STATE OF MINNESOTA
Office of the State Auditor

Patricia Anderson
State Auditor

TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

YEAR ENDED DECEMBER 31, 2004
Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - promotes compliance and accountability in local governments’ use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee’s Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

Year Ended December 31, 2004

Audit Practice Division
Office of the State Auditor
State of Minnesota
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TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

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<td>Fund Financial Statements</td>
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<td>General Fund</td>
<td>Schedule 1</td>
</tr>
<tr>
<td>Highway and Streets Fund</td>
<td>Schedule 2</td>
</tr>
<tr>
<td>Fire Fund</td>
<td>Schedule 3</td>
</tr>
<tr>
<td>Notes to the Required Supplementary Information</td>
<td>27</td>
</tr>
<tr>
<td>Reference</td>
<td>Page</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
</tr>
<tr>
<td>Schedule 4</td>
<td>28</td>
</tr>
<tr>
<td>Schedule 5</td>
<td>29</td>
</tr>
<tr>
<td>Schedule 6</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>
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TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

ORGANIZATION
DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Term Expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
</tr>
<tr>
<td>March 2008</td>
</tr>
<tr>
<td>March 2008</td>
</tr>
<tr>
<td>March 2006</td>
</tr>
<tr>
<td>March 2007</td>
</tr>
</tbody>
</table>

Town Board
Supervisors
Brenda C. Dicken
Jeff Orth
Douglas H. Butler*  
Gary Donovan
Brian Mueller

Officer
Clerk/Treasurer
Gary Swenson

*Chair

Page 1
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INDEPENDENT AUDITOR’S REPORT

Board of Supervisors
Town of Rochester, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Town of Rochester, Olmsted County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the Town’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town’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, each major fund, and the remaining fund information of the Town of Rochester as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Town of Rochester adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements--and Management’s Discussion and Analysis--for State and Local Governments, as amended; and Statement No. 38, Certain Financial Statement Note Disclosures, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.
The Town of Rochester has not presented a Management’s Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Rochester’s basic financial statements. The other information, shown as Schedules 4 and 5 in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town of Rochester. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Pat Anderson            /s/Greg Hierlinger
PATRICIA ANDERSON          GREG HIERLINGER, CPA
STATE AUDITOR              DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005
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TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Assets</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and pooled investments</td>
<td>$ 563,143</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>5,076</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>1,183</td>
</tr>
<tr>
<td>Net investment in joint powers</td>
<td>234,209</td>
</tr>
<tr>
<td>Capital assets</td>
<td>40,000</td>
</tr>
<tr>
<td>Non-depreciable</td>
<td></td>
</tr>
<tr>
<td>Depreciable - net of accumulated depreciation</td>
<td>422,283</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 1,265,894</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 18,001</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>3,823</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$ 21,824</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>$ 462,283</td>
</tr>
<tr>
<td>Restricted for road services and maintenance</td>
<td>234,209</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>547,578</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$ 1,244,070</strong></td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
**TOWN OF ROCHESTER**  
**OLMSTED COUNTY, MINNESOTA**  

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Fees, Charges, and Other</th>
<th>Operating Grants and Contributions</th>
<th>Net (Expense) Revenue and Changes in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$80,070</td>
<td>$4</td>
<td>$</td>
<td>$ (80,066)</td>
</tr>
<tr>
<td>Public safety</td>
<td>129,536</td>
<td>-</td>
<td>-</td>
<td>(129,536)</td>
</tr>
<tr>
<td>Transportation</td>
<td>554,304</td>
<td>8,442</td>
<td>14,023</td>
<td>(531,839)</td>
</tr>
<tr>
<td>Human services</td>
<td>-</td>
<td>-</td>
<td>5,237</td>
<td>5,237</td>
</tr>
<tr>
<td><strong>Total governmental activities</strong></td>
<td>$763,910</td>
<td>$8,446</td>
<td>$19,260</td>
<td>$ (736,204)</td>
</tr>
</tbody>
</table>

**General Revenues**  
- Property taxes $475,944  
- Grants and contributions not restricted to specific programs $69,771  
- Unrestricted investment earnings $9,881  
- Contribution of investment in joint powers $234,209  

**Total general revenues and other items** $789,805

**Change in net assets** $53,601  
**Net Assets - Beginning** $1,190,469  
**Net Assets - Ending** $1,244,070

The notes to the financial statements are an integral part of this statement.
GOVERNMENT-WIDE FINANCIAL STATEMENTS
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GOVERNMENTAL FUNDS
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## BALANCE SHEET
### GOVERNMENTAL FUNDS
#### DECEMBER 31, 2004

### Assets

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Highway and Streets</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and pooled investments</td>
<td>$563,143</td>
<td>$ -</td>
<td>$563,143</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>-</td>
<td>5,076</td>
<td>5,076</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>-</td>
<td>1,183</td>
<td>1,183</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$563,143</strong></td>
<td><strong>$6,259</strong></td>
<td><strong>$569,402</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Fund Balances

