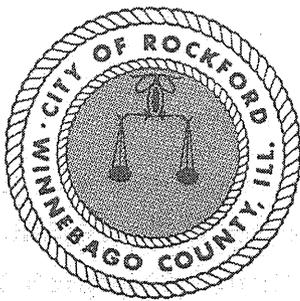


CITY OF ROCKFORD, ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005

Prepared by:

Finance Office
Andres Sammul
Finance Director



CITY OF ROCKFORD, ILLINOIS

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CITY OF ROCKFORD, ILLINOIS

LAWRENCE J. MORRISSEY
MAYOR

425 EAST STATE STREET
61104

ANDRES SAMMUL
FINANCE DIRECTOR

July 26, 2006

Citizens of the City of Rockford, Illinois,
Honorable Mayor and
Honorable Members of Council

The Comprehensive Annual Financial Report (CAFR) of the City of Rockford, Illinois for the fiscal year ended December 31, 2005, is hereby submitted. This report is prepared by the Finance Director's Office of the City of Rockford, Illinois. We believe the data, as presented, is accurate in all material respects; is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To provide a reasonable basis for making these representations, the City of Rockford management has established a comprehensive internal control framework that is designed to both protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Rockford's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Rockford's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The independent auditing firm of McGladrey & Pullen, LLP has audited the City of Rockford's financial statements. The purpose of the independent audit conducted by McGladrey & Pullen was to review and provide reasonable assurance that the City's financial statements for the fiscal year ending December 31, 2005 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the government-wide and fund financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rockford's financial statements for the fiscal year ended December 31, 2005, are fairly presented in conformity with GAAP.

In addition to the independent audit of the financial statements, a separate, federally mandated "Single Audit" was performed to meet the needs of specific grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls over compliance and compliance with legal requirements applicable to certain federal awards. These reports are available in the City of Rockford's separately issued Single Audit Report.

This Comprehensive Annual Financial Report (CAFR) reflects the changes required by the Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The format and description of these reports are addressed in the Management’s Discussion and Analysis (MD&A) and in the notes to the financial statements.

The CAFR is presented in three sections: introductory, financial and statistical. The **introductory section** is designed to introduce the reader to the report and includes this transmittal letter, the City’s organizational chart, a list of principal officials, and the GFOA (Government Finance Officers Association) Certificate of Achievement for Excellence in Financial Reporting for the 2004 CAFR.

The **financial section** begins with the independent auditors’ report. The auditors’ report discloses the opinion of the independent auditors with regard to the presentation of the financial statements. This section also includes Management’s Discussion and Analysis, the Basic Financial Statements and Notes that provide information on the City’s financial position and operating results, the Combining Statement of non-major funds and other schedules that provide detailed information relative to the Basic Financial Statements.

The **statistical section** includes selected financial and demographic information, generally presented on a multi-year basis. This section is designed to provide the user with a broader and more complete understanding of the City and its financial affairs than is possible from only the financial statements and supporting schedules presented in the financial section.

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

Profile of the City

The City of Rockford is a non-home rule city, incorporated in 1839 as a town and became a city in 1852. Located in North Central Illinois approximately 17 miles south of the Wisconsin border and 80 miles northwest of downtown Chicago, Rockford is the third largest city in Illinois with approximately 150,115 residents encompassing approximately 59.6 square miles and serves as the county seat for Winnebago County. The City is empowered to levy property taxes (subject to the Property Tax Extension Limitation Law provisions, which limits the annual growth in property tax extensions for the City to the lesser of 5% or the percentage increase in the Consumer Price Index during the preceding calendar year plus full credit for new construction and annexations) on both real and personal property located within its boundaries and has the authority to extend its corporate limits through annexation, when deemed appropriate and as approved by City Council.

The City has operated under the Mayor-Alderman form of government since April 1852. Policy-making and legislative authority are vested in the City Council consisting of the mayor and fourteen aldermen. The City Council is responsible for enacting ordinances, resolutions and regulations governing the City, adopting the budget, as well as appointing the members of various statutory and ordinance boards, and for approving the appointments by the Mayor for the City Administrator and the heads of the various departments. The Mayor and Alderman (one from each ward) are elected and serve four year terms.

The City of Rockford provides a full range of services, including police and fire protection, emergency communication center, public works services, water distribution services, public library services and general administrative services. The City also operates the Rockford Mass Transit District and the Rockford

Metropolitan Exposition, Auditorium and Office Building Authority, all of which are accounted for in the financial statements as component units.

The Rockford School District 205 and the Greater Rockford Airport do not meet the criteria for inclusion in the financial reporting entity and, accordingly, are not presented in this report.

The annual budget serves as the foundation for the City of Rockford's financial planning and control. During the budget preparation process, each department and agency of the reporting entity provides detailed estimates of revenue and expenditures for evaluation by the City Finance Director. The Finance Director also reviews estimates of all pending capital projects and those recommended for approval in the next budget year and within the succeeding five years. The Finance Director, in conjunction with the department heads, may revise these estimates prior to submitting the budget to the City Council for approval. The budget is prepared by fund, function (e.g. public safety) and department (e.g. police). The budget must be approved by City Council prior to the end of the first quarter of the budget year. Neither transfers within a department nor transfers between departments are made once the budget is approved. Budget-to-actual comparisons for the General and Special Revenue Funds are provided in this report.

Factors Affecting Financial Condition

Local economy. The City of Rockford has felt the impact of the recent economic slow-down and yet the City continues to expand and diversify its industrial base and employment opportunities. Rockford's economy is diversified with manufacturing and medical as its primary base, while call center/office operations, distribution centers and educational institutions become more important to the economy. The 2005 average unemployment rate for the metropolitan area was 6.4% as compared to the state average of 5.7% and the national average of 5.1%.

Rockford is home to the operations of several large companies such as: Rockford Health System, Swedish American Health System, Hamilton Sundstrand Company, United Parcel Service, OSF St. Anthony's Medical Center, Daimler Chrysler, NCO Group, Woodward Governor, Invensys, Quebecor Printing, Cadbury/Adams Division and Amcore Bank. Rockford is proud of its quality of life, skilled workforce and low cost of living. The City and private interests are aggressively pursuing the expansion and diversification of the work force. Specifically, the City has created tax increment districts, an enterprise zone, a small business loan program and administers the Community Development Block Grant Program.

One of Rockford's assets is the quality of higher education in and around the community. Rockford is home to: Rock Valley College – a two year community college with a state of the art Technology Center that is used by area manufacturers and businesses; Rockford College – a fully accredited independent institution that awards bachelor degrees in thirty one majors in arts and science as well as graduate programs in business and education; Northern Illinois University Rockford Branch – offers courses in business, education, engineering and engineering technology, health and human sciences, and liberal arts and sciences, as well as a cooperative effort with Rock Valley College to award bachelor degrees in Nursing, General Studies, Computer Science, Industrial Technology, Community Health and Elementary Education; University of Illinois College of Medicine at Rockford – provides education to second, third and fourth year medical students in the fields of primary care, family practice, internal medicine, pediatrics and other medical specialties.

Long-term financial planning. The City of Rockford utilizes a five-year capital improvement program to prioritize public projects which will be scheduled over a number of years as financial resources are available. The City utilizes a variety of methods to fund these projects such as: public-private cooperative efforts, special purpose taxes, cost sharing with other governmental agencies and issuing general obligation bonds. Capital Improvement projects are selected if they: 1) eliminate conditions detrimental to health, safety and

general welfare of the community; 2) improve the City's existing infrastructure; 3) encourage private capital investment to improve job opportunities and the City's tax base; and 4) benefit the greatest number of City residents or contribute to an equitable distribution of service throughout the City.

The yearly capital improvement program generally consists of projects designed to repair and improve both arterial and neighborhood streets, bridges, pedestrian safety, and water service expansion and replacement. The City provides leadership and encourages the private sector in the development of the Riverfront, Downtown and other areas of the City. The City has completed the process of acquiring and demolishing property, at a cost of \$4 million, in the west-side business district for the construction of a new Federal Courthouse. The property acquisitions and demolitions are funded by a State grant, Federal and Illinois EPA grants, and short term financing which will be paid off once the parcel is turned over to the Federal Government and they release the \$1.8 million from the federal General Services Administration Site Acquisition Fund.

Cash management policies and practices. The primary objective of the City investment policy is to provide for the safety of principal, liquidity and a reasonable rate of return. The City complies with the Illinois State Statute requirements in purchasing securities for investment of the City's idle cash. The investment maturities range from daily, for money markets, to 15 years, for US Treasury and Agency bonds, with a 2.58 year average maturity for the portfolio. The average yield as of year end was 4.28% and will fluctuate on a daily basis. The current economic slowdown along with declining interest rates have a negative impact on the City and requires us to look at a shorter time horizon when investing the City's funds.

Risk management. The City of Rockford is self-insured for certain general liability, workmen's compensation, unemployment, property damage and bodily (automobile accidents) claims. Liabilities are recorded when it is probable that a liability has been incurred as of the balance sheet date and the amount of the liability can be reasonably estimated. Both the current and non-current portions of any liability are reported in the Internal Service Funds. The City will continue to evaluate loss potential, risk retention and insurance coverage to achieve optimum levels of risk management.

The City's health plan lifetime maximum is \$1,500,000. Excess coverage was purchased to the maximum with a \$200,000 retention. Risk control techniques include pre-certification and utilization review process, pre-employment drug testing, an employee assistance program, voluntary second opinion for surgery program and alcohol and substance abuse training. The program was implemented to enhance employee life while controlling total City risk.

Employee Retirement Plans. The State of Illinois statutes provide for three pension funds for municipal employees: the Illinois Municipal Retirement Fund, the Police Pension Fund, and the Firefighter's Pension Fund. Each plan has retirement, disability and death benefits for eligible employees. The Rockford Mass Transit District provides its employees a single-employer retirement system.

The Police and Firefighter's Pension Funds are each administered by separate local boards. The Police Pension Board is composed of five members: two members are appointed by the Mayor; two members are elected from the regular active members of the police force, and one member is elected by and from the beneficiaries of the fund. The Firefighter's Pension Board is composed of six members: the finance director, fire chief, three members elected by active firefighters, and one member elected by and from the beneficiaries of the fund. Illinois State Statutes determine the amount of contribution that each police officer and firefighter makes to their respective fund. The City each year engages an independent actuary to calculate the amount of the annual contribution that the City of Rockford must make to each pension fund to ensure that the plan will be able to meet its obligations on a timely basis. The City of Rockford fully funds each year's annual required contribution to the pension plan as determined by the actuary.

The City of Rockford contributes to the Illinois Municipal Retirement Fund ("IMRF"), an agent multiple-employer, public employee retirement systems, acting as a common investment and administrative agent for local governments and school districts in Illinois. The City's contribution is determined each year by IMRF and for 2005 the amount was 8.99% of covered payroll. Additional information on the City of Rockford's pension arrangements and post-employment benefits can be found on pages 62-66 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Rockford, Illinois, for its comprehensive annual financial report for the fiscal year ended December 31, 2004. This was the twenty-sixth consecutive year the City of Rockford has received this award.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principals and applicable legal requirements.

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

In addition, the City of Rockford received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning January 1, 2005. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The preparation of this report has been accomplished through the diligent efforts of the staff of the Finance Department. I should like to express my appreciation to members of this department who assisted and contributed to its preparation.

I also thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City.

Respectfully submitted,



Andres Sammul
Finance Director

CITY OF ROCKFORD, ILLINOIS
OFFICIALS AND OFFICERS
Year Ended December 31, 2005

MAYOR

Lawrence J. Morrissey

CITY COUNCIL MEMBERS

Franklin C. Beach
John C. Beck
Victory Bell
Daniel P. Conness
Patrick Curran
Joe Sosnowski
Ann Thompson

Jeff Holt
Leonard J. Jacobson
Carl Wasco
Nancy L. Johnson
Douglas Mark
Linda McNeely
Bill Timm

CITY ADMINISTRATOR

Einar Forsman

Bonnie Henry
BUILDING DIRECTOR

Patrick Hayes
LEGAL DIRECTOR

Reid Montgomery
COMMUNITY DEVELOPMENT DIRECTOR

Jessica L. Jones
PERSONNEL DIRECTOR

Andres Sammul
FINANCE DIRECTOR

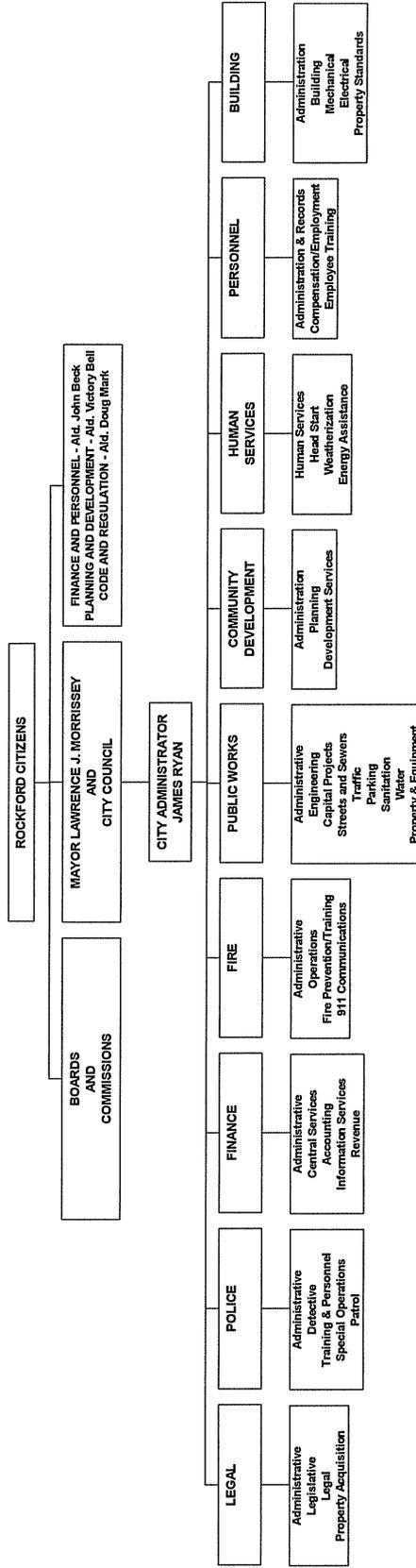
Chet Epperson
POLICE CHIEF

D. William Robertson
FIRE CHIEF

William Bittner
PUBLIC WORKS DIRECTOR

George Davis
HUMAN SERVICES DIRECTOR

CITY OF ROCKFORD, ILLINOIS ORGANIZATION CHART



- Board of Election Commission
- Building Board of Appeals
- Community Action Program Board
- Community Development Citizens Participation Committee
- Electrical Commissions
- Fair Housing Board
- Fire and Police Commission
- 911 Communication Board
- Greater Rockford Airport Authority
- Historical Preservation Commission
- Homestead Board
- Liquor Commission
- Mechanical Board
- Metro Authority
- Personnel Appeals Board
- Rockford Housing Authority
- Rockford Library Board
- Rockford Local Development Corporation
- Rockford Mass Transit District
- Traffic Commission
- Zoning Board of Appeals

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rockford,
Illinois

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

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



Cara E. Perry

President

Jeffrey R. Emer

Executive Director

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and Honorable Members of City Council
City of Rockford, Illinois

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Rockford Metropolitan Exposition, Auditorium and Office Building Authority, a discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rockford, Illinois (City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit, Rockford Mass Transit District, as of December 31, 2005, which statements reflect total assets and revenue totaling \$10,592,776 and \$9,043,156, respectively. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the discretely presented component unit, is based on the report of another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Rockford Metropolitan Exposition, Auditorium and Office Building Authority, a discretely presented component unit of the City, were not audited in accordance with *Government Auditing Standards*. 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 and the report of another auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, schedule of funding progress and employer contributions for pensions and notes to required supplementary information on pages 3 – 16 and A1 – A7, are not a required part of the basic financial statements but are 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.

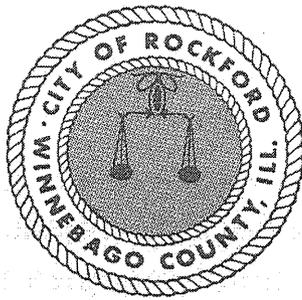
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and the schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Rockford, Illinois
July 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

This section of the City of Rockford ("City") annual financial report presents our discussion and analysis of the City's financial performance for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rockford exceeded its liabilities at December 31, 2005 by \$190,263,911 (net assets). Of this amount, \$18,381,786 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors. Governmental activities accounted for \$78,422,357 and business-type activities accounted for \$111,841,554. The City's total net assets increased by \$24,387,064, of which \$15,764,735 related to government activities and \$8,622,329 to business-type activities.
- During the year, the City's primary government-wide expenses were \$161,379,889, which was less than the \$185,766,953 generated in primary government-wide taxes and other revenues for governmental functions.
- In the City's business-type activities, program revenues increased 10 percent to \$25,066,916, while expenses decreased less than 1 percent to \$16,763,472. The key factor in this increase was \$4.9 million of capital grants and contributions.
- As of the close of the current fiscal year, the City of Rockford's governmental funds reported combined ending fund balances of \$63,838,665. Approximately 71 percent of this total amount, \$45,331,181, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$29,277,422, or 30 percent of total General Fund expenditures.
- During the current fiscal year, the City's total long-term obligations increased by 5.6 percent, or \$7,524,012, to \$141,926,084. The key factor in this increase was the issuance of \$20,990,000 in General Obligation Bonds for various capital improvements and revitalization projects.
- The General Fund reported a net change in fund balance of \$1,153,518 this year compared to a increase of \$4,771,798 in 2004.
- The City's Governmental Funds capital outlays were \$25,920,039 in 2005, an increase from last year of \$2,783,348.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's annual report consists of three components: 1) the basic government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and nonrequired supplementary information in addition to the basic financial statements.

