

**CITY OF ROCHESTER
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2009**

CITY OF ROCHESTER
For the Year Ended June 30, 2009

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FINANCIAL SECTION

POST, SMYTHE, LUTZ and ZIEL

of Plymouth LLP
Certified Public Accountants

PLYMOUTH

1034 WEST ANN ARBOR TRAIL
P.O. BOX 5520
PLYMOUTH, MI 48170-1502

TELEPHONE (734) 453-8770
FAX (734) 453-0312

Dennis M. Siegner, C.P.A., C.V.A.
David R. Williamson, C.P.A.
Jane F. Wang, C.P.A.
Rana M. Emmons, C.P.A.

Jennifer A. Galofaro, C.P.A., C.V.A.
Susan H. Bertram, C.P.A.

BLOOMFIELD HILLS

3707 WEST MAPLE ROAD
SUITE 101
BLOOMFIELD HILLS, MI 48301-3212

TELEPHONE (248) 644-9125
FAX (248) 593-1986

Independent Auditor's Report

November 25, 2009

To the Honorable Mayor and
Members of the City Council
City of Rochester, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Michigan as of and for the year ended June 30, 2009, 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 of Rochester's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and
Members of the City Council
City of Rochester, Michigan

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary 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.

Respectfully,

A handwritten signature in black ink that reads "Post Smythe Lutz and Ziel of Plymouth". The signature is written in a cursive, flowing style.

Post, Smythe, Lutz and Ziel of Plymouth LLP
Certified Public Accountants

Management's Discussion and Analysis

As management of the City of Rochester, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$66,268,709 (*net assets*). Of this amount, \$18,976,412 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,919,468.
- At the close of the most recent fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$17,213,177. Of this amount, \$16,332,350 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,220,982, or 86 percent of total general fund expenditures.
- The City of Rochester's total debt decreased by \$792,299 (14 percent) during the current fiscal year as a result of annual debt payments made.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Rochester's basic financial statements, which have three components:

- 1) Government-Wide Financial Statements
- 2) Fund Financial Statements
- 3) Notes to the Financial Statements.

Government-wide financial statements.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Rochester that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Rochester include general government, public works, police, streets, and parks and recreation. The business-type activities of the City of Rochester are the Water and Sewer Fund and the Automobile Parking System.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rochester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Rochester can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the

governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the major streets fund, the local streets fund, the Downtown Development Authority, and the Capital Projects General Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

Proprietary funds.

The City of Rochester maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rochester uses enterprise funds to account for its Water and Sewer operation and its Parking System.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Automobile Parking System which are considered to be major funds of the City of Rochester.

The basic proprietary fund financial statements can be found on pages 19-21 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 statement because the resources of those funds are *not* available to support the City of Rochester's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 22-23 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 24-45 of this report.

Government-wide Financial Analysis

Assets exceeded liabilities by \$66,268,709 at the close of the most recent fiscal year. Of the City of Rochester's net assets, 55 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rochester's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 20,718,669	\$ 21,298,862	\$ 12,302,285	\$ 13,558,593	\$ 33,020,954	\$ 34,857,455
Capital Assets	27,957,746	26,134,562	12,407,825	11,609,891	40,365,571	37,744,453
Total Assets	48,676,415	47,433,424	24,710,110	25,168,484	73,386,525	72,601,908
Long-term liabilities	5,061,685	5,853,984	-	-	5,061,685	5,853,984
Other liabilities	1,248,541	1,419,711	807,590	978,972	2,056,131	2,398,683
Total Liabilities	6,310,226	7,273,695	807,590	978,972	7,117,816	8,252,667
Net Assets:						
Invested in capital assets, net of related debt	23,278,358	20,606,112	12,407,825	11,609,891	35,686,183	32,216,003
Restricted	937,192	830,136	10,668,922	11,050,703	11,606,114	11,880,839
Unrestricted	18,150,639	18,723,481	825,773	1,528,918	18,976,412	20,252,399
Total Net Assets	\$ 42,366,189	\$ 40,159,729	\$ 23,902,520	\$ 24,189,512	\$ 66,268,709	\$ 64,349,241

At the end of the current fiscal year, the City of Rochester is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Net assets increased by \$1,919,468 during the current fiscal year.

