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 2005. These cities are required to annually submit annual financial reports to the Office of the State Auditor.

For the fourth 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 and 5 present a summary of the activities in the governmental funds of all cities over 2,500 in population. Tables 6 through 9 present a summary of the activities in the governmental funds of cities over 2,500 in population. Tables 10 through 12 present a summary of the activities in the governmental funds of cities under 2,500 in population. Tables 13 through 15 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. Tables containing detailed information about the financial operations of the municipal public service enterprises can be found online at www.auditor.state.mn.us.

Table 16 lists the bonded and other long-term debt outstanding as of December 31, 2005, by individual city. Other long-term debt refers to liabilities such as long-term lease agreements, installment purchase contracts, and notes.

Tables 17 and 18 present an analysis of the 2004 and 2005 unreserved fund balances in the General and Special Revenue Funds of all cities reporting on a modified accrual basis. Table 17 details the actual unreserved fund balances, the percentage change in unreserved fund balances from 2004 to 2005, and a comparison to 2005 total current expenditures. Table 18 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 using a cash basis of accounting report a single cash balance for all governmental funds at the end of the fiscal year. Cities using an 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 Principles (GAAP), which is a modified accrual basis of accounting. 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 expendable resources.

Cities under 2,500 may opt to use a cash basis of accounting. In 2005, 259 of the 644 small cities (40.2 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.

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. 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.

Comparison and Overview
2005 Finances for All Minnesota Cities

Revenues

Total revenues of the governmental funds for all Minnesota cities amounted to $4.21 billion in 2005. This represents an increase of 5.3 percent from 2004 revenues. Total revenues of cities over 2,500 in population increased 5.1 percent, while revenues of cities under 2,500 in population increased 6.5 percent.

There are significant differences in how city services are funded between the two city types. Cities under 2,500 are much more dependent on intergovernmental revenues than cities over 2,500. In 2005, intergovernmental revenues accounted for 38.1 percent of total revenues for cities less than 2,500 in population compared to 26.8 percent for cities over 2,500 in population. Among all cities, intergovernmental revenues accounted for 27.8 percent of total revenues.

Large cities make up for the difference in intergovernmental revenues by taking advantage of other tax revenue streams such as tax increments from tax increment financing (TIF) districts, franchise, lodging, and local sales taxes. As a whole, tax revenue from all sources accounted for 41.9 percent of large city revenues in 2005, compared to 30.4 percent of small city revenues. Large cities also utilize tax increment financing to a much greater extent than small cities. Revenue derived from TIF districts accounted for 2.9 percent of small city total revenues compared to 6.1 percent for large cities.

Property taxes account for a similar share of total revenues for these two groups of cities. For large cities, property taxes accounted for 30.0 percent of total revenues compared to 27.1 percent for small cities. For all cities, property taxes accounted for 29.7 percent of total revenues.

On a per capita basis, large cities had total revenues of about $62 more than small cities ($1,006 to $944).

Expenditures

Total expenditures of the governmental funds for all cities totaled $4.98 billion in 2005. This represented an increase of 4.3 percent over 2004 and reflects an increase of 4.3 percent among large cities and 4.2 percent among small cities.

The spending priorities of cities under 2,500 in population differ from those cities over 2,500 in population. For example, cities under 2,500 tend to direct a greater percentage of their resources to general government (15.5%) and less to culture and recreation (6.9%) than cities over 2,500 (9.6% and 12.5% respectively). The largest budget areas for cities over 2,500 in population is public safety (23.1%) followed by streets and highways (22.2%) For small cities, the largest budget areas are streets and highways (22.6%) followed by public safety (20.2%).

Long-Term Debt

Another area where small and large cities (under and over 2,500 in population) differ is in their use of debt. Overall, small cities tend to carry a greater debt burden than large cities. In 2005, small cities carried long-term debt of $1.03 billion, or $2,514 per capita, compared to $7.46 billion, or $1,965 per capita for large cities.

Unreserved Fund Balances of the General and Special Revenue Funds

A clear difference between the two city types is in the level of unreserved fund balances. Small cities maintain significantly higher fund balances than large cities. In 2005, unreserved fund balances as a percent of current expenditures averaged 93.9 percent for small cities compared to 51.3 percent for large cities. These percentages are down slightly from 2001 when the unreserved fund balances as a percent of current expenditures averaged 94.8 percent for cities under 2,500 and 53.8 percent for cities over 2,500.

The State Auditor's Office recommends that most cities keep their fund balance at between 35 and 50 percent of total current expenditures. Under the Auditor's guidelines, the average fund balance of small cities would be classified as "High" and that of large cities as "Moderately High".

Among the 267 small cities that use an accrual basis of accounting, 124 (46.4%) had an unreserved fund balance greater than 100 percent of total current expenditures. In 2001, 137 small cities had unreserved fund balances greater than 100 percent of total current expenditures. Among the 209 large cities, 35 cities (16.7%) had an unreserved fund balance greater than 100 percent of total current expenditures. In 2001, 44 cities had unreserved fund balances greater than 100 percent of total current expenditures. In 2005, unreserved fund balances as a percent of total current expenditures among small cities ranged from –61.7 percent in Fisher to 1107.9 percent in Skyline. Among large cities, the range was from –14.0 percent in Montgomery to 304.9 percent in Rockville.

The State Auditor has concerns about the financial health of cities maintaining a fund balance below 20 percent of total current expenditures. These cities may not have enough reserves to carry them through financial downturns or unexpected contingencies. The Auditor also has concerns about cities that maintain fund balances far exceeding what is needed to carry them through financial downturns. Taxpayers in cities that have either low or high unreserved fund balances should press their local officials to explain the city's fund balance policy. It is also important to note that this analysis does not include the unreserved fund balances of capital project or debt service funds. These are the funds where one might expect to see higher fund balances, because they should be used to account for future capital projects or reserves to pay debt service.

Overview of Cities Over 2,500 in Population

Total Governmental Revenues

In 2005, cities over 2,500 in population raised total governmental revenues of $3.82 billion to finance city services. This represents an increase of 5.1 percent from the amount raised in 2004. The primary funding sources for cities were taxes and state aid. These two sources accounted for 62.8 percent of all city revenues.