Government-wide financial statements

The governmental-wide financial statements report information about the City as a whole and are designed to provide readers with a broad overview of the City's finances, using accounting methods in a manner similar to a private-sector business.

The government-wide financial statements of the City are divided into three categories:

Governmental activities (Primary government) – The governmental activities of the City include general government (general administration), public safety (police, fire, building inspection, street lighting), streets, alleys and bridges (public works administration, engineering, street, traffic), sanitation (public works – sewer, garbage and refuse), community development (planning & zoning), culture and recreation (public library) and public health and welfare (human services and drug free). Property taxes, State shared revenues, and operating grants from Federal and State agencies finance most of these activities.

Business-type activities (Primary government) – The City charges fees to customers to help cover the costs of certain services it provides. The water utility and parking systems are reported here.

Component units – The City includes two other entities in its report: the Rockford Mass Transit District and the Rockford Metropolitan Exposition, Auditorium and Office Building Authority. Although legally separated, these component units are important because the City is financially accountable for them.

The two government-wide statements are as follows:

Statement of net assets – The statement of net assets presents financial information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as one indicator of whether the financial position of the City of Rockford is improving or deteriorating.

Statement of activities – The statement of activities presents financial information on how the City's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flow.

Both of these statements assist in assessing the overall condition of the City, but one also needs to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's capital assets (roads and bridges, buildings, and water).

The government-wide financial statements can be found on pages 17 - 18 of this report.

Fund financial statements

The fund financial statements provide more detailed information about the City's most significant funds, but not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required to be established by

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

State law and bond covenants. The City also establishes many other funds to help it control and manage resources for particular purposes (e.g. capital improvement projects), or to show that it is properly using certain taxes (Library and Garage) or grants (Community Development and Human Services).

The City has three types of funds:

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Consequently, the governmental fund statements provide a short-term view and help determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation is provided that explains the relationship or differences between the governmental funds and governmental activities.

The City maintains 31 individual governmental funds, of which six are considered major funds. Information is presented separately for the City's major funds in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The General Fund, Public Library Fund, Community Development Fund, Human Services Fund, Debt Service Fund, and Capital Projects Fund are considered the City's major funds. Financial data from the other 25 governmental funds are combined into a single, aggregated presentation. Individual fund financial data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and its three major special revenue funds. A budgetary comparison statement has been provided for the General Fund, Public Library Fund, Community Development Fund, and Human Services Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 19 - 24.

Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented ad hoc business-type activities in the government-wide financial statements, only in more detail. The City uses enterprise funds to account for its Water Utility Fund and its Parking System Fund, both of which are considered to be major funds of the City. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, building maintenance, management information system, health system, 911 communications, and services for the City's other programs and services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 25 - 29 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has two fiduciary funds, the police pension and firefighter's pension funds. The City is the trustee for these pensions and it is also responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

The fiduciary fund financial statements can be found on pages 30 - 31 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 - 68 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Rockford's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages A1 –A7 of this report.

City of Rockford, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2005

Government-wide

FINANCIAL ANALYSIS

Net assets – As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$190,263,911 at the year end December 31, 2005.

By far the largest portion of the City's net assets (66 percent) reflects its investment in capital assets (land, buildings, equipment, other improvements and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses this capital to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rockford Net Assets

	Governmental activities 2005	Governmental activities 2004	Business-type activities 2005	Business-type activities 2004	Total 2005	Total 2004
Current and other assets	\$ 132,613,046	\$ 128,110,135	\$ 20,006,403	\$ 17,718,570	\$ 152,619,449	\$ 145,828,705
Capital assets	132,212,856	107,934,869	117,544,746	112,700,626	249,757,602	220,635,495
Total assets	<u>264,825,902</u>	<u>236,045,004</u>	<u>137,551,149</u>	<u>130,419,196</u>	<u>402,377,051</u>	<u>366,464,200</u>
Long-term liabilities	101,470,891	94,300,453	20,564,248	22,081,609	122,035,139	116,382,062
Current liabilities	84,932,654	79,086,929	5,145,347	5,118,362	90,078,001	84,205,291
Total liabilities	<u>186,403,545</u>	<u>173,387,382</u>	<u>25,709,595</u>	<u>27,199,971</u>	<u>212,113,140</u>	<u>200,587,353</u>
Net assets:						
Invested in capital assets, net of related debt	30,948,639	18,092,456	95,612,984	89,370,750	126,561,623	107,463,206
Restricted	32,826,312	30,854,672	12,494,190	9,694,534	45,320,502	40,549,206
Unrestricted	14,647,406	13,710,494	3,734,380	4,153,941	18,381,786	17,864,435
Total net assets	<u>\$ 78,422,357</u>	<u>\$ 62,657,622</u>	<u>\$ 111,841,554</u>	<u>\$ 103,219,225</u>	<u>\$ 190,263,911</u>	<u>\$ 165,876,847</u>

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, the City was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's total net assets increased by \$24,387,064 during the year, while restricted assets increased by \$4,771,296.

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

Governmental Activities – Governmental activities increased the City’s net assets by \$15,764,735, thereby accounting for 65 percent of the total growth in the net assets of the City. The key element of this increase was an increase in capital assets of \$24,277,987.

Changes in Net Assets						
	Governmental activities 2005	Governmental activities 2004	Business-type activities 2005	Business-type activities 2004	Total 2005	Total 2004
Revenues						
Program revenues:						
Charges for services	\$ 24,505,780	\$ 22,458,151	\$ 20,179,256	\$ 17,846,826	\$ 44,685,036	\$ 40,304,977
Operating grants and contributions	21,335,383	19,068,782	-	-	21,335,383	19,068,782
Capital grants and contributions	6,872,910	6,786,811	4,887,660	4,963,830	11,760,570	11,750,641
General revenues:						
Taxes:						
Property taxes	47,010,384	44,847,233	-	-	47,010,384	44,847,233
Sales tax	23,378,788	22,356,167	-	-	23,378,788	22,356,167
Franchise taxes	1,256,422	1,197,576	-	-	1,256,422	1,197,576
Income tax	11,294,861	9,608,259	-	-	11,294,861	9,608,259
Replacement tax	6,920,944	4,977,766	-	-	6,920,944	4,977,766
Other taxes	13,253,749	13,036,277	-	-	13,253,749	13,036,277
Interest earnings	1,485,108	1,630,807	376,485	337,065	1,861,593	1,967,872
Other	3,009,223	2,386,737	-	-	3,009,223	2,386,737
Total revenues	<u>160,323,552</u>	<u>148,354,566</u>	<u>25,443,401</u>	<u>23,147,721</u>	<u>185,766,953</u>	<u>171,502,287</u>
Expenses						
General government	13,392,590	11,735,947	-	-	13,392,590	11,735,947
Public safety	72,945,042	71,227,167	-	-	72,945,042	71,227,167
Streets, alleys and bridges	11,008,143	10,555,875	-	-	11,008,143	10,555,875
Community development	13,761,490	12,101,290	-	-	13,761,490	12,101,290
Sanitation	7,095,605	7,161,939	-	-	7,095,605	7,161,939
Culture and recreation	7,719,111	9,104,116	-	-	7,719,111	9,104,116
Public health and welfare	14,186,561	10,727,258	-	-	14,186,561	10,727,258
Interest and fiscal charges	4,507,875	4,338,003	-	-	4,507,875	4,338,003
Water	-	-	14,734,889	14,220,177	14,734,889	14,220,177
Parking	-	-	2,028,583	2,574,840	2,028,583	2,574,840
Total expenses	<u>144,616,417</u>	<u>136,951,595</u>	<u>16,763,472</u>	<u>16,795,017</u>	<u>161,379,889</u>	<u>153,746,612</u>
Increase in net assets before transfers	15,707,135	11,402,971	8,679,929	6,352,704	24,387,064	17,755,675
Transfers	57,600	57,600	(57,600)	(57,600)	-	-
Increase in net assets	<u>15,764,735</u>	<u>11,460,571</u>	<u>8,622,329</u>	<u>6,295,104</u>	<u>24,387,064</u>	<u>17,755,675</u>
Net assets - beginning	62,657,622	51,197,051	103,219,225	96,924,121	165,876,847	148,121,172
Net assets - ending	<u>\$ 78,422,357</u>	<u>\$ 62,657,622</u>	<u>\$111,841,554</u>	<u>\$103,219,225</u>	<u>\$ 190,263,911</u>	<u>\$ 165,876,847</u>

Revenues for the City’s governmental activities increased by approximately \$12,000,000 (8 percent) during the year. The leading factors are as follows:

- Property tax revenue increased by approximately \$2,200,000 (4.8 percent) during the current year compared to 6.4 percent and 4.7 percent for 2004 and 2003, respectively. Shared revenue from the State increased approximately \$4,900,000 (9 percent) from 2004. Tax revenue from the State has rebounded significantly from the downturn in the statewide economy experienced in 2003.
- Operating grants and capital grants increased nearly 10 percent, mostly as a result of an aggressive grant application strategy undertaken by the City. Charges for services increased 9 percent due to continued emphasis on user fees including systematically updating the rates to keep pace with costs.

Expenses for the City’s governmental activities increased approximately \$7,700,000 (5.6 percent) during the year. For the most part this increase in expenses paralleled inflation with a few noteworthy exceptions:

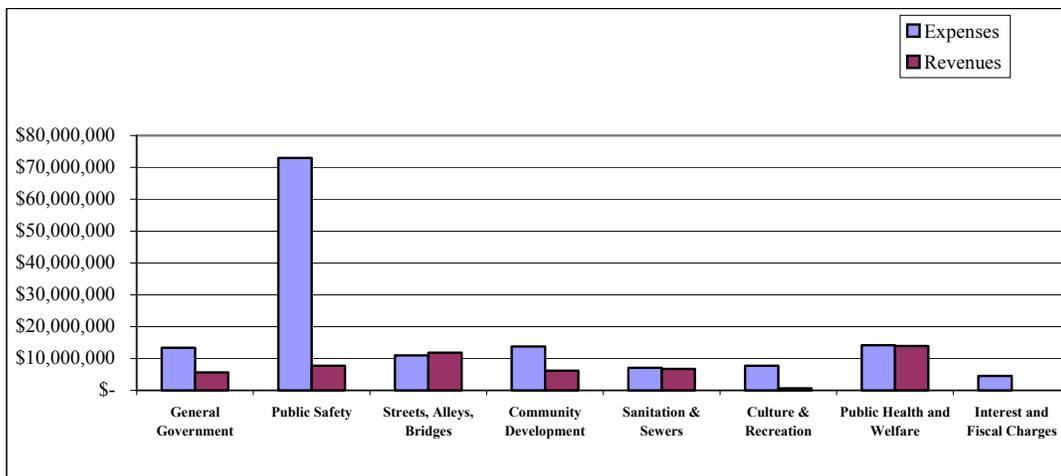
- Charges for health insurance increased 8.3 percent over 2004.

City of Rockford, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2005

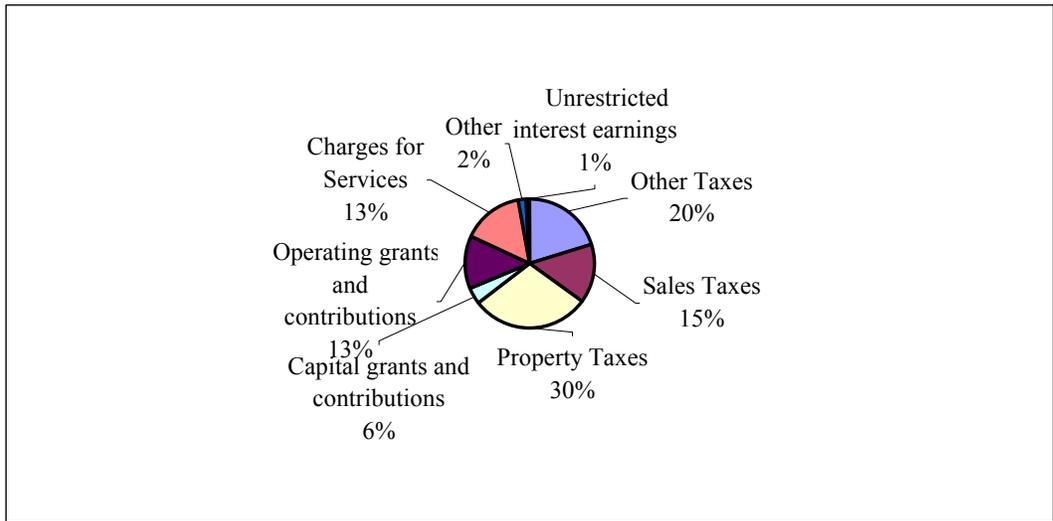
- Expenses for the City's public health and welfare function were up 29 percent during the year. This increase reflects the cost of additional funding from both the U.S. and State Department of Human Services for energy assistance grants.
- Expenses for the City's community development function were up 13.7 percent during the year. This increase reflects the cost of additional funding from the U.S. Environmental Protection Agency for Brownfield Revolving Loans and the U.S. Department of Housing and Urban Development for Section 108 Guaranteed Loans.

Expense and Program Revenues - Governmental Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

Revenues by Source - Governmental Activities



The cost of all governmental activities this year was \$144,616,417. However, the amount that taxpayers paid for these activities through City taxes was only \$91,902,344. Some of the cost was paid by:

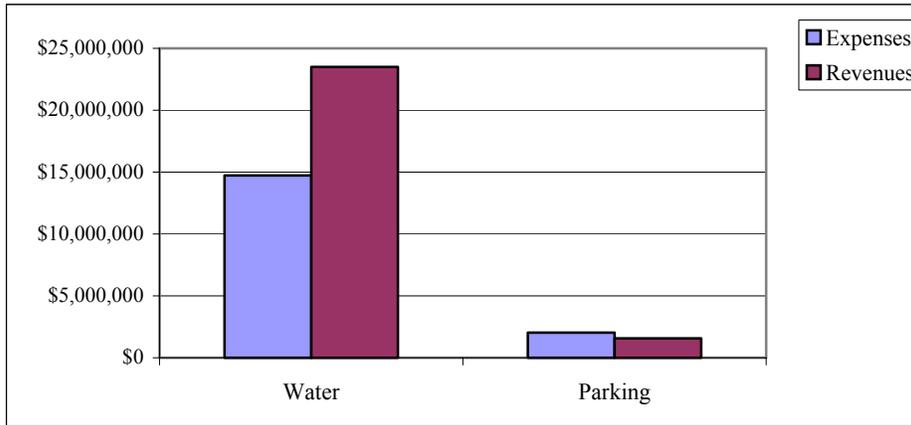
- Those who directly benefited from the programs (\$24,505,780), or
- Other governments and organizations that subsidized certain programs with grants (\$21,335,383) and capital contributions (\$6,872,910).

Business-type Activities – Business-type activities net assets increased by \$8,622,329 in 2005, accounting for 35 percent of the total growth in the government's net assets. Revenues from business-type activities increased 10 percent to \$25,443,401 and expenses decreased less than 1 percent to \$16,763,472. Key elements contributing to these results included:

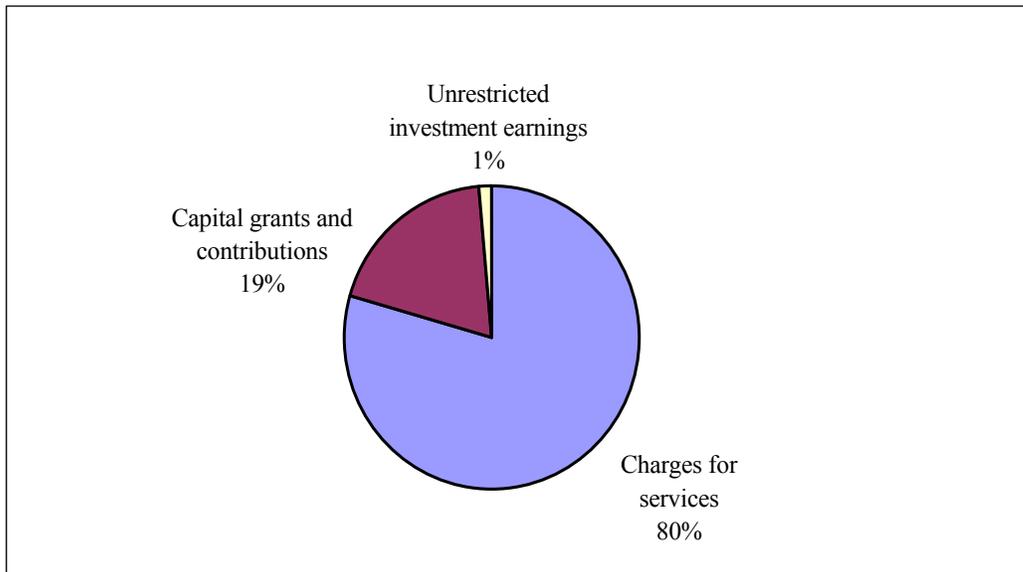
- Charges for services for business-type activities increased by 12 percent. The Water Utility accounts for a significant portion of this increase. A 10 percent increase in gallons of water supplied coupled with a 3 percent rate increase provided \$2,156,946 of additional revenue.
- The Water Utility received a one-time capital grant of \$780,502 from the Illinois Department of Economic Opportunity for the construction of water mains.
- Capital grants and contributions emerged as a major revenue source for the Water Utility during the current fiscal year, producing \$4,887,660 of revenue. Most of this increase is a direct result of a new city ordinance requiring private developers to bear the cost of construction of new water mains. Previously the City was required to reimburse developers over a period of ten years.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

Expenses and Program Revenues - Business-type Activities
(000) In Thousands



Revenues by Source - Business-type Activities



City of Rockford, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

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

Governmental funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year 2005, its governmental funds reported a combined fund balance of \$63,838,665, an increase of \$1,614,035 (2.6 percent) in comparison with last year. Unreserved fund balance was \$45,331,181, and is available for spending at the government's discretion. The remainder of \$18,507,484 is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate purchase orders of the prior period (\$9,683,792), 2) to pay debt service (\$5,394,738), 3) for long-term notes receivable (\$2,304,801), 4) for intergovernmental agreements, (\$1,098,044), and 5) for endowments which are restricted to principal (\$26,109).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund is \$29,277,422, while total fund balance reached \$30,670,730. As a measure of the General Fund's liability, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 30 percent of total General Fund expenditures, while total balance represents 32 percent of that same amount.