**Liabilities**

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Highway and Streets</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$1,868</td>
<td>$16,133</td>
<td>$18,001</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>3,823</td>
<td>-</td>
<td>3,823</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$5,691</strong></td>
<td><strong>$16,133</strong></td>
<td><strong>$21,824</strong></td>
</tr>
</tbody>
</table>

**Fund Balances**

Unreserved

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Highway and Streets</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated for future expenditures</td>
<td>$200,000</td>
<td>$ -</td>
<td>$200,000</td>
</tr>
<tr>
<td>Undesignated</td>
<td>357,452</td>
<td>(9,874)</td>
<td>347,578</td>
</tr>
<tr>
<td><strong>Total Fund Balances</strong></td>
<td><strong>$557,452</strong></td>
<td><strong>$9,874</strong></td>
<td><strong>$547,578</strong></td>
</tr>
</tbody>
</table>

**Total Liabilities and Fund Balances**

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Highway and Streets</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$563,143</td>
<td>$6,259</td>
<td>$569,402</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balances - total governmental funds (Exhibit 3)</td>
<td>$ 547,578</td>
</tr>
<tr>
<td>Amounts reported for governmental activities in the statement of net assets are different because:</td>
<td></td>
</tr>
<tr>
<td>The net investment in joint powers is not a financial resource of the governmental funds, so is reported on statement of net assets only.</td>
<td>$ 234,209</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>$ 521,229</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(58,946)</td>
</tr>
<tr>
<td>Net capital assets</td>
<td></td>
</tr>
<tr>
<td>Net assets of governmental activities (Exhibit 1)</td>
<td>$ 1,244,070</td>
</tr>
</tbody>
</table>
TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>General</th>
<th>Highway and Streets</th>
<th>Fire</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$98,949</td>
<td>$273,825</td>
<td>$103,170</td>
<td>$475,944</td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>-</td>
<td>543</td>
<td>-</td>
<td>543</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>75,008</td>
<td>14,023</td>
<td>-</td>
<td>89,031</td>
</tr>
<tr>
<td>Charges for services</td>
<td>4</td>
<td>7,048</td>
<td>-</td>
<td>7,052</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>9,881</td>
<td>-</td>
<td>-</td>
<td>9,881</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>851</td>
<td>-</td>
<td>851</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$183,842</td>
<td>$296,290</td>
<td>$103,170</td>
<td>$583,302</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$80,070</td>
<td>-</td>
<td>$129,536</td>
<td>$209,606</td>
</tr>
<tr>
<td>Public safety</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transportation</td>
<td>-</td>
<td>272,913</td>
<td>-</td>
<td>272,913</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$80,070</td>
<td>$272,913</td>
<td>$129,536</td>
<td>$482,519</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Excess of Revenues Over (Under)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>$103,772</td>
<td>$23,377</td>
<td>$(26,366)</td>
<td>$100,783</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Financing Sources (Uses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>$19,041</td>
<td>-</td>
<td>22,756</td>
<td>$41,832</td>
</tr>
<tr>
<td>Transfers out</td>
<td>(280)</td>
<td>(41,552)</td>
<td>-</td>
<td>(41,832)</td>
</tr>
<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td>$18,761</td>
<td>$(41,517)</td>
<td>22,756</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Change in Fund Balance</strong></td>
<td>$122,533</td>
<td>$(18,140)</td>
<td>$(3,610)</td>
<td>$100,783</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fund Balance - January 1</strong></td>
<td>434,919</td>
<td>8,266</td>
<td>3,610</td>
<td>446,795</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fund Balance - December 31</strong></td>
<td>$557,452</td>
<td>$(9,874)</td>
<td>-</td>
<td>$547,578</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in fund balances - total governmental funds (Exhibit 5)</td>
<td>$100,783</td>
</tr>
<tr>
<td>Amounts reported for governmental activities in the statement of activities</td>
<td></td>
</tr>
<tr>
<td>are different because:</td>
<td></td>
</tr>
<tr>
<td>Governmental funds report capital outlay as expenditures. However, in</td>
<td></td>
</tr>
<tr>
<td>the statement of activities, the cost of those assets is allocated over</td>
<td></td>
</tr>
<tr>
<td>their estimated useful lives and reported as depreciation expense.</td>
<td></td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>$(20,541)</td>
</tr>
<tr>
<td>In the statement of activities, only the gain or loss on the disposal of</td>
<td></td>
</tr>
<tr>
<td>capital assets is reported; whereas, in the governmental funds, the</td>
<td></td>
</tr>
<tr>
<td>proceeds from the disposal increase financial resources. Therefore, the</td>
<td></td>
</tr>
<tr>
<td>change in net assets differs from the change in fund balance by the net</td>
<td></td>
</tr>
<tr>
<td>book value of the capital assets disposed of.</td>
<td>$(269,050)</td>
</tr>
<tr>
<td>The increase in investment in joint powers is not reported in the funds, but</td>
<td></td>
</tr>
<tr>
<td>only in the government-wide statements.</td>
<td>$234,209</td>
</tr>
<tr>
<td>Some expenses reported in the statement of activities do not require the</td>
<td></td>
</tr>
<tr>
<td>use of current financial resources and, therefore, are not reported as</td>
<td></td>
</tr>
<tr>
<td>expenditures in governmental funds.</td>
<td></td>
</tr>
<tr>
<td>Change in compensated absences</td>
<td>$8,200</td>
</tr>
<tr>
<td>Change in net assets of governmental activities (Exhibit 2)</td>
<td>$53,601</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
FIDUCIARY FUNDS
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TOWN OF ROCHESTER  
OLMSTED COUNTY, MINNESOTA  

