classified as under 2,500 in population: Albertville, Annandale, Appleton, Becker, Byron, Centerville, Chisago City, Cokato, Cold Spring, Greenfield, Lindstrom, Milaca, Montgomery, Perham, Rogers, Roseau, Spring Valley, St. Francis, Victoria, Wabasha, Watertown, Wyoming, Zimmerman, and Zumbrota. Two cities, Lauderdale and Osseo, lost population between the 1990 and 2000 census and are now included with the group of cities under 2,500 in population. Tables that present data for 1999 through 2000 were not adjusted to reflect the change in the number of cities classified as under 2,500 in population.

In June of 2002, the city of Pleasant Lake and the town of Rockville merged with the city of Rockville. The merger between the local governments increased the city of Rockville's population from 810 to 2,585. Because of the change in population, the city of Rockville is now classified as over 2,500.

In addition to this publication, an enhanced version of the report is available on the State Auditor's web site. The enhanced version provides additional tables and analysis of the data that were not included in the printed copy to save money. Also, the Office of the State Auditor maintains an interactive database containing several years of data that can be accessed through the State Auditor's

web site. The database allows users to customize the presentation of data to their individual needs. For example, a user can select a group of cities they want to compare, the criteria on which to compare them, and the time frame in which to compare them. The query can then be viewed on screen or saved to a file for downloading. The State Auditor's web site address is www.auditor.state.mn.us.

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