The fund balance of the City's General Fund increased by \$1,153,518 during the current fiscal year. Key factors in this increase are as follows.

- Intergovernmental revenues were considerably higher than anticipated, most notably State income taxes of \$1,302,261 and replacement taxes of \$1,994,662 were over budgeted amounts. In total, intergovernmental revenues were \$3,439,770 over budgeted amounts.
- General fund expenditures were higher than anticipated by \$1,561,421, most notably public safety was \$1,091,718 over budgeted amounts.

The Public Library fund balance at year-end was \$2,242,555, of which \$11,109 is reserved for endowments. There was an increase in fund balance of \$199,880 during the year, which resulted from expenditures being over budget by \$127,765 (1.8 percent) and revenues exceeding budgetary estimates by \$470,207 (6.7 percent).

The Community Development fund balance at year-end was \$3,729,167, of which \$2,107,775 is reserved for long-term notes receivables and \$1,098,044 for intergovernmental agreements. There was a decrease in fund balance of \$173,052 during the year, which resulted from expenditures increasing by \$1,559,990 (26 percent), while revenues increased only \$1,388,496 (23 percent).

The Human Services fund balance at year-end was \$1,242,971, of which \$187,742 is reserved for long-term notes receivables and \$251,570 is reserved for encumbrances. This represents a decrease of \$99,350 or 8 percent during the year.

The Debt Service fund total fund balance at year-end was \$5,131,603, all of which is reserved for the payment of debt service. The net increase in the fund balance during the current year was \$745,551.

City of Rockford, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2005

Capital Projects fund total fund balance at year-end was \$16,956,242. There was a net increase in fund balance of \$722,266 from 2004.

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

Unrestricted net assets (deficit) of the Water Utility fund at the end of the year amounted to \$3,757,060, and those of the Parking System fund amounted to (\$22,680). The total change in net assets for both funds was \$9,130,745 and (\$508,416), respectively. Other factors concerning the finances of these two funds have been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

The City Council passed a supplemental budget appropriation of \$1,576,000 for the General Fund. The City is legally authorized by State statutes to amend the budget after June 30. The changes to the General Fund departments are as follows:

Mayor's Office	\$	35,000
City Council	\$	10,000
Legal Department	\$	80,000
Finance department	\$	508,000
Police Department	\$	400,500
Fire department	\$	213,000
Public works –		
Street and Sewer	\$	163,500
Traffic	\$	166,000

During the year the City spent 101.6 percent of the final amount appropriated in the General Fund, however, revenues exceeded budgetary estimates by 105 percent. The net change to fund balance was a positive \$1,150,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of December 31, 2005 amounts to \$249,757,602 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, roads and bridges, and water and sewer lines. The total increase in the City's investment in capital assets for the current fiscal year was 13 percent (a 22 percent increase for governmental activities and a 4 percent increase for business-type activities).

Major capital asset additions during the current fiscal year included the following:

- Vehicle and operating equipment costs for the fire and police departments were \$1,001,023 and \$518,832, respectively. These replacements were necessary after two years without capital purchases.
- A variety of street construction projects in new residential developments and widening and expansion projects for existing streets and bridges were initiated. However, the City's main focus in 2005 was major improvements to key arterial streets. Capital projects completed during the year totaled \$14,399,415, while construction in progress as of the end of the current year had reached \$20,697,047.

City of Rockford, Illinois

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

- Various system additions and improvements were completed in the Water Utility fund at a cost of \$3,421,134; construction in progress as of the end of the current year had reached \$667,647.
- Additions and improvements completed in the Parking System fund were \$3,050,369. There was no construction in progress as of the end of the year.

Primary Government Capital Assets (net of depreciation)

	Governmental	Governmental	Business-type	Business-type	Total	Total
	activities	activities	activities	activities		
	2005	2004	2005	2004	2005	2004
Land	\$ 3,385,353	\$ 2,889,132	\$ 6,000,310	\$ 6,069,661	\$ 9,385,663	\$ 8,958,793
Land improvements	374,508	455,568	139,905	137,122	514,413	592,690
Buildings and improvements	29,571,924	30,529,383	15,186,464	12,731,633	44,758,388	43,261,016
Improvements other than building	-	-	94,692,038	89,691,384	94,692,038	89,691,384
Equipment	9,211,591	9,462,027	858,382	1,048,260	10,069,973	10,510,287
Infrastructure	68,972,433	56,922,283	-	-	68,972,433	56,922,283
Construction in progress	20,697,047	7,676,476	667,647	3,022,566	21,364,694	10,699,042
Total	\$ 132,212,856	\$ 107,934,869	\$ 117,544,746	\$ 112,700,626	\$ 249,757,602	\$ 220,635,495

Additional information on the City of Rockford’s capital assets can be found in Note III, C on pages 48 – 49 of this report.

Long-term Debt – At the end of the current fiscal year, the City of Rockford had total debt outstanding of \$124,220,000. This debt is backed by the full faith and credit of the City. Total debt increased by \$9,930,000 during the current fiscal year. The key factors in this increase were capital equipment for the police, fire, and public works departments and annual borrowings for street and water system improvements.

Primary Government Outstanding Debt
General Obligation and Revenue Bonds

	Governmental	Governmental	Business-type	Business-type	Total	Total
	activities	activities	activities	activities		
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 101,970,000	\$ 90,550,000	\$ 22,250,000	\$ 23,740,000	\$ 124,220,000	\$ 114,290,000

City of Rockford, Illinois

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended December 31, 2005

During the current fiscal year, the City refinanced some of its existing debt to take advantage of favorable interest rates.

- The City of Rockford issued general obligation bonds to refinance previously outstanding general debt of \$510,000. The result was an economic gain of \$19,502.

The City of Rockford's bond rating is A1 from Moody's Investors Services.

The State imposes a legal limit of 8.625% of total equalized assessed valuation on the amount of general bond indebtedness. The City further limits their indebtedness, by ordinance, to 80.0% of the State limit. As of December 31, 2005 the City's indebtedness was \$37,438,881 less than the City limit and \$68,816,333 less than the State limit.

Additional information on the City of Rockford's long-term debt can be found on Note III, G on pages 53 - 60 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Rockford is the industrial and business hub of the Rock River Valley and northwestern Illinois. Rockford's economy is diversified with manufacturing and medical as its primary base, while call center/office operations, distribution centers and educational institutions are becoming more important to the economy. The City of Rockford economic conditions are as follows:

- The unemployment rate for the City of Rockford is currently 6.4 percent, which is a decrease from a rate of 6.5 percent a year ago. This is higher than the State's average unemployment rate of 5.7 percent and the national average rate of 5.1 percent.
- Inflation in the metropolitan area compares to the national consumer price index.

City of Rockford MSA Non-Agricultural Wage and Salary Employment (Annual Averages)

	Unemployment rates				
	2005	2004	2003	2002	2001
Rockford	6.40%	6.50%	8.30%	7.80%	6.50%
State of Illinois	5.70%	5.70%	6.40%	6.50%	5.80%
United States	5.10%	5.10%	5.40%	5.80%	5.40%
Employment Number	2005	2004	2003	2002	2001
Manufacturing	39,900	40,200	38,300	40,800	46,100
Nonmanufacturing	114,500	115,000	112,500	114,600	112,800
Government	16,100	16,200	19,100	19,500	19,300
Total	170,500	171,400	169,900	174,900	178,200

All of these economic factors were taken into account when adopting the General Fund budget for 2006.

The City's goal in developing the 2006 budget was to continue offering citizens basic services, economic development efforts, a continuing capital improvements program, and fiscal stability. Development and adoption of the 2006 budget were premised on maintaining a level of service equivalent to 2005, making incremental improvements where possible, while working within the limitations of the Property Tax Extension Limitation Law.

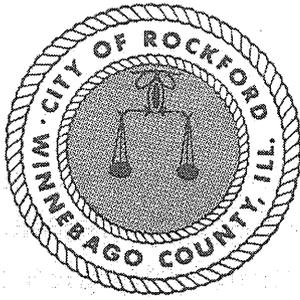
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2005

Budgeted expenditures in the General Fund are \$101,523,381, an increase of 5.3 percent over the final 2005 budget of \$96,403,253. Employee contracts, pensions and health insurance costs make up the largest increases in the budget.

In January 2006, the City Council approved the proposed budget with minimal revisions from the original proposed budget. Staff reviewed all revenues and expenditures, changes were made as necessary, and a balanced General Fund GAAP budget was adopted. This budget allows the City to maintain the necessary fund and cash balances, as well as allows the 2007 budget process to begin on a sound financial footing.

Requests for information

This financial report is designed to provide a general overview of the City of Rockford's finances for all those with an interest in the Government's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 425 East State Street, Rockford, Illinois 61104.



CITY OF ROCKFORD, ILLINOIS

STATEMENT OF NET ASSETS

December 31, 2005

ASSETS	Primary Government			Component Units	
	Governmental	Business-type	Total	Rockford	Rockford
	Activities	Activities		Mass Transit	Metropolitan
				District	Exposition,
					Auditorium and
					Office Building
					Authority
Cash and cash equivalents	\$ 49,895,292	\$ 948,902	\$ 50,844,194	\$ 1,852,580	\$ 282,075
Investments	-	-	-	-	163,891
Receivables, net	60,133,437	5,676,637	65,810,074	780,261	223,424
Internal balances	(113,483)	113,483	-	-	-
Due from other governments	20,859,288	115,081	20,974,369	-	-
Inventories	238,389	477,400	715,789	220,457	-
Prepaid items	399,837	-	399,837	69,930	131,690
Other assets	1,200,286	180,710	1,380,996	-	-
Restricted assets:					
Cash and cash equivalents	-	12,494,190	12,494,190	-	-
Capital assets not depreciated	24,082,400	6,667,957	30,750,357	1,291,476	2,937,014
Capital assets, net of accumulated depreciation	108,130,456	110,876,789	219,007,245	6,378,072	11,177,842
Total assets	264,825,902	137,551,149	402,377,051	10,592,776	14,915,936
LIABILITIES					
Bank overdraft	11,898	-	11,898	-	-
Accounts payable and other accrued liabilities	8,603,829	1,039,211	9,643,040	223,310	365,633
Accrued payroll and benefits	3,279,871	218,532	3,498,403	439,284	308,762
Due to other governments	821,597	-	821,597	-	-
Unearned revenue	54,072,385	-	54,072,385	1,036,101	889,192
Other liabilities	1,177,566	30,481	1,208,047	514,015	-
Deposits and advances	-	931,686	931,686	3,992	18,603
Noncurrent liabilities:					
Due or payable within one year	16,965,508	2,925,437	19,890,945	-	2,083,021
Due or payable in more than one year	101,470,891	20,564,248	122,035,139	-	437,533
Total liabilities	186,403,545	25,709,595	212,113,140	2,216,702	4,102,744
NET ASSETS					
Invested in capital assets, net of related debt	30,948,639	95,612,984	126,561,623	7,665,556	12,294,302
Restricted for:					
Capital projects	17,919,997	8,258,356	26,178,353	-	-
Debt service	4,944,429	4,235,834	9,180,263	-	-
Culture and recreation	2,055,562	-	2,055,562	-	-
Community development	3,663,687	-	3,663,687	-	-
Public health and welfare	1,024,155	-	1,024,155	-	-
Highways and streets	3,171,625	-	3,171,625	-	-
Employee and public liability trusts	-	-	-	690,090	-
Other purposes - Grants	46,857	-	46,857	-	-
Unrestricted	14,647,406	3,734,380	18,381,786	20,428	(1,481,110)
Total net assets	\$ 78,422,357	\$ 111,841,554	\$ 190,263,911	\$ 8,376,074	\$ 10,813,192

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2005

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund
ASSETS					
Cash and cash equivalents	\$ 14,012,628	\$ 2,888,863	\$ 85,683	\$ 894	\$ 5,110,208
Property taxes receivable, net	30,506,795	6,234,706	-	-	8,508,998
Accounts receivable, net	4,192,560	14,772	-	350	-
Notes receivable, net	-	-	3,418,437	272,088	-
Accrued interest receivable	242,397	37,870	11,796	34,075	97,234
Due from the Federal Government	-	-	2,040,479	580,887	-
Due from the State of Illinois	9,757,074	198,466	170,414	3,556,766	-
Due from other governmental units	292,709	-	-	-	-
Due from other funds	8,865,819	-	-	-	-
Other assets	-	-	1,200,286	-	-
Total assets	<u>\$ 67,869,982</u>	<u>\$ 9,374,677</u>	<u>\$ 6,927,095</u>	<u>\$ 4,445,060</u>	<u>\$ 13,716,440</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Bank overdraft	\$ 11,898	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,483,227	254,070	112,341	701,616	59,537
Accrued payroll and benefits	2,649,470	140,128	39,979	157,208	-
Accrued interest payable	558,330	-	-	37,440	16,302
Due to other governments	821,597	-	-	-	-
Due to other funds	-	500,000	1,795,280	1,849,395	-
Deferred revenue	30,506,795	6,234,706	1,244,005	456,340	8,508,998
Other liabilities	1,167,935	3,218	6,323	90	-
Total liabilities	<u>37,199,252</u>	<u>7,132,122</u>	<u>3,197,928</u>	<u>3,202,089</u>	<u>8,584,837</u>
Fund balances:					
Reserved for encumbrances	1,393,308	-	-	251,570	-
Reserved for debt service	-	-	-	-	5,394,738
Reserved for long-term notes receivable	-	-	2,107,775	187,742	-
Reserved for intergovernmental agreement	-	-	1,098,044	-	-
Reserved for endowments	-	11,109	-	-	-
Unreserved, reported in:					
General Fund	29,277,422	-	-	-	-
Special Revenue Funds	-	2,231,446	523,348	803,659	-
Debt Service Fund	-	-	-	-	(263,135)
Capital Project Fund	-	-	-	-	-
Total fund balances	<u>30,670,730</u>	<u>2,242,555</u>	<u>3,729,167</u>	<u>1,242,971</u>	<u>5,131,603</u>
Total liabilities and fund balances	<u>\$ 67,869,982</u>	<u>\$ 9,374,677</u>	<u>\$ 6,927,095</u>	<u>\$ 4,445,060</u>	<u>\$ 13,716,440</u>

The accompanying notes to the financial statements are an integral part of this statement.

	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$	17,456,975	\$ 6,472,334	\$ 46,027,585
	-	4,681,004	49,931,503
	85,082	1,287,553	5,580,317
	-	36,784	3,727,309
	213,060	59,119	695,551
	1,992,886	-	4,614,252
	1,077,857	507,663	15,268,240
	365,235	6,957	664,901
	1,001,464	192,886	10,060,169
	-	-	1,200,286
\$	22,192,559	\$ 13,244,300	\$ 137,770,113

\$	-	\$ -	\$ 11,898
	2,991,073	872,613	6,474,477
	30,851	5,515	3,023,151
	-	18,764	630,836
	-	-	821,597
	192,886	3,562,322	7,899,883
	2,021,507	4,919,689	53,892,040
	-	-	1,177,566
	5,236,317	9,378,903	73,931,448

	7,954,527	84,387	9,683,792
	-	-	5,394,738
	-	9,284	2,304,801
	-	-	1,098,044
	-	15,000	26,109
	-	-	29,277,422
	-	3,756,726	7,315,179
	-	-	(263,135)
	9,001,715	-	9,001,715
	16,956,242	3,865,397	63,838,665
\$	22,192,559	\$ 13,244,300	\$ 137,770,113

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2005

Total fund balances for governmental funds \$ 63,838,665

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 3,385,353	
Construction in progress	20,697,047	
Improvements other than buildings, net of \$36,552 accumulated depreciation	304,122	
Buildings and improvements, net of \$20,335,550 accumulated depreciation	28,712,332	
Equipment, net of \$20,730,812 accumulated depreciation	7,929,530	
Infrastructure, net of \$3,773,804 accumulated depreciation	<u>68,872,433</u>	
Total capital assets (See Note III - C.)		129,900,817

Revenues in the statement of activities that do not provide current financial resources are deferred in the funds. 563,918

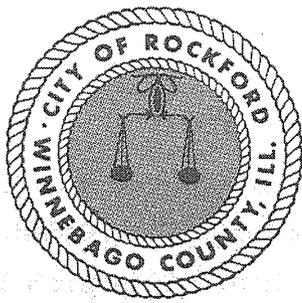
Internal service funds are used by the City to charge the cost of fleet management, building maintenance, inventories, auditing, 911 communications, risk management, information systems, and employee benefits for Illinois municipal retirement, unemployment, workers' compensation, and health insurance. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. Internal service fund net assets are: (3,008,418)

Long-term assets and liabilities applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net assets. Also, during the year the City refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The net present value of the reduction in cash flows from the new debt and the cash flow from the old debt results in an economic gain and will be deferred and amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. Deferred charge for issuance costs and discounts will also be amortized as an adjustment of interest expense over the remaining life of the debt.

Pension benefit obligation	\$ (3,885,988)	
Prepaid items	399,837	
Bonds payable	(101,970,000)	
Accrued interest on bonds	(187,173)	
Compensated absences	(4,912,819)	
EPA Water Pollution Obligations	(977,265)	
Section 108 guaranteed loans	(2,045,000)	
Deferred charge for issuance costs	327,813	
Deferred amount on refunding	<u>377,970</u>	
Total long-term assets and liabilities (See Note III - G.)		<u>(112,872,625)</u>

Total net assets of governmental activities \$ 78,422,357

The accompanying notes to the financial statements are an integral part of this statement.