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Agency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,772</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>10,288</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$16,060</td>
</tr>
</tbody>
</table>

**Liabilities**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$5,587</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>473</td>
</tr>
<tr>
<td>Due to Town of Cascade</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$16,060</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The Town’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Town are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, Basic Financial Statements--and Management’s Discussion and Analysis--for State and Local Governments. The significant changes in the statement include the following:

- Financial statements prepared using full accrual accounting for all of the Town’s activities, including infrastructure (roads, bridges, etc.).

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Financial Reporting Entity

The Town of Rochester is an organized town having the powers, duties, and privileges granted towns by Minn. Stat. ch. 365.

The Town of Rochester is governed by a five-member Board of Supervisors who are elected to three-year terms. A Clerk/Treasurer responsible for the proper administration of all affairs relating to the Town is elected to a three-year term.

The Town is part of jointly-governed organizations detailed in Note 4.B.
1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the Town. Eliminations have been made to minimize the double counting of internal activities.

In the government-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town’s net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Town’s governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Town’s funds, including its fiduciary fund. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The General Fund is the Town’s primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.
1. **Summary of Significant Accounting Policies**

B. **Basic Financial Statements**

2. **Fund Financial Statements** (Continued)

   The **Highway and Streets Special Revenue Fund** is used to account for revenues and expenditures of the Town Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting Town roadways.

   The **Fire Special Revenue Fund** is used to account for fire protection.

   The Town also reports the following fund type:

   The **Agency Fund** is used to account for assets that the Town holds for the Town of Cascade’s share of the Rochester-Cascade Road Services and Maintenance Joint Powers Board.

C. **Measurement Focus and Basis of Accounting**

   The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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. The Town of Rochester considers all revenues to be *available* if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent that they have matured.

   When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources as they are needed.
1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the Town Clerk/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. It is the Town’s policy to account for pooled cash in the General Fund. Transfers are made between funds to allocate cash as needed and at year-end. Investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2004 were $9,881.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Town:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers’ acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.
1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

All receivables are shown net of an allowance for uncollectibles.

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

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

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of two years. 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.

Property, plant, and equipment of the Town is depreciated using the straight-line method over the following estimated useful lives:
1. **Summary of Significant Accounting Policies**

D. **Assets, Liabilities, and Net Assets or Equity**

3. **Capital Assets (Continued)**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>50</td>
</tr>
<tr>
<td>Improvements other than buildings</td>
<td>50</td>
</tr>
<tr>
<td>Furniture, equipment, and vehicles</td>
<td>3 - 20</td>
</tr>
</tbody>
</table>

4. **Compensated Absences**

Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. **Deferred Revenue**

All Town funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

7. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
1. Summary of Significant Accounting Policies

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

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Implementation of GASB Statement 34

This is the first year the Town has reported in accordance with GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments. The Town’s governmental activities beginning net assets are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund Balances - January 1</td>
<td>$446,795</td>
</tr>
<tr>
<td>Reconciliation of Fund Balance to Government-Wide Net Assets</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>$909,092</td>
</tr>
<tr>
<td>Related accumulated depreciation</td>
<td>$(157,218)</td>
</tr>
<tr>
<td>Compensated absences payable</td>
<td>$(8,200)</td>
</tr>
<tr>
<td>Net Assets - January 1</td>
<td>$1,190,469</td>
</tr>
</tbody>
</table>

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The Town’s total cash and investments are reported as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Rochester</td>
<td>$563,143</td>
</tr>
<tr>
<td>Cash and pooled investments</td>
<td></td>
</tr>
<tr>
<td>Rochester-Cascade Road Services and Maintenance Joint Powers Board</td>
<td>$11,543</td>
</tr>
<tr>
<td>Cash and pooled investments</td>
<td></td>
</tr>
<tr>
<td>Total Cash and Investments</td>
<td>$574,686</td>
</tr>
</tbody>
</table>

Page 17
2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Town to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Town Clerk/Treasurer. At December 31, 2004, the carrying amount of the Town’s deposits totaled $574,686. The bank balance deposit amount was $576,383. Minnesota statutes require that all Town deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