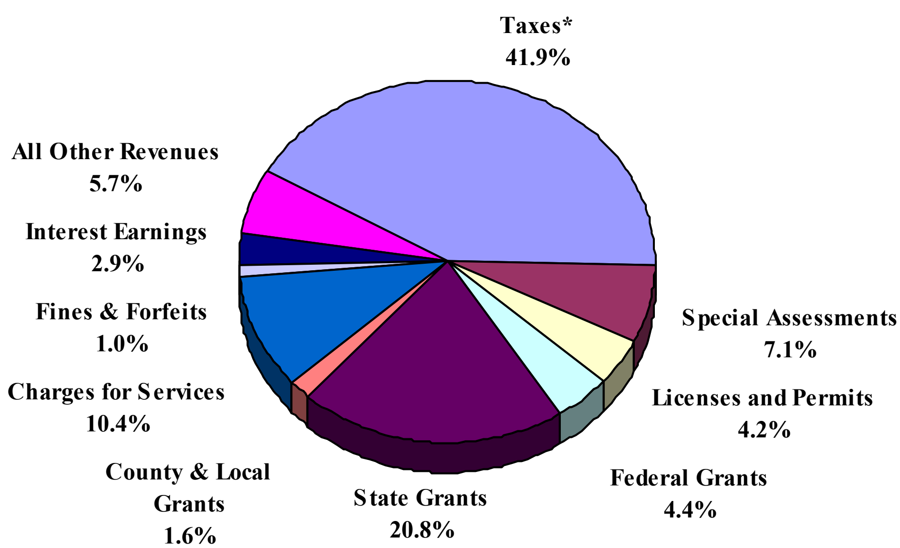
The sources of large city revenue that grew at the greatest rate between 2004 and 2005 were: interest earnings (34.9%), sales tax (14.4%), franchise fees (11.4%), and charges for services (8.3%). Those sources of revenue showing the greatest declines were: gravel taxes (-13.7%), gaming taxes (-13.2%), and miscellaneous revenues (-2.3%).

The shares of total governmental revenues generally change very little from year-to-year. Two categories that have shown changes are property taxes and intergovernmental revenues. Over the past five years, property taxes as a percent of total revenues increased from 24.4 percent in 2001 to 30.0 percent in 2005 (a 23.0 percent change) and intergovernmental revenues which decreased from 29.6 percent in 2001 to 26.8 percent in 2005 (a decrease of 9.5 percent). To further examine five-year trends in revenues, refer to Table 4.

Figure 1 shows the relative shares of total governmental revenues by source. Underlying data for this figure is detailed in Table 4.

Figure 1: Total Governmental Revenues

$3,819,314,657



* This category includes property, hotel/motel, sales, franchise, gravel, and gambling taxes, as well as tax increments.

Total Governmental Expenditures

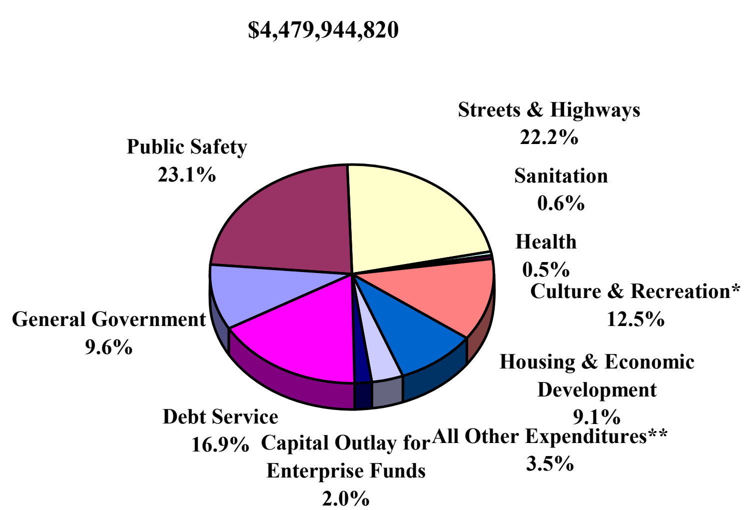
Cities provide a variety of services to their citizens. Most expenditures related to these services are accounted for in governmental funds. The governmental funds are classified as the General, Special Revenue, Capital Projects, Permanent, and Debt Service funds. In 2005, cities over 2,500 in population expended $4.48 billion from these various Governmental Funds to provide city services. This represents an increase of 4.3 percent over 2004 total governmental expenditures. Total governmental expenditures include current expenditures, capital outlays, and debt service. Current expenditures accounted for 56.4 percent of total government expenditures, while capital outlay accounted for 26.7 percent, and debt service accounted for 16.9 percent.

The largest category of current expenditures was public safety while streets and highways dominated capital outlay expenditures. Public safety current expenditures accounted for 38.0 percent of all current expenditures, more than double that of any other category. Streets and highways accounted for 55.8 percent of all capital expenditures, over three times greater than any other category of capital outlay.

Two areas showed very large changes in 2005. Capital outlays related to sanitation increased by 24649 percent due to the construction of a wastewater treatment facility in Eveleth. Capital outlays related to libraries decreased by 38.8 percent due primarily to the completion of the Minneapolis central library.

Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this figure is detailed in Table 5.

Figure 2: Total Governmental Expenditures



* Includes parks and recreation, and libraries

** Includes conservation of natural resources, airport, transit, unallocated insurance, and all other unallocated expenditures.

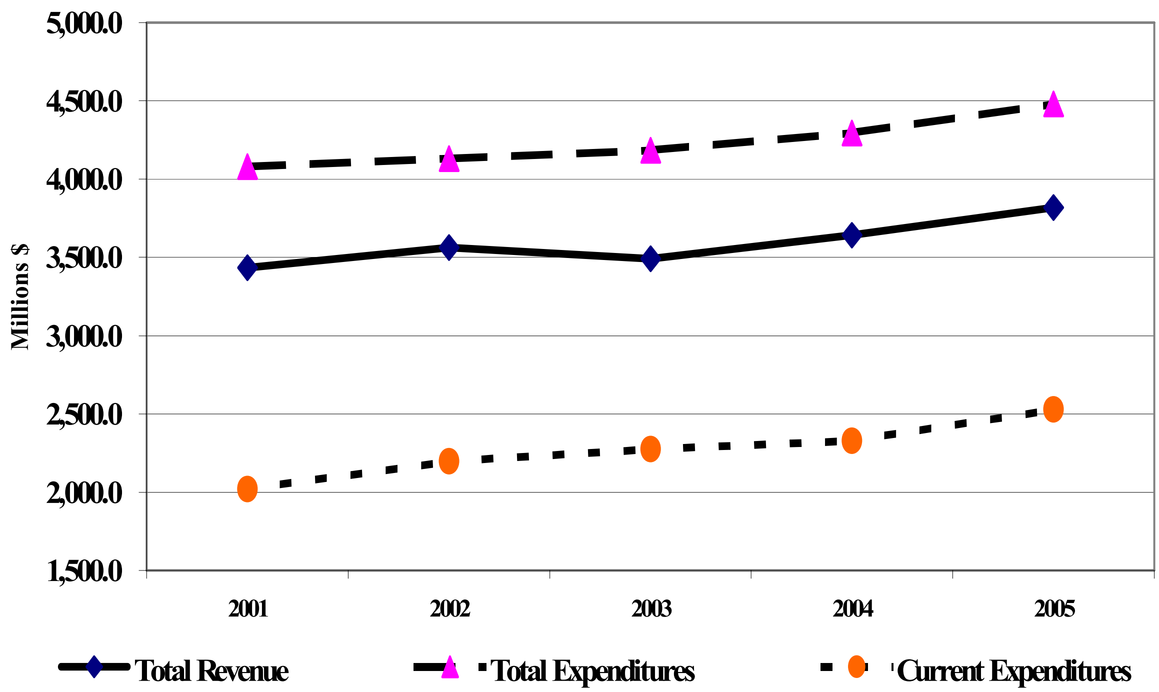
Total Revenues, Current and Total Expenditures

During the five-year period of 2001 to 2005, total governmental revenues increased every year but 2003. Current and total expenditures increased every year. Figure 3 below shows the yearly increases in revenues set against the current and total expenditures for large cities in Minnesota. Generally, revenues have kept pace with expenditures, with the exception of 2004.