CITY OF ROCKFORD, ILLINOIS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2005

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund
REVENUES				
Taxes	\$ 60,821,790	\$ 5,958,925	\$ -	\$ -
Licenses and permits	5,137,556	-	-	-
Intergovernmental	20,324,085	1,250,847	6,637,871	13,608,661
Charges for services	6,056,566	50,037	-	-
Fines	1,796,324	114,935	-	-
Interest	426,226	54,457	71,761	15,592
Miscellaneous	511,298	42,716	803,959	56,857
Total revenues	<u>95,073,845</u>	<u>7,471,917</u>	<u>7,513,591</u>	<u>13,681,110</u>
EXPENDITURES				
Current:				
General government	11,063,266	-	-	-
Public safety	72,060,997	-	-	-
Streets, alleys and bridges	9,071,293	-	-	-
Community development	1,395,720	-	7,564,557	-
Sanitation and sewers	634,605	-	-	-
Culture and recreation	-	6,843,800	-	-
Public health and welfare	-	-	-	13,927,274
Debt service:				
Principal payments	-	-	20,000	-
Interest and fiscal charges	-	36,634	51,825	57,431
Capital outlay:				
General government	-	-	-	-
Public safety	1,519,855	-	-	-
Streets, alleys and bridges	355,793	-	-	-
Community development	-	-	-	-
Sanitation and sewers	-	-	-	-
Culture and recreation	-	391,603	-	-
Public health and welfare	-	-	-	49,515
Total expenditures	<u>96,101,529</u>	<u>7,272,037</u>	<u>7,636,382</u>	<u>14,034,220</u>
Excess of revenues over (under) expenditures	<u>(1,027,684)</u>	<u>199,880</u>	<u>(122,791)</u>	<u>(353,110)</u>
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	-	-
Payment to escrow agent	-	-	-	-
Issuance of general obligation bonds	-	-	-	-
Discount on issue of general obligation bonds	-	-	-	-
Transfers in	4,178,631	-	271,382	253,760
Transfers out	(1,997,429)	-	(321,643)	-
Total other financing sources (uses)	<u>2,181,202</u>	<u>-</u>	<u>(50,261)</u>	<u>253,760</u>
Net change in fund balances	<u>1,153,518</u>	<u>199,880</u>	<u>(173,052)</u>	<u>(99,350)</u>
Fund balances - beginning	<u>29,517,212</u>	<u>2,042,675</u>	<u>3,902,219</u>	<u>1,342,321</u>
Fund balances - ending	<u>\$ 30,670,730</u>	<u>\$ 2,242,555</u>	<u>\$ 3,729,167</u>	<u>\$ 1,242,971</u>

The accompanying notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 7,752,271	\$ -	\$ 9,263,859	\$ 83,796,845
-	-	177,242	5,314,798
-	1,771,315	4,652,347	48,245,126
-	64,426	6,710,042	12,881,071
-	-	-	1,911,259
158,234	426,398	246,206	1,398,874
-	396,290	1,726,241	3,537,361
7,910,505	2,658,429	22,775,937	157,085,334
-	-	1,739,402	12,802,668
-	-	-	72,060,997
-	147,199	-	9,218,492
-	-	4,895,686	13,855,963
-	-	6,479,993	7,114,598
-	-	-	6,843,800
-	-	362,465	14,289,739
7,860,000	-	-	7,880,000
4,055,082	145,287	48,745	4,395,004
-	554,991	-	554,991
-	9,865	-	1,529,720
-	18,032,308	-	18,388,101
-	4,794,032	-	4,794,032
-	149,997	-	149,997
-	45,085	-	436,688
-	16,995	-	66,510
11,915,082	23,895,759	13,526,291	174,381,300
(4,004,577)	(21,237,330)	9,249,646	(17,295,966)
510,000	20,000	-	530,000
(107,622)	-	-	(107,622)
12,177	18,757,823	-	18,770,000
-	(140,011)	-	(140,011)
4,335,573	5,006,866	71,352	14,117,564
-	(1,685,082)	(10,255,776)	(14,259,930)
4,750,128	21,959,596	(10,184,424)	18,910,001
745,551	722,266	(934,778)	1,614,035
4,386,052	16,233,976	4,800,175	62,224,630
\$ 5,131,603	\$ 16,956,242	\$ 3,865,397	\$ 63,838,665

The accompanying notes to the financial statements are an integral part of this statement.

**CITY OF ROCKFORD, ILLINOIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ 1,614,035
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful life and reported as depreciation expense. This is the amount by which capital outlays (\$26,020,042) exceeded depreciation (\$5,078,860) in the current period. (See Note III - C.)	20,941,182
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In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(486,399)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	563,918
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Contributed capital assets reported as revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	3,726,439
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. (See Note III - G.)

Debt issued:

Refunding general obligation bonds issued	\$ (530,000)
Proceeds from general obligation bonds issued	(18,770,000)
Proceeds from Section 108 Guaranteed Loan issued	(1,000,000)
Less: Discounts on bonds issued and issuance costs	159,513

Repayments:

Principal payment on bonds and other long-term obligations and amounts paid to escrow agent	7,987,622
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Net adjustment	(12,152,865)
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

This adjustment combines the net changes of the following balances. (See Note III - G.)

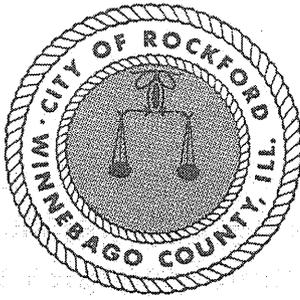
Net pension obligation	\$ 350,270
Compensated absences	362,457
Prepaid expenses	91,400
Accrued interest on bonds	(21,166)
Amortization of deferred amount from refunding and bond discounts	(42,243)
Amortization of bond issue costs	(119,074)
Combined adjustment	621,644

Internal Service funds are used by the City to charge the cost of Central Garage, Building Maintenance, Central Stores, Auditing, 911 Communications, Risk Management, Data Processing and employee benefits for Illinois Municipal Retirement, Unemployment, Workmen's Compensation, and Health Insurance to individual funds. The net revenue (expenses) of the above Internal Service funds is reported within governmental activities.

	936,781
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Change in net assets of governmental activities	\$ 15,764,735
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The accompanying notes to the financial statements are an integral part of this statement.



CITY OF ROCKFORD, ILLINOIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

December 31, 2005

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Parking System	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 898,321	\$ 50,581	\$ 948,902	\$ 3,867,707
Accounts receivable:				
Water	2,170,215	-	2,170,215	-
Estimated unbilled water usage	3,620,000	-	3,620,000	-
Other	45,235	39,617	84,852	164,033
Total accounts receivable	5,835,450	39,617	5,875,067	164,033
Less allowance for uncollectible accounts	(368,094)	-	(368,094)	-
Total accounts receivable, net	5,467,356	39,617	5,506,973	164,033
Accrued interest receivable	167,687	1,977	169,664	34,724
Due from other funds	113,483	-	113,483	-
Due from other governments	115,081	-	115,081	311,895
Inventories	477,400	-	477,400	238,389
Current restricted assets:				
Cash and cash equivalents:				
Bond construction account	7,258,356	-	7,258,356	-
Revenue bond renewal and replacement account	1,000,000	-	1,000,000	-
Alternate bond current debt service account	4,235,834	-	4,235,834	-
Total current restricted assets	12,494,190	-	12,494,190	-
Total current assets	19,733,518	92,175	19,825,693	4,616,748
Noncurrent assets:				
Other assets - unamortized bond issue costs	180,710	-	180,710	-
Capital assets:				
Land	481,842	5,518,468	6,000,310	-
Construction in progress	667,647	-	667,647	-
Land improvements	347,229	-	347,229	20,000
Buildings and improvements	4,889,780	18,569,315	23,459,095	1,148,743
Equipment	3,224,841	208,060	3,432,901	3,950,547
Improvements other than land and buildings	125,028,162	4,224,559	129,252,721	194,234
Less accumulated depreciation	(36,982,436)	(8,632,721)	(45,615,157)	(3,001,485)
Total capital assets	97,657,065	19,887,681	117,544,746	2,312,039
Total noncurrent assets	97,837,775	19,887,681	117,725,456	2,312,039
Total assets	\$ 117,571,293	\$ 19,979,856	\$ 137,551,149	\$ 6,928,787

The accompanying notes to the financial statements are an integral part of this statement.

	Business-type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Water Utility	Parking System	Total	
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 963,007	\$ 39,780	\$ 1,002,787	\$ 1,291,199
Accrued interest payable	36,424	-	36,424	20,144
Accrued payroll and benefits	204,410	14,122	218,532	256,720
Due to other funds	-	-	-	2,273,769
Other liabilities	30,481	-	30,481	-
Deposits and advances	891,531	40,155	931,686	-
Compensated absences	96,691	6,070	102,761	96,057
General obligation alternate bonds payable (net of unamortized deferred refunding benefit)	2,664,637	-	2,664,637	-
Refundable water main extension advances	158,039	-	158,039	-
Claims and judgments payable	-	-	-	2,584,572
Total current liabilities	<u>5,045,220</u>	<u>100,127</u>	<u>5,145,347</u>	<u>6,522,461</u>
Noncurrent liabilities:				
Compensated absences	192,086	14,728	206,814	270,353
Deferred revenue	-	-	-	744,263
Refundable water main extension advances	815,482	-	815,482	-
Customer water deposits	274,827	-	274,827	-
General obligation alternate bonds payable (net of unamortized deferred refunding benefit)	19,267,125	-	19,267,125	-
Claims and judgments payable	-	-	-	2,400,128
Total noncurrent liabilities	<u>20,549,520</u>	<u>14,728</u>	<u>20,564,248</u>	<u>3,414,744</u>
Total liabilities	<u>25,594,740</u>	<u>114,855</u>	<u>25,709,595</u>	<u>9,937,205</u>
NET ASSETS				
Invested in capital assets, net of related debt	75,725,303	19,887,681	95,612,984	2,312,039
Restricted:				
Capital projects	8,258,356	-	8,258,356	-
Debt service	4,235,834	-	4,235,834	-
Unrestricted	3,757,060	(22,680)	3,734,380	(5,320,457)
Total net assets	<u>\$ 91,976,553</u>	<u>\$ 19,865,001</u>	<u>\$ 111,841,554</u>	<u>\$ (3,008,418)</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Year Ended December 31, 2005

	Business-type Activities-			Governmental
	Enterprise Funds			
	Water	Parking	Totals	Internal
	Utility	System		Service Funds
OPERATING REVENUES				
Charges for services	\$ 18,510,339	\$ 1,002,721	\$ 19,513,060	\$ 38,110,716
Parking fines	-	525,642	525,642	-
Miscellaneous	95,214	45,340	140,554	801,732
Total operating revenues	<u>18,605,553</u>	<u>1,573,703</u>	<u>20,179,256</u>	<u>38,912,448</u>
OPERATING EXPENSES				
Salaries and benefits	4,796,818	409,915	5,206,733	7,059,404
Services	3,406,971	428,872	3,835,843	27,668,730
Supplies and materials	1,533,597	37,773	1,571,370	2,136,077
Depreciation	2,617,111	624,684	3,241,795	478,513
Charges from General Fund	1,264,496	457,300	1,721,796	629,400
Miscellaneous	-	-	-	245,143
Total operating expenses	<u>13,618,993</u>	<u>1,958,544</u>	<u>15,577,537</u>	<u>38,217,267</u>
Operating income (loss)	<u>4,986,560</u>	<u>(384,841)</u>	<u>4,601,719</u>	<u>695,181</u>
NONOPERATING REVENUES (EXPENSES)				
Contributions from the State of Illinois	780,502	-	780,502	-
Interest revenue	372,421	4,064	376,485	86,234
Loss on disposal of capital assets	(5,506)	(70,039)	(75,545)	-
Interest expense and service fees	(971,322)	-	(971,322)	(44,600)
Amortization expense	(139,068)	-	(139,068)	-
Total nonoperating revenues (expenses)	<u>37,027</u>	<u>(65,975)</u>	<u>(28,948)</u>	<u>41,634</u>
Income (loss) before transfers and capital contributions	<u>5,023,587</u>	<u>(450,816)</u>	<u>4,572,771</u>	<u>736,815</u>
Transfers In/(Out)	-	(57,600)	(57,600)	199,966
Contributions from developers	4,107,158	-	4,107,158	-
Change in net assets	<u>9,130,745</u>	<u>(508,416)</u>	<u>8,622,329</u>	<u>936,781</u>
Total net assets - beginning	<u>82,845,808</u>	<u>20,373,417</u>	<u>103,219,225</u>	<u>(3,945,199)</u>
Total net assets - ending	<u>\$ 91,976,553</u>	<u>\$ 19,865,001</u>	<u>\$ 111,841,554</u>	<u>\$ (3,008,418)</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended December 31, 2005

	Business-type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Water Utility	Parking System	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 18,726,729	\$ 1,655,360	\$ 20,382,089	\$ 42,662,825
Other receipts	95,214	45,340	140,554	-
Payment to suppliers	(4,759,295)	(868,036)	(5,627,331)	(32,655,984)
Payment to employees	(4,725,201)	(427,706)	(5,152,907)	(7,011,497)
Payments for interfund services used	(1,259,092)	(457,300)	(1,716,392)	(629,400)
Payments to other funds	-	-	-	(2,267,975)
Net cash provided by operating activities	8,078,355	(52,342)	8,026,013	97,969
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	-	-	-	199,966
Transfers out	-	(57,600)	(57,600)	-
Net cash provided by (used for) noncapital financing activities	-	(57,600)	(57,600)	199,966
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital grants	1,293,744	-	1,293,744	-
Proceeds from sale of general obligation alternate bonds	2,200,000	-	2,200,000	-
Proceeds from sale of capital assets	18,945	-	18,945	-
Bond issue costs	(47,182)	-	(47,182)	-
Interest paid on general obligation alternate bonds	(980,954)	-	(980,954)	-
Principal payment on general obligation alternate bonds	(3,690,000)	-	(3,690,000)	-
Repayment to contractors for water mains	(197,681)	-	(197,681)	-
Capital asset acquisitions	(4,050,903)	(207,938)	(4,258,841)	(575,282)
Net cash (used for) capital and related financing activities	(5,454,031)	(207,938)	(5,661,969)	(575,282)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on cash and cash equivalents	236,486	2,700	239,186	36,905
Net increase (decrease) in cash and cash equivalents	2,860,810	(315,180)	2,545,630	(240,442)
Cash and cash equivalents, beginning	10,531,701	365,761	10,897,462	4,108,149
Cash and cash equivalents, ending	\$ 13,392,511	\$ 50,581	\$ 13,443,092	\$ 3,867,707
Displayed as:				
Cash and cash equivalents	\$ 898,321	\$ 50,581	\$ 948,902	\$ 3,867,707
Restricted assets - cash and cash equivalents	12,494,190	-	12,494,190	-
	\$ 13,392,511	\$ 50,581	\$ 13,443,092	\$ 3,867,707

(Continued)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For The Year Ended December 31, 2005

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water Utility	Parking System	Totals	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 4,986,560	\$ (384,841)	\$ 4,601,719	\$ 695,181
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,617,111	624,684	3,241,795	478,513
Increase (decrease) from changes in:				
Accounts receivable	171,414	(13,795)	157,619	174,916
Allowance for uncollectible accounts	44,974	-	44,974	-
Due from other governmental units	-	152,102	152,102	3,496,574
Due from other funds	5,404	-	5,404	-
Inventories	48,515	-	48,515	(30,929)
Bank overdraft	-	-	-	(5,547)
Accounts payable	117,705	(401,391)	(283,686)	(56,710)
Accrued payroll and benefits	37,822	4,174	41,996	30,549
Compensated absences	33,796	(21,965)	11,831	17,360
Due to other funds	-	-	-	(2,267,975)
Deferred revenue	-	-	-	78,887
Other liabilities	15,054	-	15,054	(2,512,850)
Deposits and advances	-	(11,310)	(11,310)	-
Total adjustments	3,091,795	332,499	3,424,294	(597,212)
Net cash provided by (used for) operating activities	8,078,355	(52,342)	8,026,013	97,969
Noncash investing, capital and financing activities:				
Loss on disposal of assets	\$ 5,506	\$ 70,039	\$ 75,545	\$ -
Distribution main acquired from contractors to be paid over 10 years	50,477	-	50,477	-
Distribution main contributed from developers	4,107,158	-	4,107,158	-
Amortization of issue and discount costs paid in prior years	24,033	-	24,033	-
Amortization of revenue and general obligation bond refundings	85,391	-	85,391	-
Capital asset additions in accounts payable at year-end	409,909	-	409,909	-
Total noncash capital and related financing activities	\$ 4,682,474	\$ 70,039	\$ 4,752,513	\$ -

(Concluded)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2005

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 2,772,421</u>
Investments - retirement plans	
U.S. Treasury Strips	2,936,298
U.S. Treasury Notes	24,785,958
U.S. Treasury Bonds	8,377,615
Government National Mortgage Association	10,615,756
Government Backed Corporate Bonds	1,218,570
Federal Home Loan Bank Bonds	3,887,412
Federal Home Loan Mortgage Corporation	6,544,527
Federal National Mortgage Association	10,654,579
Federal Farm Credit Bonds	293,392
State and Local Government Securities	287,678
Small Cap Equity Common Stocks	13,820,436
Mid Cap Equity Common Stocks	6,691,295
Large Cap Equity Common Stocks	23,153,340
NTGI Collective Trust	65,169,298
ABN AMRO Stable Value Funds	15,214,184
Domestic Mutual Funds	47,214,397
International Mutual Funds	<u>27,851,328</u>
Total investments	<u>268,716,063</u>
Accrued interest receivable	<u>746,577</u>
Contributions receivable	<u>5,587,462</u>
Total assets	<u>277,822,523</u>
LIABILITIES	
Accrued liabilities	<u>184,247</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 277,638,276</u>
(A schedule of funding progress is included in the Required Supplementary Information.)	