City of Rochester - Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,619,322	\$ 2,680,061	\$ 3,047,175	\$ 3,195,518	\$ 4,666,497	\$ 5,875,579
Operating Grants & Contrib.	549,772	683,990	-	-	549,772	683,990
Capital Grants & Contrib.	56,000	4,898	6,600	34,100	62,600	38,998
General Revenues:						
Property Taxes	10,860,125	11,339,232	-	-	10,860,125	11,339,232
State Shared Revenues	817,064	841,726	-	-	817,064	841,726
Franchise Fees	184,020	173,515	-	-	184,020	173,515
Miscellaneous	-	-	-	-	-	-
Unrestricted Invest. Earnings	486,076	992,769	357,559	480,419	843,635	1,473,188
Total Revenues	14,572,379	16,716,191	3,411,334	3,710,037	17,983,713	20,426,228
Expenses:						
General Government	1,707,089	1,789,615	-	-	1,707,089	1,789,615
Public Safety	4,050,383	3,826,669	-	-	4,050,383	3,826,669
Public Works	3,466,081	3,706,880	-	-	3,466,081	3,706,880
Community Development	1,561,146	1,427,300	-	-	1,561,146	1,427,300
Recreation and Cultural	1,339,779	1,440,314	-	-	1,339,779	1,440,314
Interest on Long-Term Debt	241,441	283,574	-	-	241,441	283,574
Automobile Parking System	-	-	182,767	183,395	182,767	183,395
Water and Sewer	-	-	3,515,559	3,242,770	3,515,559	3,242,770
Total Expenses	12,365,919	12,474,352	3,698,326	3,426,165	16,064,245	15,900,517
Change in Net Assets	\$ 2,206,460	\$ 4,241,839	\$ (286,992)	\$ 283,872	\$ 1,919,468	\$ 4,525,711

Key elements of this net asset increase include the repaving and reconstruction of roads.

Governmental activities

Governmental activities increased net assets by \$2,206,460.

Business-type activities

Business-type activities decreased net assets by \$286,992.

Financial Analysis of the Government's Funds

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

Governmental funds.

The focus of the City of Rochester's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources.

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$17,213,177, of which \$16,332,350 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. Total governmental fund balances decreased \$358,158 for the 2008-2009 fiscal year.

The General Fund is the chief operating fund of the City of Rochester. At the end of the current fiscal year, the total fund balance of the general fund was \$7,220,982, all of which is unreserved. General Fund fund balance represents 86 percent of total general fund expenditures.

The fund balance of the City's General Fund increased by \$843,493 during the fiscal year.

Proprietary funds.

The City of Rochester's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Proprietary funds at the end of the year amounted to \$825,773.

General Fund Budgetary Highlights

There was a \$361,598 increase between the original budget and the final amended budget total in revenues and a total \$307,014 decrease in expenditures.

Capital Asset and Debt Administration

Capital assets.

The City of Rochester's investment in capital assets for its governmental and business type activities is \$40,365,571 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, machinery and equipment, and roads. The increase in the City of Rochester's investment in capital assets for the current fiscal year was a 7 percent increase for governmental activities, and a 7 percent increase in business-type activities.

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

- 2008 Street Reconstruction Projects
- 2009 Street Reconstruction Projects
- Other Street Repaving Projects

Additional information on the City of Rochester's capital assets can be found in note IV.B on pages 35-36 of this report.

Long-term debt.

At the end of the current fiscal year, the City of Rochester had total bond and contract debt outstanding of \$4,679,388, which is all in the governmental activities. The City of Rochester's total bond and land contract debt decreased by \$849,062 (15 percent) during the current fiscal year. This is a result of debt principal payments made during the year.

Additional information on the City of Rochester's long-term debt can be found in note IV.E on pages 38-39 of this report.

Economic Factors and Next Year's Budgets and Rates

As has been the case since the year 2000, Michigan's economy has lagged behind the nation's economy in some key regards. The situation for the major domestic automakers that make their home in the Metro Detroit region is worrisome and housing values are declining and foreclosures are increasing. It has been a difficult year for Oakland County, where Rochester is located, with auto worker buyouts, bankruptcy of two domestic auto makers, and continued decline in the housing market. However, the area remains the premier local economy in Michigan and is among the most prominent counties in the nation ranking seventh in aggregate rankings with counties of similar size.

Rochester is an affluent city, with a median household income 148% of the national average. The City is actively pursuing economic development throughout the city and continues to see some development despite the difficult national and regional economy. This year the City of Rochester was named one of the best places to live in the United States by the Money Magazine. The City has also been recognized by the National Trust for Historic Preservation for its premier downtown.

The City has developed and maintains a strong financial position. The City's solid financial position is attributable to the continued good financial practices, maintenance of a sound fund balance, and the prudent proactive management of the City's operations. This year Standard and Poor's raised the City's bond rating from AA- to AA+.

Requests for Information

This financial report is designed to provide a general overview of the City of Rochester's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Municipal Offices at 400 Sixth Street, Rochester, Michigan 48307.