Current expenditures have comprised between 49.5% and 56.4% of total expenditures over the period. The variance occurred primarily due to a declining percentage spent on capital projects. In 2005, current expenditures accounted for 56.4% of total expenditures, down slightly from 2004.

Figure 3 compares the trend in total current and total expenditures with the total governmental revenues of Minnesota's large cities.

Figure 3: Total Revenues, Current and Total Expenditures, 2001 to 2005



Capital Outlay Expenditures

Cities over 2,500 in population expended $1.19 billion on capital investments in 2005. This represents a decrease of 0.2 percent from the level expended in 2004. Capital outlays are more likely than current expenditures to vary significantly from one year to the next. The reason for this is that capital projects tend to be large in size but the associated costs are short-term. Some of the factors that influence the level of capital investments include: demands for public meeting places and facilities, the need to replace aging infrastructure, public safety concerns, infrastructure improvements for new developments, and damage to public facilities caused by disasters.

Table 1 shows total capital outlays in dollars and per capita for large cities. Figure 4 illustrates the trend in capital spending for the years 2001 through 2005.

Table 1: Total Capital Outlay Expenditures in Actual Dollars and Per Capita

Year	Total Capital Outlay (actual dollars)	Per Capita *
2001	$1,347,940,294	$375
2002	$1,156,396,425	$317
2003	$1,163,674,824	$315
2004	$1,198,430,759	$320
2005	$1,194,717,585	$315

* Per capita amounts are based on the total population of cities over 2,500 in population.

Figure 4: Total Capital Outlay Expenditures 2001 to 2005

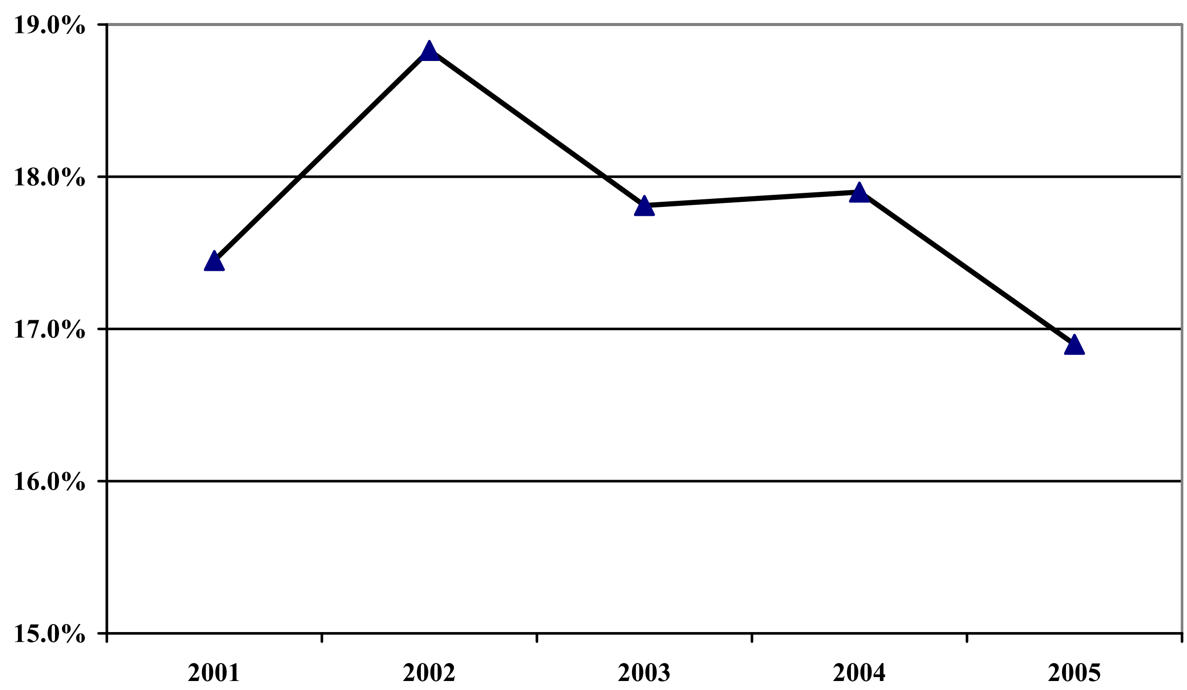
Debt Service

Debt Service includes expenditures for the principal and interest payments of loans incurred by cities. In 2005, large cities expended a total of $757.3 million on debt service, 16.9% of total expenditures. Between 2004 and 2005 large city debt service expenditures decreased by 1.6 percent.

There was a significant difference between the first class and fourth class cities in the change of their level of debt service. First class cities showed and increase of 18.1 percent while fourth class cities showed a decrease of 9.1 percent.

Figure 5 shows the trend in the percentage of total expenditures allocated to debt service.