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF ROCKFORD, ILLINOIS
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS

For the Year Ended December 31, 2005

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 6,788,643
Plan member	<u>3,295,176</u>
Total contributions	<u>10,083,819</u>
Investment income:	
Net appreciation in fair value of investments	8,264,278
Interest and dividend income	<u>6,350,690</u>
	14,614,968
Less investment expense	<u>(664,835)</u>
Net investment income	<u>13,950,133</u>
Total additions	<u>24,033,952</u>
DEDUCTIONS	
Pension benefits	17,010,802
Refunds of contributions	116,465
Administrative expense	<u>261,419</u>
Total deductions	<u>17,388,686</u>
Change in net assets	6,645,266
Total net assets - beginning	<u>270,993,010</u>
Total net assets - ending	<u><u>\$ 277,638,276</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Rockford, Illinois (the “City”) is a municipal corporation governed by an elected mayor and a fourteen-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely presented component units

The City’s component units consist of the following:

- Rockford Mass Transit District (the “District”) - The District is a public service bus company organized to provide mass transit services to Rockford.
- Rockford Metropolitan Exposition, Auditorium and Office Building Authority (the “Authority”) - The Authority operates the Metro Centre with its responsibility to arrange, finance and maintain industrial, cultural, theatrical, sports, trade, and other activities that meet the needs of the citizens of Rockford.

The governing boards of both the District and Authority are appointed by the City’s Mayor and substantial funding is provided by the City for their operations. The City also guarantees certain debt of the District. Both are reported on a June 30 fiscal year. Separately issued financial statements may be obtained from their respective administrative offices located in Rockford, Illinois.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City’s activities, including infrastructure (roads, bridges, etc.);
- A change in fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). During fiscal 2002, the City elected to implement the general provisions of the Statement and plans to retroactively report infrastructure (assets acquired prior to December 31, 2002) in the fiscal year ending December 31, 2006.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities with the difference reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the criteria of the two preceding categories.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function or segment. Program revenues include 1) fees, fines, and charges paid by recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Additionally the City reports columns for nonmajor governmental funds and internal service funds in its financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues from federal, state and local reimbursement type grants to be available if they are collected within one year of the end of the current fiscal period. The City considers all other revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes for which the availability period is 60 days. Expenditures are recorded when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, claims, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Property taxes, intergovernmental revenues, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

accrual and so have been recognized as revenues of the current fiscal year to the extent they are available. All other revenue items are considered to be measurable and available only when cash is received by the government.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, they are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by general revenues.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Enterprise Funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins as issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements or Interpretations issued after November 30, 1989.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water Utility and Parking System enterprise funds and of the City's internal service funds are charges to customers for services. The City also recognizes as operating revenues fines, rents and miscellaneous for the above enterprise funds. Operating expenses for the enterprise funds and internal service funds include salaries and benefits, services, supplies and materials, depreciation and charges from the General Fund. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are reported as nonmajor funds.

The City reports the following major governmental funds and fund types:

General Fund

The General Fund is used to account for all revenues and expenditures applicable to the general operations of City government which are not more properly accounted for in another fund. The revenues of the General Fund are primarily derived from general property taxes, charges for services, fines, licenses and permits, and certain revenues from State and Federal sources. The expenditures of the General Fund primarily relate to general administration, police and fire protection, street inspection and maintenance, building inspection, and planning and zoning.

Special Revenue Funds

Public Library – This fund accounts for the operations and maintenance of the main downtown library and five branch libraries. Financing is mainly provided by a specific property tax levy. Other sources of revenue include replacement taxes, rental of books and films, etc.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Community Development – This fund accounts for community rehabilitation projects, including certain community loans, financed primarily by community grants from the Federal government. Projects include public and private rehabilitation.

Human Services – This fund accounts for services provided by the City’s Human Services Department, including certain community loans. Services include Head Start program for children, weatherization of homes, payment of heat and electrical bills on behalf of persons in need and services related to intervention and correction programs for youths involved in anti-social behavior and gang activity. Financing is primarily provided by grants from the Federal government and the State of Illinois-Social Services and the General Fund.

Debt Service Fund

This fund is used to account for the accumulation of resources for the payment of principal and interest on general obligation bonds. Debt service resources are principally from property taxes levied by the City and transfers from other funds.

Capital Projects Fund

This fund is used to account for resources designated to construct or acquire general capital assets and major improvements. Such resources are provided principally from proceeds of general obligation bonds, Federal and State grants, interest earned on such funds and transfers from other funds.

The City reports the following major proprietary funds:

Water Utility

This fund is used to account for the provision of water services to the residents of the City and some residents of Winnebago County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service and billing and collection.

Parking System

This fund is used to account for the activities to provide ample parking for the business districts within the City. Activities include, but are not limited to, the collection of parking revenue from reserved spaces, the issuance and collection of parking fines, administration, operations, and maintenance.

Additionally, the City reports the following fund types:

Internal Service Funds

These funds account for central garage, building maintenance, central stores, Illinois Municipal Retirement, unemployment, workmen’s compensation, health insurance, 911 communications, risk management and information services provided to other departments and outside agencies on a cost-reimbursement basis.

Pension Trust Funds

These funds account for Police and Firefighter’s retirement systems, which accumulate resources for pension benefit payments to qualified employees.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

(1) CASH AND CASH EQUIVALENTS

Cash received by the City is deposited in various bank accounts. The major account is the common pool account. The majority of the other bank accounts are for Special Revenue Funds, which are required by State statutes, and for Debt Service Funds which are required by bond ordinances. Miscellaneous accounts include petty cash and special donations. Cash accounts with a deficit balance are shown in the financial statements as bank overdrafts.

The City considers all cash accounts and all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. The City also considers investments held by the common pool account to be cash equivalents because the common pool is used essentially as a demand deposit account by the various funds of the City.

Total cash and cash equivalents for the City's governmental and business-type activities at December 31, 2005 is \$63,338,384, of which \$59,592,613 is in the common pool account.

(2) DEPOSITS AND INVESTMENTS

Investment activity is carried on by the City in an investment pool, except for those funds required to maintain their investments separately. The funds included in the pool participate in the earnings of the pool in proportion to their average balance therein. Should any of these funds have an average deficit in the pool, they are charged interest accordingly.

State statutes authorize the City and its component units to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the Illinois Funds Investment Pool.

The City's (including its component units) investments are carried at fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments in mutual funds are reported at their cash redemption value. Unallocated insurance contracts are reported at contract value. Investments that do not have an established market value are reported at estimated fair values.

(3) RECEIVABLES AND PAYABLES

Property taxes receivable are recognized at the time they are levied. The current year's levy was adopted December 12, 2005. Property taxes are an enforceable lien on property on January 1 and are payable in two installments in June and September subsequent to the year of the levy. The 2005 levy is deferred as it is intended to finance fiscal year 2006.

The Property Tax Extension Limitation Law imposes mandatory property tax limitations on the ability of taxing districts in Illinois to raise revenues through unlimited property tax increases. The increase in property tax extensions is limited to the lesser of 5% or the percentage increase in the Consumer Price Index for all urban consumers. Even taxes levied for tort immunity, for prevention and safety, municipal retirement and social security purposes are subject to the limitation provisions. The amount of the limitation may be adjusted for new property added or annexed to the tax base and due to voter approved increase.

All trade and property tax receivables are shown net of allowance for uncollectibles. The property tax receivable allowance is equal to 1 percent of outstanding property taxes at December 31, 2005.

Notes receivable in the governmental funds consist primarily of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

(4) INTERFUND RECEIVABLES AND PAYABLES

The City has the following types of transactions between funds:

Loans and Advances—amounts provided with a requirement for repayment. In the fund financial statements, interfund loans are reported as due from other funds in lender funds and due to other funds in borrower funds. Any residual balances outstanding between the governmental activities and business-type activities are reported as internal balances in the government-wide statement of net assets.

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as due to/from other funds in the fund balance sheets or fund statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers in/out are reported as a separate category after nonoperating revenues and expenses.

(5) INVENTORIES AND PREPAID ITEMS

Inventories of Proprietary Fund Types and Component Units are carried at the lower of cost (first-in, first-out method) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

(6) RESTRICTED ASSETS

Certain proceeds of Water Utility Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted cash and cash equivalents on the balance sheet because their use is limited by applicable bond covenants. The “bond construction account” (\$7,258,356) is used to report those proceeds of bond issuance that are restricted for use in construction. The “revenue bond renewal and replacement account” (\$1,000,000) is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The “alternate bond current debt service account” (\$4,235,834) is used to segregate resources accumulated for alternate bond debt service payments over the next twelve months.

These accounts are all presented in the restricted asset accounts in both government-wide and fund financial statements.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(7) CAPITAL ASSETS

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 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 asset lives are not capitalized.

Property, buildings, infrastructure, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Property and Equipment</u>	<u>Years</u>
Infrastructure	30-50
Buildings	20-50
Building Improvements	20
Equipment	2-15
Improvements Other Than Buildings	2-15
Land Improvements	15-40

(8) DEFERRED UNEARNED REVENUES

Deferred and unearned revenues are those amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but which revenue recognition have not yet been met because such amounts have not yet been earned.

(9) COMPENSATED ABSENCES

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, which means amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(10) LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund statements of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

(11) 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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund and special revenue funds except for the Veteran's Scholarship, Local Law Enforcement Block Grant, FlexCare, Justice Assistance Grant and Cease Fire funds. In addition, annual budgets are not adopted for the City's Debt Service or Capital Projects funds. The budget represents departmental appropriations, expenditures and other uses, as authorized by the City's appropriation ordinance, and includes revisions authorized by the City Council to reflect changes in departmental programs. All appropriations of the budgetary fund (General and Special Revenue funds) automatically lapse at year-end. There is no difference between GAAP and budgetary basis of accounting.

The appropriated budget is prepared by fund and department. Transfers of appropriations between departments within the General Fund require the approval of the City Council. The level of budgetary control is the department level (fund level for Special Revenue funds). The City Council may amend the budget in total by a supplemental appropriation ordinance after June 30, per State statutes. Management may amend the budget during the year within a department, without seeking the approval of the governing body.

Encumbrances, which represent purchase orders, contracts and other commitments for goods and services not yet received, are reported as reservations of fund balances in the governmental funds. Encumbrances are not recorded as expenditures or liabilities in the financial statements. Actual expenditures are recognized when the goods or services are received.

B. EXCESS OF EXPENDITURES AND OTHER USES OVER APPROPRIATIONS

The City's budget consists of appropriations for both expenditures and other financing uses. The following funds have exceeded their departmental appropriations for the year by the amount shown:

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

MAJOR FUNDS:

General Fund	
City Council	\$ (1,278)
Legal department	(53,970)
Finance office	(279,700)
Workforce investment board	(24,088)
Board of election	(7,312)
Personnel department	(9,666)
Police department	(443,401)
Fire department	(599,057)
Public works - traffic	(55,300)
Street and sewer	(320,608)
Community development - planning and zoning	(6,175)
Public works - sewers	(58,265)
Library Fund	(127,765)
Human Services Fund	(3,110,877)

NONMAJOR FUNDS:

Redevelopment Fund	\$ (107,185)
Tourism Fund	(76,381)
Special Projects Fund	(1,764)
Tax Increment Financing Area - West Side Fund	(97,302)
Tax Increment Financing Area - Seventh Street Fund	(73,332)
Tax Increment Financing Area - Southeast Fund	(5,999)
Tax Increment Financing Area - South Rockford Fund	(4,775)
Tax Increment Financing Area - Global Trade Park Fund	(1,128)
Tax Increment Financing Area - North Main Fund	(1,991)
Tax Increment Financing Area - Lincolnwood II Fund	(85)
Tax Increment Financing Area - River Oaks Fund	(364)
Tax Increment Financing Area - Garrison Fund	(231)

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

C. DEFICIT FUND EQUITY

The following funds have deficit fund balances/net assets as of December 31, 2005:

Special Revenue Funds:

Special Projects	\$ (39,690)
Tax Increment Financing Area - West Side Fund	(1,958,211)
Tax Increment Financing Area - Seventh Street Fund	(239,731)
Tax Increment Financing Area - Lincolwood Estates Fund	(58,477)
Tax Increment Financing Area - Springfield Corners Fund	(315,680)
Tax Increment Financing Area - Rockford Global Trade Park Fund	(33,411)
Tax Increment Financing Area - North Main Fund	(138,887)
Tax Increment Financing Area - Lincolnwood II Fund	(106,285)
Tax Increment Financing Area - River Oaks Fund	(118,883)
Tax Increment Financing Area - Garrison Fund	(75,437)

Internal Service Funds:

Unemployment Fund	(1,333)
Workmen's Compensation Fund	(324,396)
Health Insurance Fund	(2,815,615)
Risk Management Fund	(1,662,182)

Special Revenue tax increment financing area funds' deficits will be alleviated by future property tax revenues. The Special Projects fund's deficit will be alleviated by future license and permit revenues. The Internal Services funds' deficits will be alleviated from increased rate charges to participating funds.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

For the year ended December 31, 2005, the City has adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3.

The carrying values of deposits in financial institutions and investments at December 31, 2005 are as follows:

	<u>Primary Government</u>	<u>Pension Trust Funds</u>	<u>Component Units</u>
Deposits in financial institutions	\$ 16,732,011	\$ 2,772,421	\$ 2,134,655
Overdrafts	(11,898)	-	-
Investments	46,606,373	-	163,891
Investments-pension trust funds	-	268,716,063	-
	<u>\$ 63,326,486</u>	<u>\$271,488,484</u>	<u>\$ 2,298,546</u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

These amounts are reported in the accompanying Statement of Net Assets at December 31, 2005 as follows:

	Primary Government	Pension Trust Funds	Component Units
Cash and cash equivalents:			
Unrestricted	\$ 50,844,194	\$ -	\$ 2,134,655
Restricted	12,494,190	-	-
Pension funds	-	2,772,421	-
Investments:			
Unrestricted	-	268,716,063	163,891
Bank overdraft	(11,898)	-	-
	<u>\$ 63,326,486</u>	<u>\$ 271,488,484</u>	<u>\$ 2,298,546</u>

The primary government of the City (excluding the pension trust funds), the City's component units, and each pension trust fund have adopted separate investment policies.

Primary Government (excluding the pension trust funds):

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The primary government's (excluding the pension trust funds) policy with respect to custodial credit risk on deposits requires collateralization on all certificates of deposit purchased after January 1, 1999. The amount of collateral should be at least 110% of the total investment less the amount insured by the FDIC or the FSLIC. As of December 31, 2005, \$1,414,594 of the City's bank balance of \$18,977,087 was uninsured and uncollateralized.

Interest Rate Risk – Investments. As of December 31, 2005, the primary government (excluding the pension trust funds) had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Illinois Funds*	\$ 12,468,018	\$ 12,468,018	\$ -	\$ -	\$ -
U.S. Treasury Bonds and Notes	10,493,825	-	4,405,125	6,088,700	-
Federal Farm Credit	3,953,130	1,003,750	-	2,949,380	-
Federal Home Loan Bank	12,891,270	-	5,982,190	6,909,080	-
Federal Home Loan Mortgage	6,800,130	-	1,966,600	4,833,530	-
Total	<u>\$ 46,606,373</u>	<u>\$ 13,471,768</u>	<u>\$ 12,353,915</u>	<u>\$ 20,780,690</u>	<u>\$ -</u>

*The Illinois Funds Investment Pool (Pool) is not registered with the SEC. The Pool is administered by the Illinois State Treasury and oversight is provided by the Auditor General's Office of the State of Illinois. The fair value of the positions in the Pool is the same as the value of the Pool shares. Because the Pool had a weighted average maturity of less than one year as of December 31, 2005, it has been presented as an investment with a maturity of less than one year.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

The primary government (excluding the pension trust funds) has adopted a policy in regards to interest rate risk that states that the maximum maturity for its investments shall be under 15 years. The average maturity of the total portfolio shall not exceed 5 years. As of December 31, 2005, 55% of the City's portfolio will mature in 5 or fewer years.

Credit Risk – Investments. Statutes authorize the primary government to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool. The primary government's investment policy does not further limit the allowed investments.

Credit Ratings
December 31, 2005

	Total Fair Value	Credit Rating		
		Moody's	Standard & Poor's	Fitch
Illinois Funds	\$ 12,468,018	NR	AAA	NA
Federal Farm Credit Obligations	3,953,130	Aaa	AAA	NA
Federal Home Loan Bank Obligations	12,891,270	Aaa	AAA	NA
Federal Home Loan Mortgage Corporation Obligations	6,800,130	Aaa	AAA	AAA

NR – not rated.

NA – not available.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk. As of December 31, 2005, the City's investments were not exposed to custodial credit risk. All investments were held by the City's agent in the name of the City.

Concentration of Credit Risk – Investments. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The primary government has adopted a policy addressing concentrations of credit risk. The policy states that U.S. Treasury Securities cannot exceed 50% of the portfolio, U.S. Government Agencies and Instrumentalities of Government Sponsored Corporations cannot exceed 50% of the portfolio, total certificates of deposits cannot exceed 50% of the portfolio, certificates of deposit of any one financial institution can not exceed 20% of the portfolio, commercial paper cannot exceed 15% of the portfolio, Illinois Funds cannot exceed 50% of the portfolio, and securities purchased for interest rate play cannot exceed 25% of the portfolio.