<table>
<thead>
<tr>
<th>Covered deposits</th>
<th>Bank Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insured, or collateralized with securities held by the Town or its agent in the Town’s name</td>
<td>$111,916</td>
</tr>
<tr>
<td>Collateralized with securities held by the pledging financial institution’s agent in the Town’s name</td>
<td>441,000</td>
</tr>
<tr>
<td>Total covered deposits</td>
<td>$552,916</td>
</tr>
<tr>
<td>Uncollateralized</td>
<td>23,467</td>
</tr>
<tr>
<td>Total</td>
<td>$576,383</td>
</tr>
</tbody>
</table>

2. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:
2. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

Governmental Activities

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Increase</th>
<th>Decrease</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-depreciable capital assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 40,000</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 40,000</td>
</tr>
<tr>
<td>Capital assets depreciated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building</td>
<td>$ 330,185</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 330,185</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery, furniture, and</td>
<td>538,907</td>
<td>-</td>
<td>387,863</td>
<td>151,044</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$ 869,092</td>
<td>$ -</td>
<td>387,863</td>
<td>$ 481,229</td>
</tr>
<tr>
<td>depreciated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: accumulated depreciation for</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building</td>
<td>$ 32,843</td>
<td>$ 6,674</td>
<td>$ -</td>
<td>$ 39,517</td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery, furniture, and</td>
<td>124,375</td>
<td>13,867</td>
<td>118,813</td>
<td>19,429</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>$ 157,218</td>
<td>$ 20,541</td>
<td>$ 118,813</td>
<td>$ 58,946</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>$ 711,874</td>
<td>(20,541)</td>
<td>$ 269,050</td>
<td>$ 422,283</td>
</tr>
<tr>
<td>depreciated, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>$ 751,874</td>
<td>(20,541)</td>
<td>$ 269,050</td>
<td>$ 462,283</td>
</tr>
</tbody>
</table>

Depreciation expense was charged to functions/programs of the Town of Rochester as follows:

Governmental Activities
Transportation

$ 20,541

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:
2. Detailed Notes on All Funds

B. Liabilities

Changes in Long-Term Liabilities (Continued)

Governmental Activities

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated absences</td>
<td>$ 8,200</td>
<td>$ -</td>
<td>$ 8,200</td>
<td>$ -</td>
</tr>
</tbody>
</table>

C. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

| Transfers from General Fund to | $                     | 35 Transfer cash balances as needed |
| Highway and Streets Fire      | $ 245 Close out cash balance at year-end |
| Total General Fund            | $ 280                 |

| Transfers from Highway and Streets Fund to | Total Highway and Streets Fund |
| General                               | $ 41,552               |
| Fire                                  | $ 19,041 Transfer cash balance as needed and at year-end |
|                                       | $ 22,511 Provide funds for current year expenditures in excess of tax levy |

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Town of Rochester are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.
3. **Employee Retirement Systems and Pension Plans**

   A. **Plan Description (Continued)**

   Public Employees Retirement Fund 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.

   The 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 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 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 ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

   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 yet receiving them are bound by the provisions in effect at the time they last terminated public service.

   The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.
3. **Employee Retirement Systems and Pension Plans** (Continued)

   **B. Funding Policy**

   Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Town makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Town is required to contribute the following percentages of annual covered payroll:

<table>
<thead>
<tr>
<th>Public Employees Retirement Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Plan members</td>
<td>11.78%</td>
</tr>
<tr>
<td>Coordinated Plan members</td>
<td>5.53</td>
</tr>
</tbody>
</table>

   The Town’s contributions for the years ending December 31, 2004, 2003, and 2002, were $4,400, $7,864, and $6,104, respectively, equal to the contractually required contributions for each year as set by state statute.

4. **Summary of Significant Contingencies and Other Items**

   **A. Risk Management**

   The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Town carries commercial insurance. The Town has entered into a joint powers agreement with other Minnesota towns to form the Minnesota Association of Townships Insurance and Bond Trust (MATIT). The Town is a member of the MATIT Property and Casualty Divisions. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

   The Property and Casualty Division of MATIT is self-sustaining, and the Town pays an annual premium to cover current and future losses. The MATIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MATIT Property and Casualty Division liabilities exceed assets, MATIT may assess the Town in a method and amount to be determined by MATIT.
4. Summary of Significant Contingencies and Other Items (Continued)

B. Jointly-Governed Organizations

In 2004, the Town of Rochester, in conjunction with the Town of Cascade, formed a Joint Powers Board to provide joint road services. The combined Town Boards act as the Joint Powers Board. The Town of Rochester acts as the fiscal agent for the joint powers. Financial statements for the Rochester-Cascade Road Services and Maintenance Joint Powers Board are included as supplementary information to the Town’s financial statements. The Town of Rochester’s investment in the joint venture is reported on its statement of net assets. The Town of Cascade’s investment is reported in an agency fund.