Figure 5: Debt Service as a Percentage of Total Expenditures



Municipal Enterprises

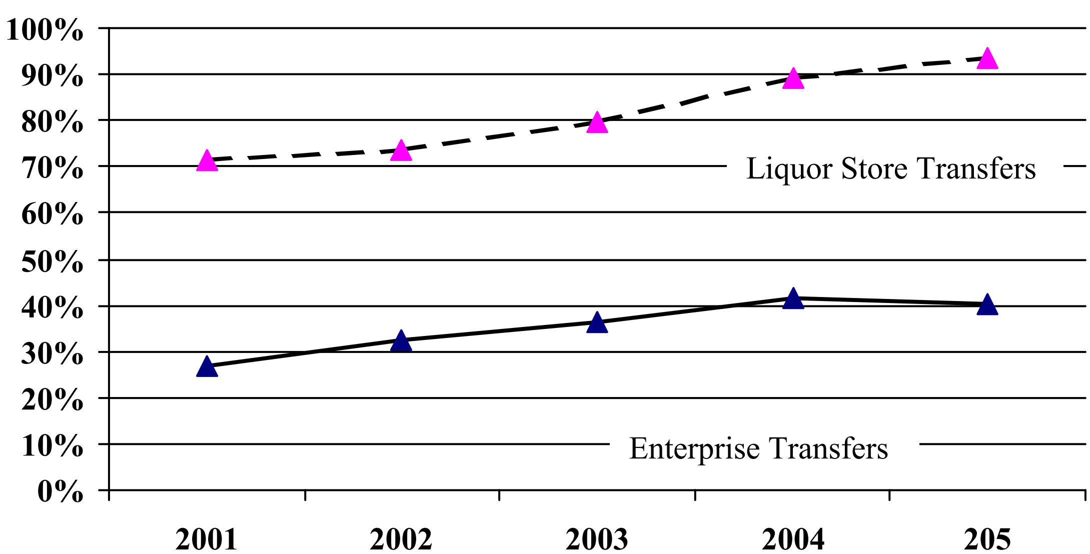
In addition to Governmental Funds, many cities establish Enterprise Funds to account for services that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Although some enterprises may earn a net profit, most have the objective of breaking even. Enterprise fund accounting is also used to provide more detailed financial information on operations where there are public policy, accountability, management control, and other concerns. The most common enterprises created by large cities are for recreation, sewer, and water activities.

In aggregate, large city municipal enterprises posted increases in both net income and net transfers between 2004 and 2005. The net income of large city municipal enterprises increased 5.3 percent while net transfers (transfers out minus transfers in) from enterprise funds to other governmental funds increased 23.8 percent. An example of this type of transfer is when city officials transfer excess reserves from the water utility enterprise fund to the General Fund.

Municipal liquor stores, which are separated from other municipal enterprises because of accounting differences, saw an increase of 5.1 percent in profits between 2004 and 2005, and an increase in net transfers from municipal liquor operations of 10.1 percent.

Figure 6 examines the five-year trend for large cities in net transfers from Enterprise and Municipal Liquor Store Funds as a percent of their net income. The chart helps illustrate that the primary purpose of municipal liquor stores is to provide additional revenues to cities, whereas other types of municipal enterprises primarily exist to provide a particular service for the city and citizens.

Figure 6: Net Transfers from Enterprise and Municipal Liquor Store Funds as a Percent of Their Net Income, 2001 to 2005



Outstanding Long-Term Indebtedness

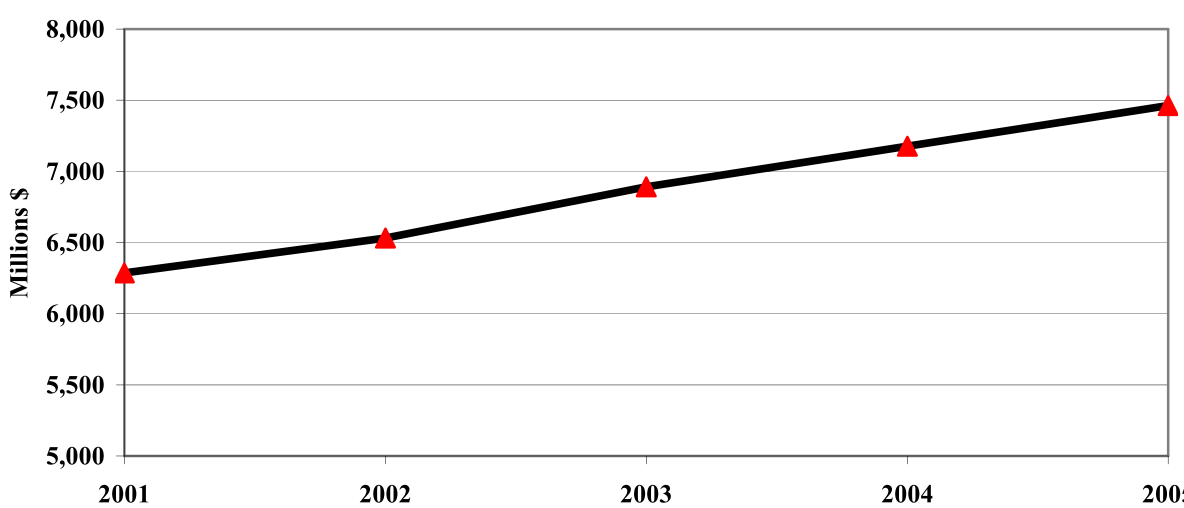
Cities over 2,500 carried long-term debt of $7.46 billion, $1,965 per capita, at the end of 2005. This represented an increase of 4.0 percent over the 2004 level. Cities incur long-term debt through various ways such as the issuance of bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease agreements are also classified as long-term debt. Cities may only borrow to finance capital projects and purchases but are restricted by law from borrowing for current expenses. The amount of outstanding debt affects a city's current expenditures because cities must make principal and interest payments to service the debt.

Table 2 looks at outstanding bonded indebtedness for 2004 and 2005. Figure 7 shows the five-year trend of outstanding long-term debt for cities over 2,500 in population.

Table 2: Two-Year Summary of Outstanding Bonded Indebtedness

	2005 Amount	2004 Amount
General Obligation	$ 992,746,141	$ 848,622,184
G.O. Tax Increment	802,438,537	885,013,802
Revenue Tax Increment	189,896,193	209,014,433
Special Assessment	1,627,295,956	1,543,808,813
G.O. Revenue	1,866,168,907	1,888,139,032
Revenue	995,395,192	982,124,810
All Other	107,248,025	34,685,000
Total Bonded Indebtedness	**$ 6,581,188,951**	**$ 6,391,408,074**

Figure 7: Outstanding Long-Term Indebtedness 2001-2005



Unreserved Fund Balances of the General and Special Revenue Funds

The unreserved fund balances of large cities' General and Special Revenue Funds totaled $1.30 billion in 2005.[1] This represents an increase of 0.3 percent over the level reported in 2004.

Cities maintain cash reserves for several reasons. Cities should have relatively large fund balances at the end of the year because they must rely on them to meet expenditures during the first five months of the next fiscal year, until they receive the first property tax and state aid payments. Additional reasons include contingency funds for unforeseen needs and setting aside resources for future capital investments.

Comparing cities' unreserved fund balances to their total current expenditures helps put the fund balances into perspective and provides insight on the relative financial health of Minnesota's cities. City unreserved fund balances as a percent of total current expenditures averaged 51.3 percent in 2005 compared to 55.6 percent in 2004. The decrease in the ratio of unreserved fund balances to total current expenditures reflects flat growth in fund balances combined with strong growth in current expenditures. If cities in this category are divided into their class number, it is interesting to note that as population decreases, the average increases. Class 1 (first class) cities average 30.9 percent of their unreserved fund balances as a percent of total current expenditures, while class 4 cities (populations 2,500 to 10,000) average 79.7 percent.