At December 31, 2005, the primary government had the following investments (other than those explicitly guaranteed by the U.S. Government) which exceed 5% of the total investment portfolio:

	% of Portfolio
Federal Farm Credit Obligations	8%
Federal Home Loan Bank Obligations	28%
Federal Home Loan Mortgage Corporation Obligations	15%

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Firefighter's Pension Fund:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Firefighter's Pension Fund deposits may not be returned to it. The Firefighter's Pension Fund does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$1,843,255 of the Firefighter's Pension Fund bank balance of \$2,235,356 was uninsured and uncollateralized.

Interest Rate Risk – Investments. As of December 31, 2005, the Firefighter's Pension Fund had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury Strip Bonds	\$ 2,936,298	\$ -	\$ -	\$ -	\$ 2,936,298
U.S. Treasury Bills, Notes and Bonds	33,163,573	4,587,208	15,302,203	6,830,578	6,443,584
Government National Mortgage Association obligations	10,615,756	-	201,271	277,092	10,137,393
Federal Farm Credit obligations	293,392	-	-	293,392	-
Federal Home Loan Bank obligations	3,887,412	-	3,151,939	735,473	-
Federal Home Loan Mortgage Corporation obligations	6,544,527	-	-	2,137,358	4,407,169
Municipal Bonds	287,678	-	-	287,678	-
Federal National Mortgage Association obligations	10,654,579	-	307,444	2,325,614	8,021,521
Agency Strip Bonds	1,218,570	-	1,218,570	-	-
Total	\$ 69,601,785	\$ 4,587,208	\$ 20,181,427	\$ 12,887,185	\$ 31,945,965

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

Credit Risk – Investments. State statutes authorize the Firefighter's Pension Fund to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, the Illinois Funds Investment Pool, certain non-U.S. Government obligations, mortgages, veteran's loans, common and preferred stocks, mutual funds and life insurance company contracts, subject to limitations.

	Credit Ratings December 31, 2005			
	Total Fair Value	Credit Rating		
		Moody's	Standard & Poor's	Fitch
Federal agency bonds:				
Municipal Bonds	\$ 287,678	AAA	AAA	NA
Federal National Mortgage Association obligations	10,654,579	Aaa	AAA	AAA
Federal Home Loan Mortgage Corporation obligations	6,544,527	Aaa	AAA	AAA
Federal Farm Credit obligations	293,392	Aaa	AAA	NA
Federal Home Loan Bank obligations	3,887,412	Aaa	AAA	NA
Agency Strip Bonds	1,218,570	Aaa	AAA	AAA

NA - not available

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Firefighter's Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Firefighter's Pension Fund's investment policy does not address custodial credit risk. As of December 31, 2005, the Firefighter's Pension Fund investments were not exposed to custodial credit risk. All investments were held by the Firefighter's Pension Fund's agent in the name of the Firefighter's Pension Fund.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Concentration of Credit Risk – Investments. Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Firefighter’s Pension Fund places no limit on the amount the fund may invest in any one issuer.

At December 31, 2005, the Firefighter’s Pension Fund has the following investments which exceed 5% of total plan net assets:

	% of Plan Net Assets
Federal Home Loan Mortgage Corporation obligations	5.0%
Federal National Mortgage Association obligations	8.1

Police Pension Fund:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Police Pension Fund’s deposits may not be returned to it. The Police Pension Fund does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$460,741 of the Pension Fund’s bank balance of \$822,337 was uninsured and uncollateralized.

Interest Rate Risk – Investments. As of December 31, 2005, the Police Pension Fund had the following weighted average maturities on their fixed income investments.

Investment Type	Fair Fair Value	Weighted Average Maturity In Years
<i>Mutual Funds:</i>		
Northern Trust Global Investments - Long Term Daily Collective Fund	\$ 6,943,472	17.8
Northern Trust Global Investments - 1 - 10 Year Daily Collective Fund	58,225,826	3.9
ABN AMRO Income Plus Fund	15,214,184	2.4
Total	\$ 80,383,482	4.8

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

Credit Risk – Investments. State statutes authorize the Police Pension Fund to invest in obligations of the U.S. Treasury and U.S. Government Agencies, obligations of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, the Illinois Funds Investment Pool, certain non-U.S. Government obligations, mortgages, veteran’s loans, common and preferred stocks, mutual funds and life insurance company contracts, subject to limitations.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

The credit ratings of the Police Pension Fund's fixed income securities are as follows:

	Credit Ratings December 31, 2005		
	Total Fair Value	Credit Rating	
		Moody's	Standard & Poor's
Mutual Funds:			
Northern Trust Global Investments - Long Term Daily Collective Fund	\$ 6,943,472	AA1	AAA
Northern Trust Global Investments - 1 - 10 Year Daily Collective Fund	58,225,826	AA1	AAA
ABN AMRO Income Plus Fund	15,214,184	Aa3	AA-

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Police Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Police Pension Fund's investment policy does not address custodial credit risk. As of December 31, 2005, the Police Pension Fund's investments were not exposed to custodial credit risk. All investments were held by the Police Pension Fund's agent in the name of the Police Pension Fund.

Concentration of Credit Risk – Investments. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Police Pension Fund places no limit on the amount the fund may invest in any one issuer.

At December 31, 2005, the Police Pension Fund had no investments which exceed 5% of total plan net assets.

Component Units:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Component Units' deposits may not be returned to them. The Component Units do not have deposit policies for custodial credit risk. As of December 31, 2005, the Component Units had bank balances totaling \$2,282,789. Of this amount, \$216,183 was uninsured and uncollateralized and \$1,866,606 was collateralized, but not by securities held in the Component Units' name.

Interest Rate Risk – Investments. As of December 31, 2005, the Component Units had investments, consisting primarily of a CMA Liquid Asset sweep account with a fair value of \$163,891 and a maturity date of less than 1 year. The Component Units have no formal policies with regards to managing interest rate risk.

Credit Risk – Investments. Statutes authorize the Component Units to invest in securities issued or guaranteed by the U.S. Government, interest-bearing accounts in federally insured financial institutions, short-term obligations (less than 280 days) of U.S. corporations with assets over \$500 million rated in the three highest classifications by at least two rating agencies, insured accounts of an Illinois credit union chartered under Federal or Illinois law, money market mutual funds with portfolios of securities issued or guaranteed by the U.S. Government or agreements to repurchase these same types of obligations, Illinois Funds and repurchase agreement which meet instrument transaction requirements of Illinois law. There is no credit quality rating available for the Component Units' investments at December 31, 2005.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Component Units will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The Component Units' investment policy does not address custodial credit risk. As of December 31, 2005, the Component Units' investments were uncollateralized.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Concentration of Credit Risk – Investments. Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Component Units place no limit on the amount the entity may invest in any one issuer.

At December 31, 2005, the Component Units had no investments which exceed 5% of total net assets of the component units.

B. RECEIVABLES AND PAYABLES

Receivables and payables as of December 31, 2005 for the City’s individual major funds and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund	Capital Project Fund	Nonmajor Governmental Funds	Water Utility Fund	Parking System Fund	Internal Service Fund
Receivables:										
Taxes	\$ 30,947,423	\$ 6,326,776	\$ -	\$ -	\$ 8,594,948	\$ -	\$ 4,730,277	\$ -	\$ -	\$ -
Accounts	7,876,681	14,772	-	350	-	85,082	1,287,553	5,835,450	39,617	164,033
Notes	-	-	3,480,828	450,995	-	-	352,754	-	-	-
Interest	242,397	37,870	11,796	34,075	97,234	213,060	59,119	167,687	1,977	34,724
Gross receivables	39,066,501	6,379,418	3,492,624	485,420	8,692,182	298,142	6,429,703	6,003,137	41,594	198,757
Less: Allowance for uncollectibles	(4,124,749)	(92,070)	(62,391)	(178,907)	(85,950)	-	(365,243)	(368,094)	-	-
Net total receivables	\$ 34,941,752	\$ 6,287,348	\$ 3,430,233	\$ 306,513	\$ 8,606,232	\$ 298,142	\$ 6,064,460	\$ 5,635,043	\$ 41,594	\$ 198,757
Due from other governmental units:										
Federal	\$ -	\$ -	\$ 2,040,479	\$ 580,887	\$ -	\$ 1,992,886	\$ -	\$ -	\$ -	\$ -
State	9,757,074	198,466	170,414	3,556,766	-	1,077,857	507,663	-	-	-
Other	292,709	-	-	-	-	365,235	6,957	115,081	-	311,895
	\$ 10,049,783	\$ 198,466	\$ 2,210,893	\$ 4,137,653	\$ -	\$ 3,435,978	\$ 514,620	\$ 115,081	\$ -	\$ 311,895
Payables:										
Vendors	\$ 1,483,227	\$ 254,070	\$ 112,341	\$ 701,616	\$ 59,537	\$ 2,991,073	\$ 872,613	\$ 963,007	\$ 39,780	\$ 1,291,199
Accrued interest	558,330	-	-	37,440	16,302	-	18,764	36,424	-	20,144
	\$ 2,041,557	\$ 254,070	\$ 112,341	\$ 739,056	\$ 75,839	\$ 2,991,073	\$ 891,377	\$ 999,431	\$ 39,780	\$ 1,311,343

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,889,132	\$ 505,221	\$ (9,000)	\$ 3,385,353
Construction in progress	7,676,476	15,054,164	(2,033,593)	20,697,047
Total capital assets, not being depreciated	<u>10,565,608</u>	<u>15,559,385</u>	<u>(2,042,593)</u>	<u>24,082,400</u>
Capital assets, being depreciated:				
Land improvements	624,358	24,170	(8,275)	640,253
Buildings and improvements	49,783,396	615,593	(287,709)	50,111,280
Equipment	36,352,306	2,545,196	(6,386,613)	32,510,889
Infrastructure	59,049,880	13,696,357	-	72,746,237
Total capital assets, being depreciated	<u>145,809,940</u>	<u>16,881,316</u>	<u>(6,682,597)</u>	<u>156,008,659</u>
Less accumulated depreciation for:				
Land improvements	(168,790)	(15,505)	(81,450)	(265,745)
Buildings and improvements	(19,254,013)	(1,597,209)	311,866	(20,539,356)
Equipment	(26,890,279)	(2,298,452)	5,889,433	(23,299,298)
Infrastructure	(2,127,597)	(1,646,207)	-	(3,773,804)
Total accumulated depreciation	<u>(48,440,679)</u>	<u>(5,557,373)</u>	<u>6,119,849</u>	<u>(47,878,203)</u>
Total capital assets, being depreciated, net	<u>97,369,261</u>	<u>11,323,943</u>	<u>(562,748)</u>	<u>108,130,456</u>
Governmental activities capital assets, net	<u>\$ 107,934,869</u>	<u>\$ 26,883,328</u>	<u>\$ (2,605,341)</u>	<u>\$ 132,212,856</u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

	Beginning Balance	Increases	Decreases and Adjustments	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,069,661	\$ -	\$ (69,351)	\$ 6,000,310
Construction in progress	3,022,566	486,948	(2,841,867)	667,647
Total capital assets, not being depreciated	<u>9,092,227</u>	<u>486,948</u>	<u>(2,911,218)</u>	<u>6,667,957</u>
Capital assets, being depreciated:				
Land improvements	330,403	16,826	-	347,229
Buildings and improvements	20,417,241	3,050,332	(8,478)	23,459,095
Improvements other than buildings	121,794,994	7,457,727	-	129,252,721
Equipment	3,865,737	10,876	(443,712)	3,432,901
Total capital assets, being depreciated	<u>146,408,375</u>	<u>10,535,761</u>	<u>(452,190)</u>	<u>156,491,946</u>
Less accumulated depreciation for:				
Land improvements	(193,281)	(14,043)	-	(207,324)
Buildings and improvements	(7,685,608)	(587,023)	-	(8,272,631)
Improvements other than buildings	(32,103,610)	(2,457,073)	-	(34,560,683)
Equipment	(2,817,477)	(183,656)	426,614	(2,574,519)
Total accumulated depreciation	<u>(42,799,976)</u>	<u>(3,241,795)</u>	<u>426,614</u>	<u>(45,615,157)</u>
Total capital assets, being depreciated, net	<u>103,608,399</u>	<u>7,293,966</u>	<u>(25,576)</u>	<u>110,876,789</u>
Business-type activities capital assets, net	<u>\$ 112,700,626</u>	<u>\$ 7,780,914</u>	<u>\$ (2,936,794)</u>	<u>\$ 117,544,746</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 513,840
Public safety	1,421,114
Streets, alleys and bridges	2,232,473
Community development	9,160
Sanitation and sewers	2,364
Culture and recreation	807,876
Public health and welfare	92,033
Internal service	478,513
Total depreciation expense - governmental activities	<u>\$ 5,557,373</u>
Business - type activities:	
Water	\$ 2,617,111
Parking	624,684
Total depreciation expense - business-type activities	<u>\$ 3,241,795</u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Construction commitments

The City has active construction projects as of December 31, 2005. The projects include street resurfacing, widening and construction of existing streets and bridges, drainage projects, sidewalks, water systems, improvements and studies in areas of newly developed housing. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Commitment</u>
Cunningham Street Reconstruction	\$ 244,044
Arterial Resurfacing Phase I	590,624
Pioneer Parking Deck Expansion	130,629
Springfield Avenue Reconstruction	2,785,852
City Wide Residential	117,869
Water Rehabilitation Plan	519,633
City Wide Alley Reconstruction	111,972
Total	<u>\$ 4,500,623</u>

No future financing is required as a result of these commitments.

Discretely presented component units

Activity for the District for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,291,476	\$ -	\$ -	\$ 1,291,476
Total capital assets, not being depreciated	<u>1,291,476</u>	<u>-</u>	<u>-</u>	<u>1,291,476</u>
Capital assets, being depreciated:				
Buildings and improvements	6,117,503	50,839	-	6,168,342
Equipment	11,525,926	170,215	(168,293)	11,527,848
Total capital assets, being depreciated	<u>17,643,429</u>	<u>221,054</u>	<u>(168,293)</u>	<u>17,696,190</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,314,655)	(180,476)	-	(2,495,131)
Equipment	(8,236,189)	(754,887)	168,089	(8,822,987)
Total accumulated depreciation	<u>(10,550,844)</u>	<u>(935,363)</u>	<u>168,089</u>	<u>(11,318,118)</u>
Total capital assets, being depreciated, net	<u>7,092,585</u>	<u>(714,309)</u>	<u>(204)</u>	<u>6,378,072</u>
District capital assets, net	<u>\$ 8,384,061</u>	<u>\$ (714,309)</u>	<u>\$ (204)</u>	<u>\$ 7,669,548</u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Activity for the Authority for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,937,014	\$ -	\$ -	\$ 2,937,014
Construction in progress	845,732	1,468,304	(2,314,036)	-
Total capital assets, not being depreciated	<u>3,782,746</u>	<u>1,468,304</u>	<u>(2,314,036)</u>	<u>2,937,014</u>
Capital assets, being depreciated:				
Buildings and improvements	14,319,339	1,961,687	-	16,281,026
Equipment	5,547,162	1,085,825	(100,000)	6,532,987
Total capital assets, being depreciated	<u>19,866,501</u>	<u>3,047,512</u>	<u>(100,000)</u>	<u>22,814,013</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,950,072)	(423,777)	-	(8,373,849)
Equipment	(2,969,263)	(359,726)	66,667	(3,262,322)
Total accumulated depreciation	<u>(10,919,335)</u>	<u>(783,503)</u>	<u>66,667</u>	<u>(11,636,171)</u>
Total capital assets, being depreciated, net	<u>8,947,166</u>	<u>2,264,009</u>	<u>(33,333)</u>	<u>11,177,842</u>
Authority capital assets, net	<u>\$ 12,729,912</u>	<u>\$ 3,732,313</u>	<u>\$ (2,347,369)</u>	<u>\$ 14,114,856</u>

D. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2005 is as follows:

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that payments related to certain transactions between funds have not been paid or received as of December 31, 2005, they are reflected below and reported in the financial statements as due from or due to other funds.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Public Library	\$ 500,000
	Community Development	1,794,596
	Human Services	1,849,395
	Nonmajor governmental	2,561,542
	Internal Service	<u>2,160,286</u>
		<u>8,865,819</u>
Capital Projects	Community Development	684
	Nonmajor governmental	<u>1,000,780</u>
		<u>1,001,464</u>
Nonmajor governmental	Capital Projects	<u>192,886</u>
Enterprise: Water Utility	Internal Service	<u>113,483</u>
Total governmental funds		<u>\$ 10,173,652</u>

Transfers between funds for the year ended December 31, 2005 are as follows:

	Transfers in:							Total
	General Fund	Community Development Fund	Human Services Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfers out:								
General Fund	\$ -	\$ 25,000	\$230,000	\$1,043,111	\$ 460,000	\$ 39,352	\$ 199,966	\$ 1,997,429
Community Development Fund	297,200	-	23,760	-	683	-	-	321,643
Capital Projects Fund	1,644,332	40,750	-	-	-	-	-	1,685,082
Nonmajor governmental funds	2,237,099	205,632	-	3,234,862	4,546,183	32,000	-	10,255,776
Parking Enterprise Fund	-	-	-	57,600	-	-	-	57,600
Total transfer out	<u>\$4,178,631</u>	<u>\$ 271,382</u>	<u>\$253,760</u>	<u>\$4,335,573</u>	<u>\$ 5,006,866</u>	<u>\$ 71,352</u>	<u>\$ 199,966</u>	<u>\$14,317,530</u>

E. DEFERRED REVENUE

Deferred revenue as of December 31, 2005 consisted of the following:

	General Fund	Public Library Fund	Community Development Fund	Human Services Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
Property Taxes	\$ 30,506,795	\$ 6,234,706	\$ -	\$ -	\$ 8,508,998	\$ -	\$ 4,681,004	\$ -	\$ 49,931,503
Grants	-	-	1,244,005	456,340	-	1,457,589	238,685	-	3,396,619
Other	-	-	-	-	-	563,918	-	744,263	1,308,181
	<u>\$ 30,506,795</u>	<u>\$ 6,234,706</u>	<u>\$ 1,244,005</u>	<u>\$ 456,340</u>	<u>\$ 8,508,998</u>	<u>\$ 2,021,507</u>	<u>\$ 4,919,689</u>	<u>\$ 744,263</u>	<u>\$ 54,636,303</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period, if any.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

F. LEASES

Operating leases – Governmental funds

The City leases certain land and buildings to others under operating leases. Some of the agreements require the real estate taxes and other executory costs to be paid by the lessee. Future minimum rentals of the primary government total \$677,648 as of December 31, 2005, and are to be received as follows: 2006 - \$100,610; 2007 - \$103,311; 2008 - \$105,240; 2009 - \$105,240; 2010 - \$105,240; 2011 through 2013 - \$158,007.