The Town of Rochester is one of nine towns in Olmsted County that has entered into a joint powers agreement to establish the Township Cooperative Planning Association (TCPA) to provide planning and zoning administration. The Town appoints one member to the TCPA Board.
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REQUIRED SUPPLEMENTARY INFORMATION
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TOWN OF ROCHESTER  
OLMSTED COUNTY, MINNESOTA  

Schedule 1  

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Budgeted Amounts</th>
<th>Actual Amounts</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$ 250,748</td>
<td>$ 250,748</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Charges for services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$ 328,748</td>
<td>$ 328,748</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>83,400</td>
<td>83,400</td>
</tr>
<tr>
<td>Excess of Revenues Over (Under) Expenditures</td>
<td>$ 245,348</td>
<td>$ 245,348</td>
</tr>
<tr>
<td>Other Financing Sources (Uses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers out</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Other Financing Sources (Uses)</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Net Change in Fund Balance</td>
<td>$ 245,348</td>
<td>$ 245,348</td>
</tr>
<tr>
<td>Fund Balance - January 1</td>
<td>434,919</td>
<td>434,919</td>
</tr>
<tr>
<td>Fund Balance - December 31</td>
<td>$ 680,267</td>
<td>$ 680,267</td>
</tr>
</tbody>
</table>

The notes to the required supplementary information are an integral part of this schedule.
## BUDGETARY COMPARISON SCHEDULE
### HIGHWAY AND STREETS FUND
### FOR THE YEAR ENDED DECEMBER 31, 2004

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>Final</th>
<th>Actual Amounts</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$163,165</td>
<td>$163,165</td>
<td>$273,825</td>
<td>$110,660</td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>-</td>
<td>-</td>
<td>543</td>
<td>543</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>17,000</td>
<td>17,000</td>
<td>14,023</td>
<td>(2,977)</td>
</tr>
<tr>
<td>Charges for services</td>
<td>45,000</td>
<td>45,000</td>
<td>7,048</td>
<td>(37,952)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>851</td>
<td>851</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$225,165</td>
<td>$225,165</td>
<td>$296,290</td>
<td>$71,125</td>
</tr>
</tbody>
</table>

| **Expenditures**     |          |       |                |                             |
| Transportation       |          |       |                |                             |
| Current              |          |       |                |                             |
| Other                | 378,500  | 378,500 | 272,913        | 105,587                     |
| **Excess of Revenues Over (Under) Expenditures** | $ (153,335) | $ (153,335) | $23,377 | $176,712 |

| **Other Financing Sources (Uses)** |          |       |                |                             |
| Transfers in          | -        | -     | $35            | $35                         |
| Transfers out         | -        | -     | (41,552)       | (41,552)                    |
| **Total Other Financing Sources (Uses)** | $ -       | $ -   | $ (41,517)    | $ (41,517)                  |

| **Net Change in Fund Balance** | $ (153,335) | $ (153,335) | $ (18,140) | $135,195 |

| **Fund Balance - January 1** |          |       | 8,266        | 8,266 | 8,266 | - |
| **Fund Balance - December 31** | $ (145,069) | $ (145,069) | $ (9,874)   | $135,195 |

The notes to the required supplementary information are an integral part of this schedule.
### BUDGETARY COMPARISON SCHEDULE
#### FIRE FUND
**FOR THE YEAR ENDED DECEMBER 31, 2004**

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Amounts</th>
<th>Actual Amounts</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$ 76,987</td>
<td>$ 76,987</td>
<td>$ 103,170</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public safety</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire services</td>
<td>129,000</td>
<td>129,000</td>
<td>129,536</td>
</tr>
<tr>
<td><strong>Excess of Revenues Over (Under) Expenditures</strong></td>
<td>$ (52,013)</td>
<td>$ (52,013)</td>
<td>$ (26,366)</td>
</tr>
<tr>
<td><strong>Other Financing Sources (Uses)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>-</td>
<td>-</td>
<td>22,756</td>
</tr>
<tr>
<td><strong>Net Change in Fund Balance</strong></td>
<td>$ (52,013)</td>
<td>$ (52,013)</td>
<td>$ (3,610)</td>
</tr>
<tr>
<td><strong>Fund Balance - January 1</strong></td>
<td>3,610</td>
<td>3,610</td>
<td>3,610</td>
</tr>
<tr>
<td><strong>Fund Balance - December 31</strong></td>
<td>$ (48,403)</td>
<td>$ (48,403)</td>
<td>-</td>
</tr>
</tbody>
</table>

The notes to the required supplementary information are an integral part of this schedule.
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Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

Before October 31, the proposed budget is presented to the Town of Rochester Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require approval of the Town Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations.

Encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

The Fire Fund’s expenditures of $129,536 exceeded its budget of $129,000 by $536.
This page was left blank intentionally.
OTHER SCHEDULES
This page was left blank intentionally.
<table>
<thead>
<tr>
<th>Assets</th>
<th>Joint Operating Road Fund</th>
<th>Adjustments</th>
<th>Statement of Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and pooled investments</td>
<td>$11,543</td>
<td>-</td>
<td>$11,543</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>20,576</td>
<td>-</td>
<td>20,576</td>
</tr>
<tr>
<td>Capital assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciable - net</td>
<td>-</td>
<td>456,258</td>
<td>456,258</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$32,119</td>
<td>$456,258</td>
<td>$488,377</td>
</tr>
</tbody>
</table>

| Liabilities                   |                          |             |                         |
| Accounts payable              | $11,174                   | -           | $11,174                 |
| Salaries payable              | 945                       | -           | 945                    |
| Compensated absences payable  | -                         | 7,840       | 7,840                  |
| Total Liabilities             | $12,119                   | $7,840      | $19,959                |

| Fund Balance/Net Assets       |                          |             |                         |
| Fund Balance                  |                          |             |                         |
| Unreserved                    | 20,000                    | (20,000)    |                         |
| Undesignated                  |                           |             |                         |
| Total Liabilities and Fund Balance | $32,119         |             |                         |

| Net Assets                    |                          |             |                         |
| Invested in capital assets    | $456,258                  |             | $456,258                |
| Unrestricted                  | 12,160                    |             | 12,160                  |
| Total Net Assets              | $468,418                  |             | $468,418                |

| Reconciliation of the Governmental Fund Balance to Net Assets |                          |             |                         |
| Fund Balance - Highway Fund  | $20,000                   |             |                         |
| Capital assets are reported on the Statement of Net Assets but not on the Balance Sheet | 485,369 | | |
| Capital assets' accumulated depreciation is reported on the Statement of Net Assets but not on the Balance Sheet | (29,111) | | |
| Compensated absences are reported on the Statement of Net Assets but not on the Balance Sheet | (7,840) | | |
| Net Assets - Governmental Activities | $468,418 | | |
TOWN OF ROCHESTER
OLMSTED COUNTY, MINNESOTA

Schedule 5

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ROCHESTER-CASCADE ROAD SERVICES AND MAINTENANCE JOINT POWERS BOARD
FOR THE YEAR ENDED DECEMBER 31, 2004

<table>
<thead>
<tr>
<th>Joint Operating</th>
<th>Road Fund</th>
<th>Adjustments</th>
<th>Statement of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for services</td>
<td>$159,536</td>
<td>$ -</td>
<td>$159,536</td>
</tr>
<tr>
<td>Gifts and contributions</td>
<td>20,000</td>
<td>485,369</td>
<td>505,369</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>154</td>
<td>-</td>
<td>154</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$179,690</td>
<td>$485,369</td>
<td>$665,059</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway and streets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway and streets expenditures</td>
<td>159,690</td>
<td>36,951</td>
<td>196,641</td>
</tr>
<tr>
<td>Net Change in Fund Balance</td>
<td>$20,000</td>
<td>$448,418</td>
<td>$468,418</td>
</tr>
<tr>
<td>Fund Balance/Net Assets - January 1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund Balance/Net Assets - December 31</td>
<td>$20,000</td>
<td>$448,418</td>
<td>$468,418</td>
</tr>
</tbody>
</table>

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Net change in fund balance $20,000

Governmental funds report 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.

Current year depreciation (29,111)

Compensated absences are not reported as expenditures in the fund. (7,840)

Contributions of fixed assets are not reported as revenues in the fund. 485,369

Change in net assets of governmental activities $468,418
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I. INTERNAL CONTROL

04-1 Departmental Segregation of Duties

Due to the limited number of personnel within the Town of Rochester, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Only one employee may be available to receive and account for collections. This is not unusual in operations the size of the Town of Rochester; however, the Town’s management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- Receipting collections, posting collections to registers, and making bank deposits;
- Signing checks and reconciling the bank accounts;
- Receipting collections and posting collections to the accounts receivable records;
- Approving receivable write-off/write-downs and posting adjustments to the accounts receivable records, and;
- Entering data, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the Town’s management may wish to consider to strengthen controls are:

- Supervisors should monitor operations within the Town to determine that reports are submitted promptly and are in agreement with cash balances and grant expenditures.
- Supervisors should adopt a formal conflicts of interest policy.
- Minutes should include the claim number of bills approved for payment.
- Even though invoices are stapled to vouchers, all invoices should be canceled to ensure they are not paid twice.
- A formal receipt book that records each receipt during the year should be kept.

We recommend the Town’s management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures by Town staff.

Client’s Response:

a. The township supervisors do recognize the fact we have inadequate internal accounting control. In order to alleviate some of that concern the clerk/treasurer gives all supervisors monthly reports with a copy of reconciled bank statements, list of deposits by vendor for the month, and a list of claims to be paid. They also get a copy of the check register.

b. The township will work with our lawyer on developing a conflicts of interest policy in 2005.

c. The clerk will attach a copy of the claims approved to be paid with the monthly minutes.

d. The clerk will get a dated paid stamp and stamp invoices when they are paid.

e. The clerk will keep a formal receipt book for all receipts.