Figure 8 on the following page shows the five-year trend of the fund balances as a percent of total current expenditures for large cities. One line includes both total unreserved general and special revenue funds, and the other includes only total unreserved general funds.

Appendix B provides an in-depth discussion of city fund balances.

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[1] Although this section discusses only two types of fund balances, Minnesota cities actually report three different classifications of fund balances in the General and Special Revenue Funds. The ***unreserved, undesignated fund balances*** include all funds remaining at the close of the fiscal year for which no legally binding commitment has been made, nor has the governing body passed a resolution designating those funds for a specific purpose. The ***unreserved, designated fund balances*** include all funds remaining at the close of the fiscal year for which no legally binding commitment has been made; however, these funds have been designated by the governing body for a specific future use. The ***reserved fund balances*** include all funds remaining at the close of the fiscal year for which there is a legally binding external commitment of those funds, such as a signed contract for services or equipment.

Figure 8: Unreserved Fund Balances of the General and Special Revenue Funds as a Percent of Total Current Expenditures 2001-2005

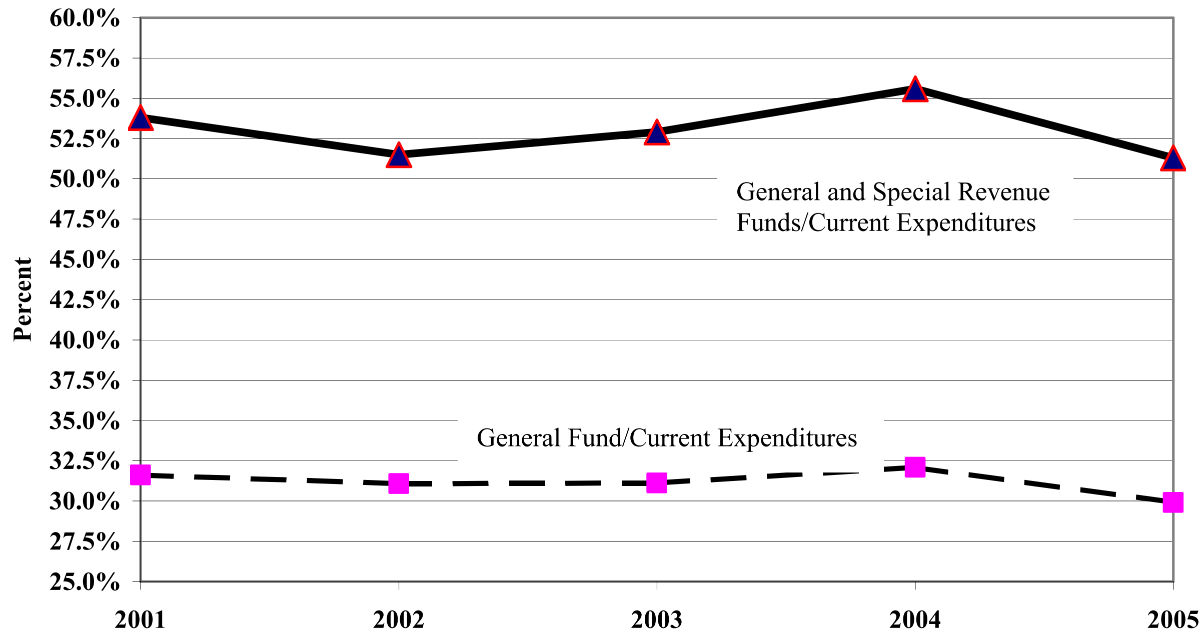


Table 25 shows the following levels of city unreserved fund balances for both 2001 and 2005. During this period, the number of cities with very high or extremely high fund balances decreased from 44 to 35. The State Auditor recommends an acceptable unreserved fund balance of 35 to 50 percent of total current expenditures for the General Fund and Special Revenue Funds.

Levels of Fund Balance	Range of Unreserved Fund Balance as a Percentage of Total Current Expenditures	2005 Number of Cities	2001 Number of Cities
Extremely Low Fund Balance	Below 20 %	14	11
Low Fund Balance	20% to 35%	16	19
Acceptable Fund Balance	35% to 50%	40	37
Moderately High Fund Balance	50% to 65%	35	37
High Fund Balance	65% to 100%	69	60
Very High Fund Balance	100% to 150%	25	28
Extremely High Fund Balance	Above 150%	10	16

Overview of Cities Under 2,500 in Population

Total Governmental Revenues

In 2005, cities under 2,500 in population raised total governmental revenues of $386.9 million to finance city services. This represents an increase of 6.5 percent from the amount raised in 2004.

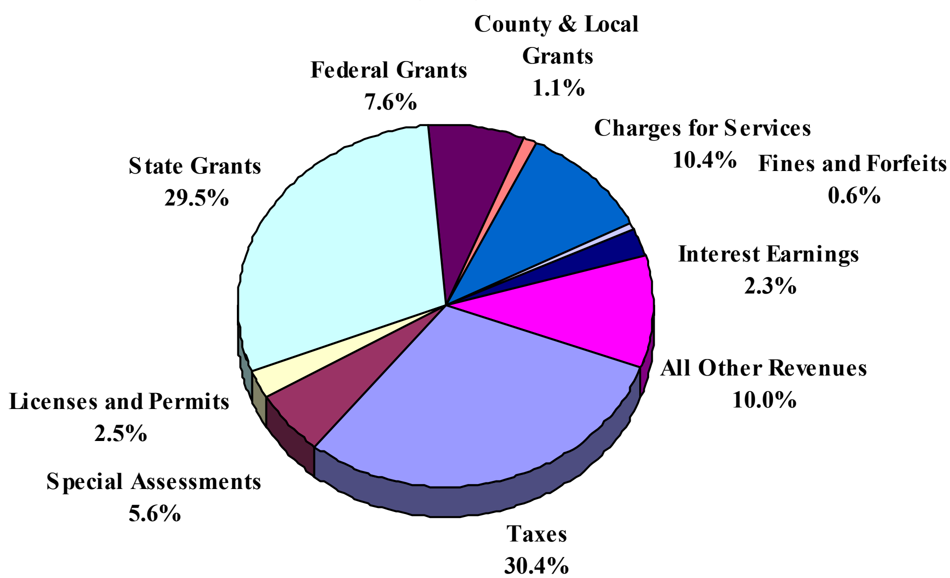
The sources of revenue that grew at the fastest rate between 2004 and 2005 were: interest earnings (41.9%), tax increment (12.2%), and franchise fees (10.8%). The categories showing the greatest decrease were: hotel and motel taxes (-46.5%), gaming taxes (-19.3%), and gravel taxes (-12.9%).