G. LONG-TERM OBLIGATION ACTIVITY

Long-term obligation activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 90,550,000	\$ 19,300,000	\$ (7,880,000)	\$ 101,970,000	\$ 7,505,000
Less deferred amounts:					
For issuance	(230,045)	(140,011)	42,243	(327,813)	(43,449)
On refunding	(477,542)	(19,502)	119,074	(377,970)	(101,505)
Total bonds payable	89,842,413	19,140,487	(7,718,683)	101,264,217	7,360,046
Section 108 Guaranteed Loans	1,065,000	1,000,000	(20,000)	2,045,000	20,000
EPA Water Pollution Obligation	1,064,887	-	(87,622)	977,265	90,284
Claims and judgments	7,480,110	2,589,905	(5,085,315)	4,984,700	2,584,572
Net pension obligation	4,236,258	5,511,268	(5,861,538)	3,885,988	3,885,988
Compensated absences	5,624,325	3,033,452	(3,378,548)	5,279,229	3,024,618
Governmental activities long-term liabilities	<u>\$ 109,312,993</u>	<u>\$ 31,275,112</u>	<u>\$ (22,151,706)</u>	<u>\$ 118,436,399</u>	<u>\$ 16,965,508</u>
Business-type activities:					
Bonds payable:					
General obligation alternate bonds:					
Water Utility Fund	\$ 23,740,000	\$ 2,200,000	\$ (3,690,000)	\$ 22,250,000	\$ 2,570,000
Less deferred amounts:					
For issuance costs	(155,969)	(17,538)	24,033	(149,474)	24,571
For gain (loss) on refunding of:					
General obligation bonds	(254,155)	-	85,391	(168,764)	70,066
Total bonds payable	23,329,876	2,182,462	(3,580,576)	21,931,762	2,664,637
Compensated absences	297,744	388,667	(376,836)	309,575	102,761
Refundable water main extension advance	1,171,202	24,077	(221,758)	973,521	143,039
Customer deposits	290,256	-	(15,429)	274,827	15,000
Business-type activities long-term liabilities	<u>\$ 25,089,078</u>	<u>\$ 2,595,206</u>	<u>\$ (4,194,599)</u>	<u>\$ 23,489,685</u>	<u>\$ 2,925,437</u>
Component Units:					
Rockford Metropolitan Exposition, Auditorium and Office Building Authority					
Lines of credit	\$ 1,955,322	\$ -	\$ -	\$ 1,955,322	\$ 1,955,322
Capital lease	687,627	-	(122,395)	565,232	127,699
Notes payable	130,347	-	(130,347)	-	-
Total component units	<u>\$ 2,773,296</u>	<u>\$ -</u>	<u>\$ (252,742)</u>	<u>\$ 2,520,554</u>	<u>\$ 2,083,021</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, \$366,410 of internal service funds compensated absences and \$4,984,700 for claims and judgments are included in the above amounts.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

For the governmental activities, claims and judgments are generally liquidated by the General Fund. Compensated absences are generally liquidated by the governmental fund where the related employee salaries are recorded, which includes the General Fund, Public Library Fund, Community Development Fund, Human Services Fund, Capital Improvement Fund and other nonmajor funds. The net pension obligation will be liquidated by the General Fund.

(1) GENERAL OBLIGATION BONDS AND ALTERNATE BONDS

The City has issued general obligation bonds to provide for the acquisition and construction of major capital projects. General obligation bonds have been issued for both governmental and business-type activities. The beginning balance of outstanding general obligation bonds was \$114,290,000. During the year, new general obligation bonds totaling \$21,500,000 were issued: \$530,000 to refund general obligations bonds and \$20,970,000 for construction projects.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as serial bonds due in annual installments of various amounts, plus interest. General obligation bonds currently outstanding are as follows:

Purpose	Original Issue Amount	Interest Rates	Maturity Date	Amount
Governmental activities				
1997-C Sewer Improvement General Obligation Alternate Bond Issue	\$ 350,000	5.20% - 5.40%	2006 - 2010	\$ 170,000
1999-A Capital Improvement General Obligation Bond Issue	7,000,000	4.375% - 4.75%	2006 - 2012	4,360,000
1999-B Coronado Theatre Project General Obligation Alternate Bond Issue	7,000,000	5.00% - 5.20%	2006 - 2018	7,000,000
2000-A Capital Improvement General Obligation Bond Issue	6,000,000	5.25% - 5.375%	2006 - 2013	4,290,000
2000-C Southwest Revitalization Project General Obligation Bond Issue	4,000,000	5.50% - 5.80%	2006 - 2010	800,000
2000-D Charles Street Improvement Project General Obligation Alternate Bond Issue	3,000,000	4.875% - 5.25%	2006 - 2015	2,280,000
2001-A Capital Improvement General Obligation Bond Issue	7,000,000	4.40%	2006 - 2014	5,500,000
2002-A Street Improvement General Obligation Alternate Bond Issue	8,000,000	3.75% - 4.65%	2006 - 2015	6,740,000
2002-C Charles Street Improvement General Obligation Alternate Bond Issue	3,000,000	3.75% - 4.65%	2006 - 2015	2,540,000
2002 Taxable General Obligation Bond Issue	2,500,000	4.80% - 5.40%	2007 - 2012	2,500,000

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

2002-D Springfield Corners General Obligation Alternate Bond Issue	\$ 1,300,000	3.00% - 5.00%	2007 - 2021	\$ 1,300,000
2003 Street Improvement General Obligation Bond Issue	8,200,000	2.50% - 4.00%	2006 - 2016	7,410,000
2004-A Street Improvement General Obligation Bond Issue	8,500,000	2.50% - 4.25%	2006 - 2017	8,220,000
2004-C Equipment General Obligation Alternate Bond Issue	3,200,000	2.00% - 4.00%	2006 - 2014	3,080,000
2004-D Seventh Street Revitalization General Obligation Alternate Bond Issue	2,000,000	3.50% - 5.25%	2006 - 2016	1,940,000
2004-E Capital Improvements General Obligation Alternate Bond Issue	4,650,000	3.375% - 4.50%	2006 - 2023	4,650,000
2005-A Capital Improvements General Obligation Alternate Bond Issue	8,700,000	3.25% - 4.10%	2006 - 2018	8,700,000
2005-C Global Trade Park General Obligation Alternate Bond Issue	915,000	3.10% - 4.00%	2006 - 2015	915,000
2005-C Neighborhood Revitalization General Obligation Alternate Bond Issue	6,305,000	3.10% - 4.40%	2006 - 2024	6,305,000
2005-C Lowes Distribution Center Taxable General Obligation Bond Issue	2,850,000	5.00% - 5.12%	2006 - 2018	2,850,000
				<u>81,550,000</u>
 Governmental activities - refunding				
1997-B Refunding General Obligation Bond Issue	\$ 7,560,000	4.85% - 5.20%	2006 - 2009	\$ 3,790,000
1999-A Refunding General Obligation Bond Issue	9,500,000	4.375% - 4.75%	2006 - 2009	5,835,000
2001B-2 Refunding General Obligation Alternate Bond Issue	565,000	3.00% - 3.25%	2006	200,000
2002-D Refunding General Obligation Alternate Bond Issue	705,000	3.00% - 3.75%	2006 - 2008	290,000
2003-1 & 3 Refunding General Obligation Bond Issue	3,410,000	2.00% - 2.80%	2006 - 2009	2,395,000
2004-F Refunding General Obligation Alternate Bond Issue	4,375,000	2.50% - 3.35%	2006 - 2011	4,340,000
2004-H Refunding General Obligation Bond Issue	3,070,000	3.00% - 4.25%	2006 - 2020	3,040,000
2005-C Refunding General Obligation Bond Issue	530,000	3.10% - 4.40%	2006 - 2018	530,000
				<u>20,420,000</u>
				<u>\$ 101,970,000</u>

In connection with the Water General Obligation Alternate Bonds, the City passed ordinances authorizing the issuance of the bonds. Among other things, these ordinances stipulate that revenue from the water utility system will be applied in the following order:

1. To pay operation and maintenance costs.
2. To pay a fractional amount of the interest and principal payments becoming due on the next payment date.
3. To provide an amount of cash and investments sufficient to pay the maximum annual debt service of the alternate bonds.
4. To provide an allowance for depreciation, or if not needed, may be used to pay for any extraordinary maintenance, repairs and replacements or for improvements or extensions of the water system. Amounts in

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

excess of the amount determined by the City Council as necessary for the depreciation allowance may, at its discretion, be transferred to the surplus account.

5. To make up any deficiencies in any required credit payment or deposit pursuant to the above requirements.
6. For the purpose of paying principal and interest on subordinate debt or obligation issued for the purpose of acquiring or constructing repairs, replacement or improvements or extensions to the water system. Remaining amounts in the surplus account shall be used for any one or more of the following:
 - For the purpose of constructing or acquiring repairs, replacement or improvements to the water system.
 - For the purpose of calling and redeeming any callable outstanding revenue bonds.
 - For the purpose of purchasing outstanding revenue bonds at a price not greater than par plus accrued interest.
 - For any other lawful corporate purpose.

General obligation alternate bonds currently outstanding are as follows:

Purpose	Original Issue Amount	Interest Rates	Maturity Date	Amount
Business-type activities				
Water Utility Fund:				
1999-B General Obligation Alternate Bond Issue	\$ 5,300,000	4.45% - 4.50%	2006 - 2018	\$ 3,890,000
2000-B General Obligation Alternate Bond Issue	2,200,000	5.25% - 5.43%	2006 - 2013	1,565,000
2001-B General Obligation Alternate Bond Issue	2,220,000	4.40% - 4.50%	2006 - 2014	1,820,000
2002-B General Obligation Alternate Bond Issue	2,220,000	3.50% - 4.65%	2006 - 2015	1,870,000
2003-B General Obligation Alternate Bond Issue	2,200,000	2.00% - 4.00%	2006 - 2016	2,015,000
2004-B General Obligation Alternate Bond Issue	2,200,000	3.00% - 4.25%	2006 - 2017	2,150,000
2005-B General Obligation Alternate Bond Issue	2,200,000	3.65% - 4.10%	2006 - 2018	2,200,000
				<u>15,510,000</u>
Business-type activities - refunding				
Water Utility Fund:				
1997-A Refunding General Obligation Alternate Bond Issue	5,650,000	4.85% - 5.20%	2006 - 2008	1,140,000
2001A-2 Refunding General Obligation Alternate Bond Issue	5,345,000	2.50% - 3.60%	2006 - 2008	890,000
2001B-1 Refunding General Obligation Alternate Bond Issue	1,690,000	3.00% - 3.25%	2006 - 2007	605,000
2002-D Refunding General Obligation Alternate Bond Issue	1,355,000	3.00% - 3.75%	2006 - 2007	705,000
2003-2 Refunding General Obligation Alternate Bond Issue	1,365,000	2.00% - 2.80%	2006 - 2009	955,000
2004-G Refunding General Obligation Alternate Bond Issue	2,475,000	2.05% - 3.35%	2006 - 2009	2,445,000
				<u>6,740,000</u>
				<u>\$ 22,250,000</u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 7,505,000	\$ 4,273,344	\$ 2,570,000	\$ 846,961
2007	9,775,000	3,989,645	3,545,000	770,359
2008	9,830,000	3,595,684	2,910,000	645,484
2009	10,055,000	3,185,289	2,105,000	543,654
2010	8,460,000	2,805,706	1,935,000	465,450
2011	8,310,000	2,451,269	1,760,000	389,134
2012	8,065,000	2,102,259	1,600,000	316,240
2013	7,445,000	1,749,446	1,440,000	247,395
2014	7,425,000	1,424,634	1,270,000	185,125
2015	6,615,000	1,104,249	1,070,000	131,868
2016	5,285,000	814,326	880,000	86,610
2017	4,445,000	584,907	685,000	49,855
2018	3,705,000	389,095	480,000	20,680
2019	1,600,000	221,955	-	-
2020	1,265,000	152,550	-	-
2021	710,000	96,994	-	-
2022	575,000	65,050	-	-
2023	650,000	39,750	-	-
2024	250,000	11,000	-	-
Total	\$ 101,970,000	\$ 29,057,152	\$ 22,250,000	\$ 4,698,815

(2) OTHER OBLIGATIONS

a) SECTION 108 GUARANTEED LOANS

During 1995, the City's Community Development Department entered into a contract with the Secretary of Housing and Urban Development (HUD) under the Section 108 Guaranteed Loans Program. The outstanding balance at December 31, 2005 is \$155,000 due in various annual amounts not exceeding \$30,000 through 2014; interest at 8.270% to 9.03%. The proceeds were then loaned to a secondary authorized representative under the guidelines of the City and HUD contract, for acquisition of property for the Family Consultation Center. The Center will pay back the City over a period of nineteen and one-half years at an interest rate of 8.7125%. During 2003, the City's Community Development Department entered in a contract with the Secretary of Housing and Urban Development (HUD) under the Section 108 Guaranteed Loans Program. The outstanding balance at December 31, 2005 is \$890,000 due in various annual amounts not exceeding \$75,000 through 2023; interest at 1.410% to 5.890%. The proceeds were then loaned to a secondary authorized representative under the guidelines of the City and HUD contract, for acquisition of equipment for Gray's IGA Grocery Store. Rockford Local Development will pay back the City over a period of nineteen and one-half years at an interest rate of 1.410% to 5.89%. During 2005, the City's Community Development Department entered into a contract with the Secretary of Housing and Urban Development (HUD) under the Section 108 Guaranteed Loans Program. The outstanding balance at December 31, 2005 is \$1,000,000. Repayment terms of the loan have not been finalized but are expected to all be in excess of one year. The proceeds were then loaned to a secondary authorized representative under the guidelines of the City and HUD contract, for the purchase of a local manufacturer by an outside company to aid in the retention and creation of new jobs with the purchase.

b) EPA WATER POLLUTION OBLIGATION

During 1990, the City entered into a Funding Agreement with Rock River Water Reclamation District and the Illinois Environmental Protection Agency to construct an interceptor, described as the Kishwaukee Trunk Sewer

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Extension. The sewer extension obligation payable at December 31, 2005 is \$977,265 due in various bi-annual amounts not exceeding \$115,000 through 2015; interest at 3.015%.

Annual debt service requirements to maturity for other obligations are as follows:

Year Ending December 31	Governmental Activities			
	Section 108		EPA Water	
	Guaranteed Loans		Pollution Obligation	
	Principal	Interest	Principal	Interest
2006	\$ 20,000	\$ 58,188	\$ 90,284	\$ 28,789
2007	45,000	57,100	93,026	26,047
2008	45,000	54,924	95,852	23,221
2009	45,000	52,570	98,764	20,309
2010	55,000	50,108	101,764	17,309
2011	55,000	47,119	104,855	14,217
2012	60,000	44,007	108,041	11,032
2013	70,000	40,357	111,323	7,750
2014	80,000	36,146	114,704	4,369
2015	60,000	30,972	58,652	884
2016	60,000	27,930	-	-
2017	60,000	24,816	-	-
2018	60,000	21,642	-	-
2019	60,000	18,414	-	-
2020	75,000	15,138	-	-
2021	75,000	10,990	-	-
2022	60,000	6,798	-	-
2023	60,000	3,414	-	-
	<u>\$ 1,045,000</u>	<u>\$ 600,633</u>	<u>\$ 977,265</u>	<u>\$ 153,927</u>

The preceding schedule excludes the \$1,000,000 new loan because repayment terms have not been finalized but are expected to all be in excess of one year (noncurrent).

c) COMPENSATED ABSENCES

Governmental activities:

Vested vacation pay of \$3,881,016 and vested sick pay of \$1,398,213 for employees paid from governmental funds are included in the Government-wide Statement of Net Assets.

(3) CURRENT REFUNDING OF DEBT

Proceeds from the sale were used to currently refund the old debt, which was called on October 11, 2005. The reacquisition price exceeded the net carrying amount of the old debt by \$20,000. Of this amount, \$20,000 relates to the Debt Service Fund. The transaction resulted in an economic gain of \$19,502. The savings resulting from the refunding was as follows:

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

	Governmental Activities	Business-type Activities	Total
Cash flow requirements to service (old) debt	\$ 788,640	\$ -	\$ 788,640
Less: Cash flow requirements for new debt	754,290	-	754,290
Net savings from refunding	\$ 34,350	\$ -	\$ 34,350
Present value of net savings			\$ 19,502

In prior years, the City defeased certain general obligation bonds by placing the proceeds of new general obligation bonds in escrow accounts to provide for all future debt service payments on the old debt. The total amount of defeased debt at December 31, 2005 is \$2,740,000, of this amount all \$2,740,000 relates to the Water Utility. Funds in escrow accounts are excluded from the City's financial statements.