II. MINNESOTA LEGAL COMPLIANCE

04-2 Insufficient Collateral

To the extent funds on deposit exceed federal deposit insurance, government entities must require their financial institution to furnish collateral security or a corporate surety bond. Pursuant to Minn. Stat. § 118A.03, subd. 3, the amount of collateral computed at its market value must be at least ten percent more than the amount on deposit plus
accrued interest at the close of the financial institution’s banking day. The amount on
deposit at Premier Bank Rochester at December 31, 2004, was $23,467 more than the
available federal deposit insurance and pledged collateral.

We recommend the Town monitor its deposits in designated depositories to ensure Town
funds are fully protected, as required by Minn. Stat. § 118A.03 at all times.

Client’s Response:

The clerk will monitor the level of deposits on a monthly basis. The clerk assumed when
the bank said they pledged $500,000 it was $500,000 and didn’t vary depending on the
market value of stocks or bonds pledged.

04-3 Annual Budgets

In accordance with Minn. Stat. §§ 365.10 and 365.431, the Town’s electors vote to
authorize the amount of money to be raised for a given year through tax levies for town
purposes. This vote is to occur at the Town’s annual meeting in March. The minutes of
the annual meeting did not include the tax levy approved by the electors. Also, the
Town’s minutes did not include the adoption of a final budget by the Town Board.

We recommend that the Town’s minutes include all actions of the electors and Town
Supervisors.

The Town’s Board may not spend more than the amount approved for the levy at the
annual meeting without approval from a majority of the electors, in accordance with
Minn. Stat. § 365.43, subd. 1, nor may the Town spend money from one fund on projects
outside the activities of that fund without unanimous approval from the Town Board, in
accordance with Minn. Stat. § 366.04.

In 2004, the Town disbursed more money from the Fire Fund than was levied for. These
disbursements were covered by other revenues received in 2004 and amounts carried
forward from the prior year.

The Town was not in strict compliance with the statutes, but the Office of the State
Auditor (OSA) believes that the statute needs revision. A bill, supported by the OSA,
was introduced in the 2005 Legislature to revise Minn. Stat. § 365.43, subd. 1. The
legislation was not enacted in 2005, but the OSA will continue to support it. The
proposed bill would limit a town’s spending to “total revenue,” which includes the tax
levy, revenue from other sources, and amounts carried forward from the prior year. The
Town did not spend more than its total revenue.
Client’s Response:

*In the future the township clerk will include in the minutes of the annual meeting the levy approved and final budget adopted by the electors. In the past a motion was made, seconded, and passed to approve the budget as presented, which included the levy and budget figures, but the amounts were not recorded in the minutes.*

*Transfers between funds will be made only after unanimous approval from the town board is recorded in the minutes.*

*As a township we have presented an annual budget that was approved by a majority of the electorate that attended the annual meeting. The clerk was unaware of the state statute that stated we had to have a majority of the electorate that lived in the township, not those attending the annual meeting. The township will discuss this and take whatever action is appropriate.*

04-4 Interfund Transfers

It is an accounting practice of the Town of Rochester at the end of each year to transfer all cash balances to the General Fund. Taxes levied for General Fund purposes are sometimes receipted into other funds, and all interest revenue is receipted in the General Fund. In 2004, General Fund tax revenues of $116,790 and $29,076 were receipted in the Highway and Streets Fund and Fire Fund, respectively. Reporting receipts in funds other than that which earned them is, in essence, a transfer between funds. Also, in 2004, the Town transferred $22,511 from the Highway and Streets Fund to the Fire Fund.

The Town Board’s approval of those transfers was not recorded in the Town’s minutes. Minn. Stat. § 366.04 authorizes the transfer of surplus monies from one fund to any other fund with a deficiency. The statute requires a unanimous vote of the Town Board. All actions of the Town Board should be recorded in the minutes in accordance with Minn. Stat. §§ 367.11 and 13D.01, subd. 4.

We recommend the Town Board approve all transfers of monies between funds and that approval be noted in the minutes.
Client’s Response:

*Rochester Township will change past practice of transferring funds between accounts to zero out all accounts except the general fund, and deposit all checking interest earned proportionally to all accounts.*

*In the future before any transfers between funds occur, the clerk will see that unanimous vote of the Town Board has been taken and it is recorded in the minutes of the Town Board meeting.*
This page was left blank intentionally.
I. INTERNAL CONTROL

ITEMS REPORTED THIS YEAR

04-01 Departmental Segregation of Duties

Due to the limited number of personnel within the Town, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Only one employee may be available to receive and account for collections. This is not unusual in operations the size of the Town of Rochester; however, the Town’s management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a single individual is not desirable from an accounting point of view.