Between 2004 and 2005, the Legislature attempted to ease the 2003 reductions to local government aid (LGA) and other aid programs to cities. LGA rose 4.9 percent, residential Market Value Credit aid increased by 2.1 percent, and Agricultural Market Value Credit aid increased by 90.8 percent. Overall, state aid to Minnesota's smallest cities rose by 4.7 percent between 2004 and 2005.

The main sources of revenues for small cities in 2005 were state grants and taxes, which together accounted for 59.9 percent of all revenues. Taxes as a percent of total revenues increased from 30.1 percent in 2004 to 30.4 percent in 2005, while state grants as a percent of total revenues decreased from 30.0 percent in 2004 to 29.5 percent during the same period. Figure 11 shows the relative shares of total governmental revenues by source.

Figure 11: Total Government Revenues

$386,871,907



Total Governmental Expenditures

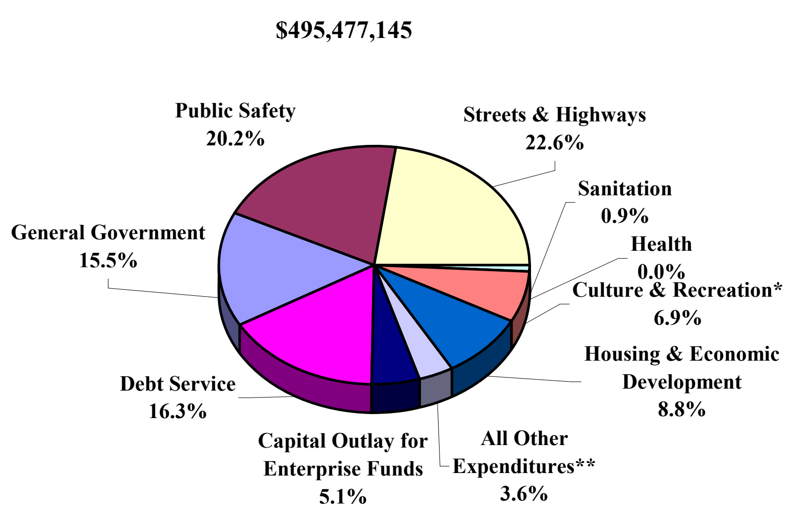
Most city services are accounted for in governmental funds. The governmental funds are made up of the General, Special Revenue, Capital Projects, Permanent, and Debt Service funds. In 2005, cities under 2,500 in population expended $495.5 million from Governmental Funds to provide city services. This represents an increase of 4.2 percent over 2004 total governmental expenditures.

Between 2004 and 2005, the categories of expenditures that grew at the fastest rate were: airports (66.3%), all other expenditures (18.1%), and general government (10.7%). The categories showing declines were: capital outlays for enterprise funds (-14.9%) and debt service (2.0%). The increase in the airports category reflects large capital expenditures by Canby and Rush City. The large reduction in capital outlay for enterprise funds reflects the completion of a number of capital projects in several cities.

In 2005, the four largest expenditure categories for cities under 2,500 in population were streets and highways, public safety, debt service and general government. These four categories together accounted for 74.6 percent of all expenditures in 2005.

Figure 12 shows the relative shares of total governmental expenditures of small cities by function.

Figure 12: Total Governmental Expenditures



* Includes parks and recreation, and libraries

** Includes conservation of natural resources, airport, transit, unallocated insurance, and all other unallocated expenditures.

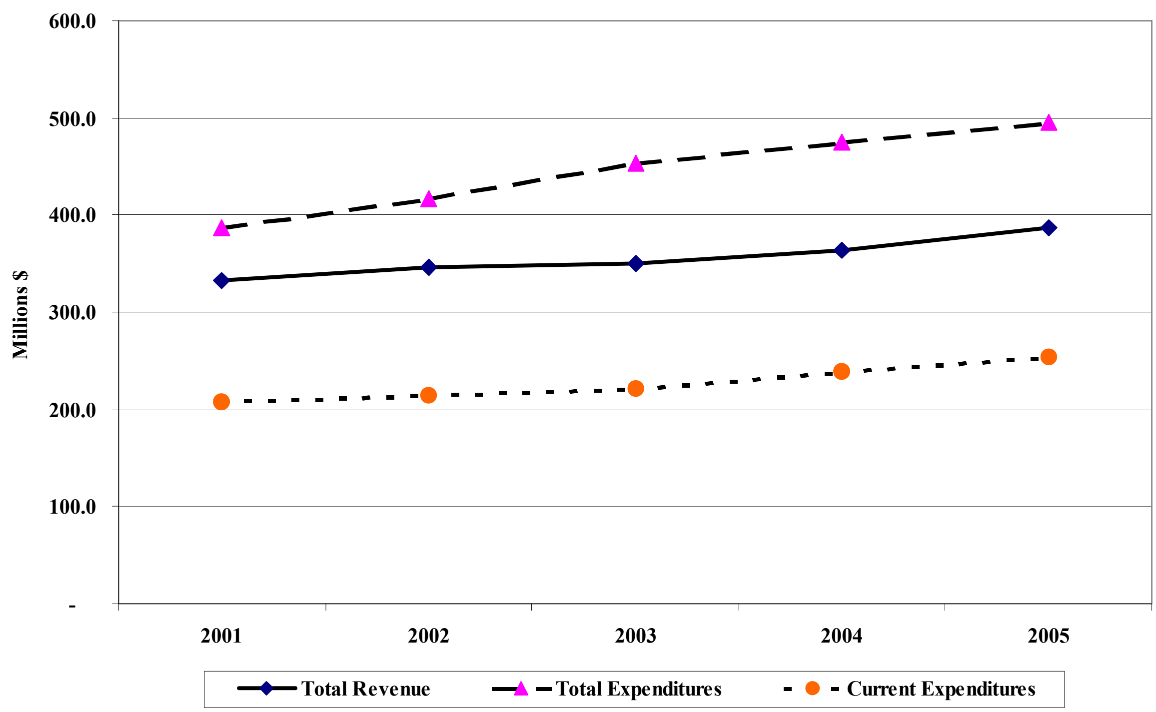
Total Revenues, Current and Total Expenditures

During the five-year period of 2001 to 2005, current expenditures, total expenditures, and total revenues of small cities increased every year between 2002 and 2005. There is a noticeable increase in the distance between the level of revenue and the level of total expenditures.

The decrease in revenues and expenditures in 2002 are the result of fewer cities classified as "small cities" beginning in 2002.

Figure 13 compares the trends in current and total expenditures with total governmental revenues for small cities from 2001 to 2005. During this period, total revenues, total current expenditures and total expenditures increased each year.