(4) LEGAL DEBT LIMITATION

The State imposes a legal limit of 8.625% of the total equalized assessed valuation on the amount of general bond indebtedness. The City of Rockford further limits its indebtedness, by ordinance, to 80.0% of the State limit. As of December 31, 2005, the City indebtedness was \$37,438,881 less than the City limit and \$68,816,333 less than the State limit.

(5) COMPONENT UNITS

a) LINES OF CREDIT

The Authority has a \$750,000 line of credit, which is renewable each year in November and carries an interest rate of the bank's prime rate plus 0.25%. The Authority's bank deposits and any other property in possession, custody, or control of the bank serve as collateral for this line of credit. As of June 30, 2005, the amount of outstanding borrowings under this agreement was \$700,000.

The Authority obtained another line of credit in the amount of \$1,400,000 for the purpose of installing an ice hockey rink and purchasing the related equipment. It expires May 5, 2006 and carries an interest rate of the bank's prime rate plus 0.25%. The Authority's interest in any rents, issues, deposits, income, and profits from the lease agreement with a professional hockey team and its right, title, and interest in all net income derived from hockey events serve as collateral for this line of credit. As of June 30, 2005, the amount of outstanding borrowings under this agreement was \$1,255,322.

b) CAPITAL LEASE

During 2004, the Authority entered into a six-year capital lease agreement to lease a new ticketing system for \$776,074. The Authority will make payments of \$250,000 each year, which includes \$100,748 for annual software, hardware and website maintenance, hosting services, access subscription and other professional services. The ticketing system will be depreciated on a straight-line basis over five years. In the first year, the asset was depreciated over nine months at \$116,411. Accumulated depreciation of the ticketing system was \$258,691 as of June 30, 2005. Below is a schedule of future minimum lease payments:

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Year	Principal	Interest	Rent	Total
2006	\$ 127,699	\$ 21,553	\$ 100,748	\$ 250,000
2007	133,231	16,021	100,748	250,000
2008	139,006	10,246	100,748	250,000
2009	145,030	4,222	100,748	250,000
2010	20,266	99	42,135	62,500
	<u>\$ 565,232</u>	<u>\$ 52,141</u>	<u>\$ 445,127</u>	<u>\$ 1,062,500</u>

IV. OTHER INFORMATION

A. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City issued and has an estimated \$28,500,000 in outstanding industrial development revenue bonds. Proceeds from these issues were used to finance in whole or in part the cost of the acquisition or improvement of economic development projects. Debt service on these issues is paid solely from the revenue and receipts derived from the economic development projects. The bonds are not a liability nor is the resulting property an asset of the City and accordingly, neither are reflected in the City's financial statements.

B. CONTINGENT LIABILITIES

Grantor Agencies

Federal and state grants-in-aid received by the City are subject to audit and adjustment by grantor agencies. If grant revenues are received for expenditures which are subsequently disallowed, the City may be required to repay the revenues. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material.

C. SUBSEQUENT EVENTS

In April 2006, the City Council approved the issuance of \$17,500,000 of general obligation bonds Series 2006. The obligations are to be due serially commencing December 15, 2006 until maturity in 2026. The Series 2006-A (\$15,000,000) are to be issued to fund the first phase of a three-year \$75 million water improvement program designed to address water quality, water pressure, and aging infrastructure. Series 2006-B (\$2,500,000) will be used to fund infrastructure costs in the Hope VI TIF District. Both have been authorized as Alternate Bonds.

D. RISK MANAGEMENT

1. Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The City is self-insured for general and auto liability damages. The City has purchased commercial insurance coverage for catastrophic losses to buildings and contents totaling \$43.5 million. The City has also obtained commercial liability insurance for certain programs supported by State and Federal grant programs.

The insurance coverage is consistent with the prior year and the amounts of settlements during the past three years have not exceeded this coverage.

The revenue and expenses relating to the City's claims and judgments, other than health care and workers' compensation, are recorded in the Risk Management Internal Service Fund. The charges to the individual funds

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

are based on specific identification. The Risk Management Fund records expenses for claims, insurance coverage and administrative fees.

A liability for a claim has been recorded in the Risk Management Internal Service Fund if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimated. This liability is the City's best estimate based on available information.

The following represents changes in unpaid claims and judgments for the past two years:

	2005	2004
Unpaid claims at beginning of year	\$4,386,381	\$3,024,550
Current year claims and change in estimates	(1,435,795)	1,937,915
Claim payments	(1,203,255)	(576,084)
Unpaid claims at end of year	\$1,747,331	\$4,386,381
Reported as:		
Claims and judgments payable	\$1,714,508	\$4,373,000
Accounts payable	32,823	13,381
	\$1,747,331	\$4,386,381

Included in the \$1,747,331 are claims of \$1,714,508, representing losses for which the lowest amount in a range of probable losses has been accrued because no amount within that range is a better estimate of loss. The City estimates that those losses could be as high as \$8,900,000. Approved claims which have been presented for reimbursement as of year end totaling \$32,823 are reported as accounts payable.

2. Health Care Coverage

The City is self-insured for its group health and dental insurance coverage. The plan provides a lifetime coverage maximum of \$1,500,000 per participant. Excess coverage has been purchased up to the lifetime maximum with a \$130,000 annual retention per participant. The plan is administered by a third-party administrator. As the claim cycle has various stages, there may be situations where loss contingencies have occurred before the balance sheet date; but the claims have not been asserted. These potential unasserted claims and existing claims, if the amounts can be reasonably estimated and it is probable that the claims will be asserted, have been recorded as a liability of the Health Insurance Internal Service Fund. This liability is the City's best estimate based on available information.

Premiums are charged to each department based on the number of single and family contracts in the respective departments. Expenses for medical claims, stop-loss insurance and administrative fees are recorded in the Health Insurance Internal Service Fund. The stop-loss insurance coverage is consistent with the prior year and the amounts of claim settlements during the past three years have not exceeded this coverage.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

The following represents changes in unpaid health care claims for the past two years:

	2005	2004
Unpaid claims at beginning of year	\$ 1,485,608	\$ 1,548,821
Current year claims and change in estimates	15,900,064	14,810,374
Claim payments	(15,979,280)	(14,873,587)
Unpaid claims at end of year	\$ 1,406,392	\$ 1,485,608
Reported as:		
Claims and judgments payable	\$ 1,170,000	\$ 1,059,237
Accounts payable	236,392	426,371
	\$ 1,406,392	\$ 1,485,608

3. Workmen's Compensation

The City is self-insured for its workmen's compensation coverage up to \$500,000 per occurrence and for the amount, if any, in excess of \$1,000,000. The City utilizes a third-party administrator to administer the plan.

The insurance coverage is consistent with the prior year and the amounts of settlements during the past three years have not exceeded this coverage.

The revenue and expenses relating to workmen's compensation are recorded in the Workmen's Compensation Internal Service Fund. The charges to the individual funds are based on the wages and job classifications of the employees in the respective funds. The Workmen's Compensation Internal Service Fund records expenses for claims, stop-loss insurance coverage and administrative fees.

A liability for a claim has been recorded in the Workmen's Compensation Internal Service Fund if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. This liability is the City's best estimate based on available information.

The following represents changes in unpaid workmen's compensation claims for the past two years:

	2005	2004
Unpaid claims at beginning of year	\$2,185,639	\$ 1,869,286
Current year claims and change in estimates	1,692,403	1,575,577
Claim payments	(1,609,833)	(1,259,224)
Unpaid claims at end of year	\$2,268,209	\$2,185,639
Reported as:		
Claims and judgments payable	\$2,100,192	\$2,047,873
Accounts payable	168,017	137,766
	\$2,268,209	\$2,185,639

E. EMPLOYEE RETIREMENT SYSTEMS AND PENSIONS PLANS

Pension plans – primary government

The City of Rockford General, Water and Parking employees are covered by a State agent multiple-employer defined benefit public retirement system (Illinois Municipal Retirement Fund) that acts as a common investment and

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

administrative agent for local governments. Police and Fire sworn employees are covered by defined benefit single-employer pension plans and are governed by Illinois State Statutes (Chapter 40 Article 3).

1. Illinois Municipal Retirement Fund (IMRF)

Plan description. The City of Rockford participates in the Illinois Municipal Retirement Fund (IMRF), a cost sharing, agent multiple-employer, defined benefit pension plan administered by the State for local governments and school districts in Illinois. IMRF provides retirement, disability, annual cost of living adjustments and death benefits to plan members and their beneficiaries. Participating members who retire at or after age 60 with 8 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of their final rate of earnings, for each year of credited service up to 15 years, and 2% for each year thereafter. The State is authorized by statute to establish and amend all plan provisions. IMRF issues a financial report that includes financial statements and required supplementary information. The report may be obtained at www.imrf.org/pubs/pubs_homepage.htm or by writing to IMRF, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Funding policy. The contribution requirements of the plan members are established and may be amended by the State. Plan members are required to contribute 4.5% of their annual salary. The City is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 8.99% of covered payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005 was 27 years.

The City's actual and required contributions to IMRF for the years ending December 31, 2003, 2004 and 2005 were \$1,740,915, \$2,237,145 and \$2,481,291 respectively, and were equal to annual pension costs for each year.

Annual pension cost. For December 31, 2005, the City's annual pension cost of \$2,481,291 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002 -2004 experience study.

Three-Year Trend Information for IMRF:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2003	\$ 1,740,915	100.0%	\$ -
12/31/2004	2,237,145	100.0	-
12/31/2005	2,481,291	100.0	-

2. Police Pension Fund (PPF)

Plan description. The City of Rockford administers the PPF, a single-employer defined benefit pension plan in which all sworn police employees of the City participate. PPF provides retirement, disability, and death benefits to plan members and their beneficiaries. Employees attaining the age 50 or more with 20 or more years of creditable

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

service are entitled to receive an annual retirement benefits of 2.5% of final salary for each year of service up to 30 years, to a maximum of 75% of such salary. Employees with at least 8 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit of 2.50% of final salary for each year of service. The PPF issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained at the City's Finance Office.

Summary of significant accounting policies – basis of accounting and valuation of investments. The financial statements of PPF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Administrative costs are financed primarily through investment earnings.

Funding policy. The defined benefits and employee contribution levels are governed by Illinois State Statutes (Chapter 40 Article 3) and may be amended only by the Illinois legislature. Plan members are required to contribute 9.91% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 17.95% of covered payroll.

Annual pension cost. For 2004 (most recent available), the City of Rockford's annual pension cost was \$3,036,777. The City's actual contribution was \$3,076,172. The net pension asset at December 31, 2005 was \$947,466. It was comprised of the following:

Annual Required Contribution (ARC)	\$ 3,062,182
Interest on the Net Pension Asset	(68,105)
Adjustment to the ARC	<u>42,700</u>
Annual pension cost	3,036,777
Contribution	<u>3,076,172</u>
Increase in Pension Asset (Liability)	39,395
Net pension Asset (Liability) at January 1, before contributions payable	<u>908,071</u>
Net pension Asset (Liability) at December 31, before contributions payable	947,466
Adjustment for contributions payable as of December 31, 2005, to be paid in 2006	<u>(2,157,805)</u>
Net Pension Asset (Liability) at December 31, 2005	<u><u>\$ (1,210,339)</u></u>

The required contributions were determined as part of the January 1, 2005 actuarial valuation using the entry normal age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases due to inflation of 5.0% per year, and (c) projected salary increases due to seniority/merit raises of 3.0% per year. The actuarial value of assets is determined by market method. The PPF unfunded liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004 was 29 years.

Reserves and concentration of investments. There are no assets legally reserved for purposes other than the payment of Plan member benefits. There are no long-term contracts for contributions. See Note III A for concentration of investments.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Three-year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)*
12/31/2002	\$ 1,624,191	124.5%	\$ (705,583)
12/31/2003	2,195,980	109.2	(908,071)
12/31/2004	3,036,777	101.3	(947,466)

* Excludes contributions payable as of year-end.

3. Firefighter's Pension Fund (FPF)

Plan description. The City of Rockford administers the FPF, a single-employer defined benefit pension plan in which all sworn fire employees of the City participate. FPF provides retirement, disability, and death benefits to plan members and their beneficiaries. Employees attaining the age of 50 with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank held on the last day of service. The pension shall be increased by ½ of 2.5% of such monthly salary for each additional year of service over 20 years up to 30 years, to a maximum of 75% of such monthly salary. Employees with at least 10 years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit ranging from 15% of final salary for 10 years of service to 45.6% for 19 years of service. The FPF issues a publicly available report that includes the applicable financial statements and required supplementary information. The report may be obtained at the City's Finance Office.

Summary of significant accounting policies – basis of accounting and valuation of investments. The financial statements of the FPF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Administrative costs are financed primarily through investment earnings.

Funding policy. The defined benefits and employee contribution levels are governed by Illinois State Statutes (Chapter 40 Article 3) and may be amended only by the Illinois legislature. Plan members are required to contribute 9.455% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 26.874% of covered payroll.

Annual pension cost. For 2004 (most recent available), the City of Rockford's annual pension cost was \$4,166,547. The City's actual contribution was \$4,203,346. The pension asset at December 31, 2005 was \$754,008. It was comprised of the following:

Annual Required Contribution (ARC)	\$ 4,186,613
Interest on the Net Pension Asset	(53,791)
Adjustment to the ARC	<u>33,725</u>
Annual pension cost	4,166,547
Contribution	<u>4,203,346</u>
Increase in Pension Asset (Liability)	36,799
Net pension Asset (Liability) at January 1, before contributions payable	<u>717,209</u>
Net pension Asset (Liability) at December 31, before contributions payable	754,008
Adjustment for contributions payable as of December 31, 2005, to be paid in 2006	<u>(3,429,657)</u>
Net Pension Asset (Liability) at December 31, 2005	<u><u>\$ (2,675,649)</u></u>

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

Reserve and concentration of investments. There are no assets legally reserved for purposes other than the payment of Plan member benefits. There are no long-term contracts for contributions. See Note III A for concentration of investments.

The required contributions were determined as part of the January 1, 2005 actuarial valuation using the entry normal age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases due to inflation of 3.0% per year, and (c) projected salary increases due to seniority/merit raises of 5.0% per year. The actuarial value of assets is determined by market method. The FPF unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004 was 29 years.

Three-year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)*
12/31/2002	\$ 3,422,406	106.9%	\$ (484,661)
12/31/2003	3,483,114	106.7	(717,209)
12/31/2004	4,166,547	100.9	(754,008)

* Excludes contributions payable as of year-end.

4. Pension plan – discretely presented component unit

Rockford Mass Transit District (RMTD)

Plan description. The RMTD contributes to a single-employer public defined benefit retirement plan. RMTD established the plan in 1980 to provide retirement benefits for employees of the District. RMTD together with employees covered under collective bargaining agreements, has the right at any time and from time to time to amend the Plan. Under the provisions of the Plan, pension benefits vest after five years of full-time employment. Upon retiring at the normal age of sixty-five provided by the Plan, an employee is entitled to receive a monthly benefit payment in the form of a life annuity. Benefits under the Plan are accumulated during each year of service and determined based on compensation level. The Plan does not issue a stand-alone financial report and is not included in the report of another entity.

Funding policy. Employer contributions to the Plan are recognized on the accrual basis and are actuarially determined each year. The difference between the contribution made in 2005 and the annual required contribution is due to actual rates of returns on investments lower than the assumed 7.0% rate. The Plan does not allow for employees to make contributions.

Annual pension cost. The annual required contributions were determined as part of the July 1, 2004 actuarial valuation using the aggregate actuarial cost funding method which does not identify or separate amortized unfunded actuarial liabilities. Under this method, no unfunded accrued liability is determined. The actuarial assumptions included (a) 7.0% investment rate of return and (b) projected salary increases of 5.50%. The actuarial value of assets is determined using a market approach.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

The net pension liability at June 30, 2005 was \$514,015. It was comprised of the following:

Annual required contribution	\$ 423,436
Interest on net pension obligation (7%)	37,382
Adjustment to annual required contribution	<u>(76,602)</u>
Annual pension cost	384,216
Annual contribution made	<u>404,223</u>
Increase in net pension liability	(20,007)
Net pension liability, beginning of year	<u>534,022</u>
Net pension liability, end of year	<u><u>\$ 514,015</u></u>

Three-year trend information for RMTD:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/2003	\$ 379,705	66.9%	\$ 368,409
06/30/2004	466,686	64.5	534,022
06/30/2005	384,216	105.21	514,015

F. COMMUNITY DEVELOPMENT GRANTS

The City is entitled to receive Community Development grants only to the extent that expenditures, and encumbrances have been made for approved programs. As of December 31, 2005, the City has \$6,269,580 available to be received in the future under these Community Development Grants in the event qualifying expenditures are made.

G. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following statements:

The GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The provisions of this Statement will be effective for the City for the period beginning January 1, 2007.

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement revises the statistical section that accompanies a state or local government's basic financial statements to include more complete government-wide financial information. This statement also requires governments to augment their statistical schedules with notes regarding sources, methodologies, assumptions and narrative explanations of unfamiliar concepts, atypical trends and anomalous data. The provisions of this statement will be effective for the City for the period beginning January 1, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The provisions of this statement will be effective for the City for the period beginning January 1, 2008.

CITY OF ROCKFORD, ILLINOIS
NOTES TO THE FINANCIAL STATEMENTS, Continued

The GASB has issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*. This statement clarifies that a legally enforceable enabling legislation is one that a party external to a government can compel a government to honor. This statement also establishes accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of net assets that is restricted by enabling legislation. The requirements of this statement will be effective for the City for the period beginning January 1, 2006.

Statement No. 47, *Accounting for Termination Benefits*, establishes accounting standards for voluntary and involuntary termination benefits, including termination benefits provided through a defined benefit other post employment benefit plan (OPEB). For those termination benefits provided through a defined benefit OPEB plan, this Statement must be implemented concurrently with Statement No. 45. For all other termination benefits, this Statement will become effective for the City for the period beginning January 1, 2006.