Examples of incompatible duties, which should be performed by separate individuals, are:
- Receipting collections, posting collections to registers, and making bank deposits;
- Signing checks and reconciling the bank accounts;
- Receipting collections and posting collections to the accounts receivable records;
- Approving receivable write-off/write-downs and posting adjustments to the accounts receivable records, and;
- Data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the Town’s management may wish to consider to strengthen controls are:
- Supervisors should monitor operations within the Town to determine that reports are submitted promptly and are in agreement with cash balances and grant expenditures.
- Supervisors should adopt a formal conflicts of interest policy.
- Minutes should include the claim number of bills approved for payment.
- Even though invoices are stapled to vouchers, all invoices should be cancelled to ensure they are not paid twice.
- A formal receipt book that records each receipt during the year should be kept.
We recommend the Town’s management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures by Town staff.

Client's Response:

a. The township supervisors do recognize the fact we have inadequate internal accounting control. In order to alleviate some of that concern the clerk/treasurer gives all supervisors monthly reports with a copy of reconciled bank statements, list of deposits by vendor for the month, list of claims to be paid. They also get a copy of the check register.

b. The township will work with our lawyer on developing a conflicts of interest policy in 2005.

c. The clerk will attach a copy of the claims approved to be paid with the monthly minutes.

d. The clerk will get a dated paid stamp and stamp invoices when they are paid.

e. The clerk will keep a formal receipt book for all receipts.

II. MINNESOTA LEGAL COMPLIANCE

ITEMS REPORTED THIS YEAR

04-02 Insufficient Collateral

Federal deposit insurance (FDIC) was insufficient for the amount on deposit at Premier Bank Rochester at December 31, 2004, in the amount of $23,467.

We recommend the Town monitor its deposits in designated depositories to ensure Town funds are fully protected as required by Minn. Stat. § 118A.03 at all times.

Client's Response:

The clerk will monitor the level of deposits on a monthly basis. The clerk assumed when the bank said they pledged $500,000 it was $500,000 and didn’t vary depending on the market value of stocks or bonds pledged.

04-3 Annual Budgets

In accordance with Minn. Stat. §§ 365.10 and 365.431, the Town’s electors vote to authorize the amount of money to be raised for a given year through tax levies for town purposes. This vote is to occur at the Town’s annual meeting in March. The minutes of
the annual meeting did not include the tax levy approved by the electors. Also, the
Town’s minutes did not include the adoption of a final budget by the Town Board. We
recommend that the Town’s minutes include all actions of the electors and Town
Supervisors. The Town’s Board may not spend more than the amount approved for the
levy at the annual meeting without approval from a majority of the electors, in
accordance with Minn. Stat. § 365.43, subd. 1, nor may the Town spend money from one
fund on projects outside the activities of that fund without unanimous approval from the
Town Board, in accordance with Minn. Stat. § 366.04.

In 2004, the Town disbursed more money from the Fire Fund than was levied for. These
disbursements were covered by other revenues received in 2004 and amounts carried
forward from the prior year.

The Town was not in strict compliance with the statutes, but the Office of the State
Auditor believes that the statute needs revision. A bill, supported by the Office of the
State Auditor, was introduced in the 2005 Legislature to revise Minn. Stat. § 365.43,
subd. 1. The proposed bill would limit a town’s spending to “total revenue,” which
includes the tax levy, revenue from other sources, and amounts carried forward from the
prior year. The Town’s current practices conform to the proposed statutory language.

Client’s Response:

As a township we have presented an annual budget that was approved by a majority of
the electorate that attended the annual meeting. The clerk was unaware of the state
statute that stated we had to have a majority of the electorate that lived in the township,
not those attending the annual meeting. The township will discuss this and take whatever
action is appropriate.

04-4 Interfund Transfers

It is an accounting practice of the Town at the end of each year, to transfer all cash
balances to the General Fund. Taxes levied for General Fund purposes are sometimes
received into other funds, and all interest revenue is received in the General Fund. In
2004, General Fund tax revenues of $116,790 and $29,076 were received in the
Highway and Streets Fund and Fire Fund, respectively. Reporting receipts in funds other
than that which earned them is, in essence, a transfer between funds. Also, in 2004, the
Town transferred $22,511 from the Highway and Streets Fund to the Fire Fund.

The Board of Supervisors’ approval of those transfers was not recorded in the Town’s
minutes. Minn. Stat. § 366.04 authorizes the transfer of surplus monies from one fund to
any other fund with a deficiency. The statute requires a unanimous vote of the Town
Board. All actions of the Town Board should be recorded in the minutes in accordance with Minn. Stat. §§ 367.11 and 13D.01, subd. 4.

We recommend the Town Board approve all transfers of monies between funds and that approval be noted in the minutes.

Client’s Response:
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Supervisors
Town of Rochester, Minnesota

We have audited the financial statements of the Town of Rochester, Olmsted County, Minnesota, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Town of Rochester is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management’s authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Town of Rochester’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable
conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

**Minnesota Legal Compliance**

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* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except public indebtedness, because the Town of Rochester had no debt. The results of our tests indicate that, for the items tested, the Town complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-2, 04-3, and 04-4.

This report is intended solely for the information and use of the Town Board of Supervisors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson                     /s/Greg Hierlinger
PATRICIA ANDERSON                  GREG HIERLINGER, CPA
STATE AUDITOR                      DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005