Figure 13: Total Revenues, Current and Total Expenditures, 2001 to 2005



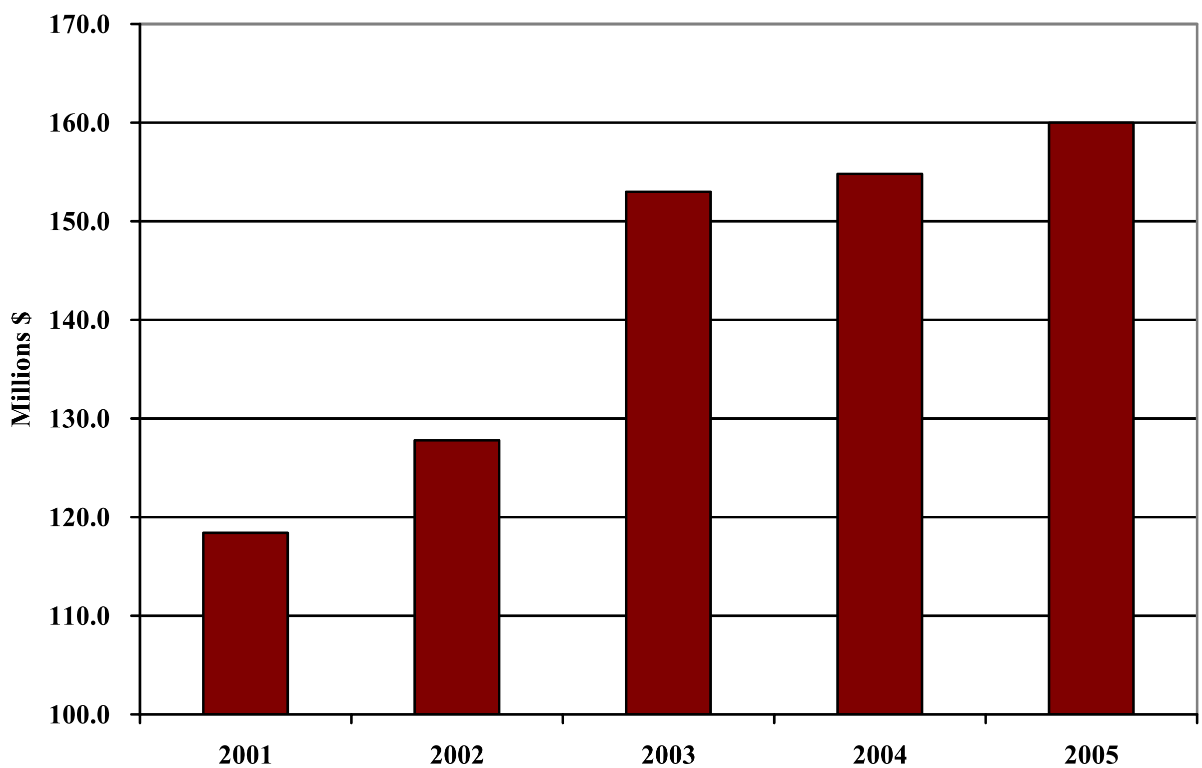
Capital Outlay Expenditures

Capital outlay expenditures account for the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land. Small cities expended $161.0 million on capital investments in 2005. This represents an increase of 4.0 percent over the level expended in 2004.

Capital outlays are more likely than current expenditures to vary significantly from one year to the next. The reason for this is that capital projects tend to be large in size, but the associated costs are short-term. Some of the factors that influence the level of capital investments include: demands for public meeting places and facilities, the need to replace aging infrastructure, public safety concerns, infrastructure improvements for new developments, and damage to public facilities caused by fire, floods, and storms.

Figure 14 illustrates the trend in capital spending of cities under 2,500 in population for the years 2001 through 2005.

Figure 14: Total Capital Outlay Expenditures, 2001 to 2005



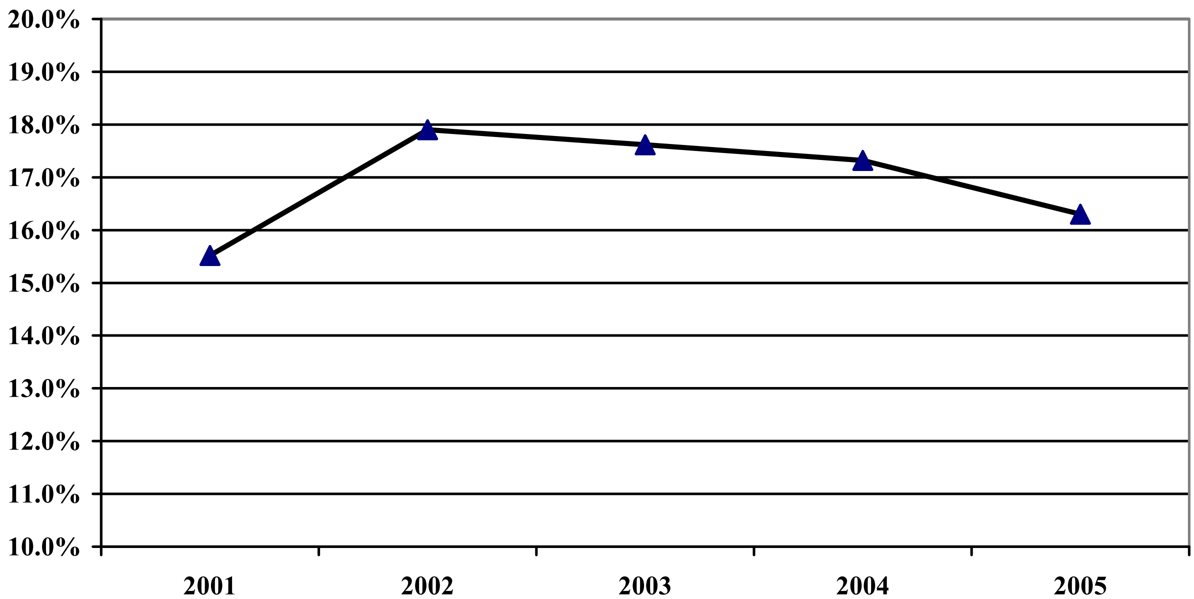
Debt Service

Debt Service includes expenditures for the principal and interest payments of loans incurred by cities. In 2005, small cities expended a total of $80.7 million on debt service, or 16.3% of total expenditures.

It is interesting to note that since 2003 the percentage of total expenditures allocated to debt service has decreased at the same time that long-term indebtedness has continued to increase in small cities.

Figure 15 shows the five-year trend in the percentage of total expenditures allocated to debt service.

Figure 15: Debt Service as a Percentage of Total Expenditures



Municipal Enterprises

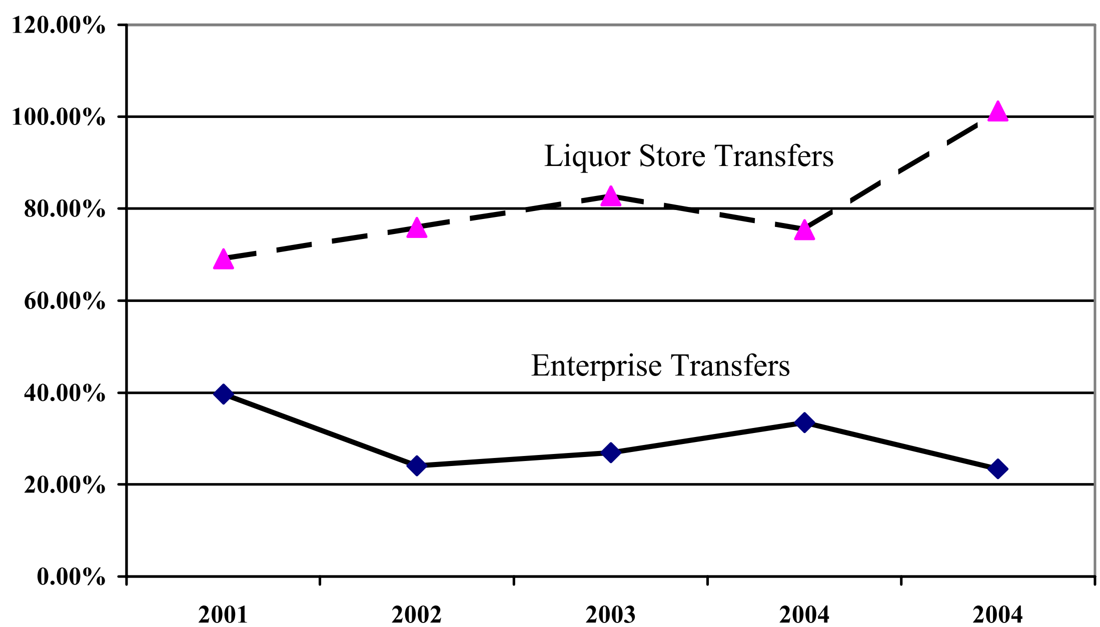
The net income of municipal enterprises increased 9.4 percent between 2004 and 2005 while net transfers (transfers out minus transfers in) from Enterprise Funds decreased 23.5 percent between 2004 and 2005. An example of this type of transfer is when a city transfers excess reserves from its water utility enterprise fund to the city's General Fund.

Municipal liquor stores, which are separated from other municipal enterprises because of accounting differences, showed a decrease of 14.2 percent in net income while net transfers (transfers out minus transfers in) increased of 15.2 percent between 2004 and 2005. The decrease in net income reflects that more liquor operations showed a decrease in net income than showed an increase (82 to 74 respectively). The increase in net transfers was primarily due to large transfers from the Longville, Warroad, and Danver liquor store operations.

There was a significant change for both municipal enterprise and liquor stores in the net transfers as a percent of net income between 2004 and 2005. Municipal enterprises transferred 23.4 percent of their net income in 2005 compared to 33.5 percent in 2004. Municipal liquor stores transferred 101.2 percent of their net income in 2005 compared to 75.4 percent in 2005. For municipal liquor stores, this reflects a drawing down of previously held reserves.

Figure 16 examines the five-year trend in net transfers from enterprise and municipal liquor store funds as a percent of net income.

Figure 16: Net Transfers from Enterprise and Municipal Liquor Store Funds as a Percent of Their Net Income, 2001 to 2005



Outstanding Long-Term Indebtedness

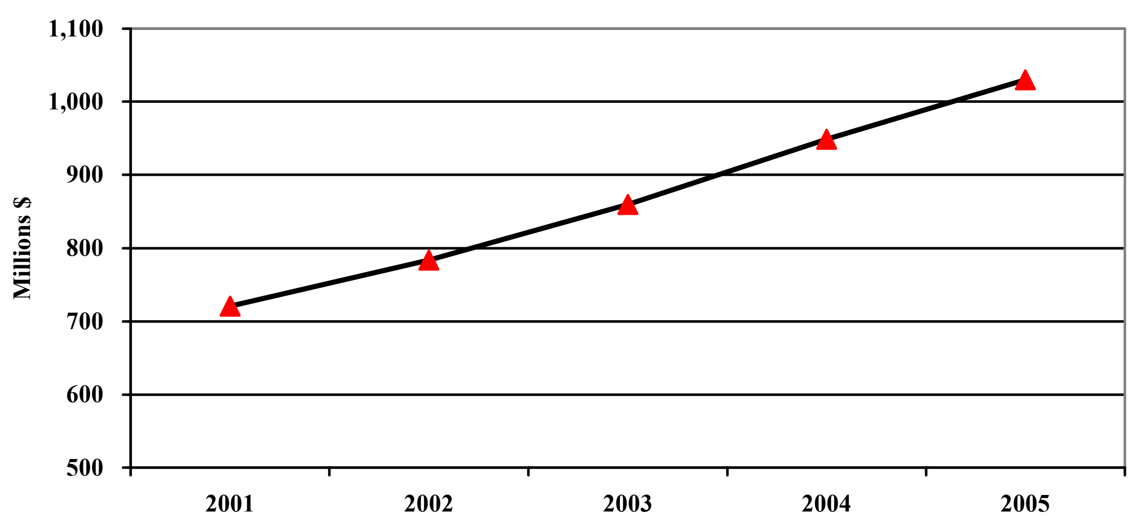
Cities under 2,500 carried long-term debt totaling $1.03 billion at the close of 2005. This represents an 8.6 percent increase over 2004 level. On a per capita basis, cities with a population less than 2,500 held a significantly higher level of long-term debt than those over 2,500, $2,514 to $1,965. While there is no single reason for the higher level of indebtedness per capita among the smaller cities, a primary reason is that the high costs of projects such as wastewater treatment facilities and water and sewer line replacement are spread across fewer people.

Table 4 looks at outstanding bonded indebtedness for 2004 and 2005. Figure 17 shows the five-year trend of outstanding long-term debt for small cities.

Table 4: Two-Year Summary of Outstanding Bonded Indebtedness

		2005 Amount		2004 Amount
General Obligation	$	50,358,736	$	41,054,712
G.O. Tax Increment		35,783,895		39,816,518
Revenue Tax Increment		1,132,997		186,932
Special Assessment		283,020,934		254,250,737
G.O. Revenue		324,029,280		280,095,463
Revenue		94,233,813		93,432,125
All Other		2,944,864		3,391,469
Total Bonded Indebtedness	**$**	**791,504,519**	**$**	**712,227,956**

Figure 17: Outstanding Long-Term Indebtedness as of December 31, 2005*



*Includes bonds and other types of debt such as certificates of participation, long-term leases, and notes.