BASIC FINANCIAL STATEMENTS

CITY OF ROCHESTER
Statement of Net Assets
June 30, 2009

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 19,689,550	\$ 953,118	\$ 20,642,668
Receivables (net of allowance for uncollectibles):			
Accounts	487,835	646,483	1,134,318
Taxes	418,376	-	418,376
Due from Other Governmental Units	113,519	-	113,519
Inventory	9,389	48,050	57,439
Restricted Assets - Cash and Cash Equivalents	-	10,654,634	10,654,634
Capital Assets (Net of Accumulated Depreciation)	27,957,746	12,407,825	40,365,571
Total Assets	<u>48,676,415</u>	<u>24,710,110</u>	<u>73,386,525</u>
<u>LIABILITIES</u>			
Accounts Payable	395,848	766,185	1,162,033
Accrued Liabilities	181,112	6,305	187,417
Due to Other Governmental Units	424,922	-	424,922
Other	246,659	35,100	281,759
Noncurrent Liabilities:			
Compensated Absences	382,297	-	382,297
Due within one year	907,133	-	907,133
Due in more than one year	3,772,255	-	3,772,255
Total Liabilities	<u>6,310,226</u>	<u>807,590</u>	<u>7,117,816</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, net of related debt	23,278,358	12,407,825	35,686,183
Restricted for:			
Special Revenue	372,315	-	372,315
Debt Service	160,348	-	160,348
Capital Projects	348,164	-	348,164
Other	56,365	-	56,365
Water and Sewer	-	10,668,922	10,668,922
Unrestricted	18,150,639	825,773	18,976,412
Total Net Assets	<u>\$ 42,366,189</u>	<u>\$ 23,902,520</u>	<u>\$ 66,268,709</u>

CITY OF ROCHESTER
Statement of Activities
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 1,707,089	\$ 780,043	\$ 3,919	\$ -
Public Safety	4,050,383	343,109	4,129	-
Community Development	1,561,146	393,863	-	-
Public Works	3,466,081	102,307	541,724	-
Recreation and Cultural	1,339,779	-	-	56,000
Interest on Long-Term Debt	241,441	-	-	-
Total Governmental Activities	<u>12,365,919</u>	<u>1,619,322</u>	<u>549,772</u>	<u>56,000</u>
Business-type Activities:				
Water and Sewer	3,515,559	2,950,990	-	6,600
Automobile parking system	182,767	96,185	-	-
Total Business-type Activities	<u>3,698,326</u>	<u>3,047,175</u>	<u>-</u>	<u>6,600</u>
Grand Total	<u>\$ 16,064,245</u>	<u>\$ 4,666,497</u>	<u>\$ 549,772</u>	<u>\$ 62,600</u>

General Revenues:
Property Taxes
State Shared Revenue
Cable Franchise Fees
Unrestricted Investment Earnings
Total General Revenues

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (923,127)	\$ -	\$ (923,127)
(3,703,145)	-	(3,703,145)
(1,167,283)	-	(1,167,283)
(2,822,050)	-	(2,822,050)
(1,283,779)	-	(1,283,779)
(241,441)	-	(241,441)
<u>(10,140,825)</u>	<u>-</u>	<u>(10,140,825)</u>
-	(557,969)	(557,969)
-	(86,582)	(86,582)
<u>-</u>	<u>(644,551)</u>	<u>(644,551)</u>
<u>(10,140,825)</u>	<u>(644,551)</u>	<u>(10,785,376)</u>
10,860,125	-	10,860,125
817,064	-	817,064
184,020	-	184,020
486,076	357,559	843,635
<u>12,347,285</u>	<u>357,559</u>	<u>12,704,844</u>
2,206,460	(286,992)	1,919,468
<u>40,159,729</u>	<u>24,189,512</u>	<u>64,349,241</u>
<u>\$ 42,366,189</u>	<u>\$ 23,902,520</u>	<u>\$ 66,268,709</u>

CITY OF ROCHESTER
Balance Sheet
Governmental Funds
June 30, 2009

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Downtown Development Authority</u>
ASSETS				
Cash and Cash Equivalents	\$ 7,252,494	\$ 1,180,658	\$ 706,821	\$ 2,352,520
Receivables (net of allowance for uncollectibles):				
Accounts	476,662	3,639	1,232	-
Taxes	-	-	-	406,244
Due from Other Funds	-	69,746	173,000	-
Due from Other Governmental Units	-	85,577	27,942	-
Total Assets	<u>\$ 7,729,156</u>	<u>\$ 1,339,620</u>	<u>\$ 908,995</u>	<u>\$ 2,758,764</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 121,351	\$ 9,946	\$ 28,765	\$ 216,367
Accrued and Other Liabilities	140,278	432	17,025	9,195
Due to Other Funds	-	173,000	69,746	-
Due to Other Governmental Units	-	-	-	424,922
Deferred Revenue	386	-	-	-
Other	246,159	-	-	500
Total Liabilities	<u>508,174</u>	<u>183,378</u>	<u>115,536</u>	<u>650,984</u>
Fund Balances:				
Reserved:				
Capital Projects	-	-	-	-
Debt Service	-	-	-	-
Other	-	-	-	-
Unreserved:				
General Fund	7,220,982	-	-	-
Special Revenue Funds	-	1,156,242	793,459	2,107,780
Capital Project Funds	-	-	-	-
Total Fund Balances	<u>7,220,982</u>	<u>1,156,242</u>	<u>793,459</u>	<u>2,107,780</u>
Total Liabilities and Fund Balances	<u>\$ 7,729,156</u>	<u>\$ 1,339,620</u>	<u>\$ 908,995</u>	<u>\$ 2,758,764</u>

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Governmental funds defer recognition of revenue.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net Assets of Governmental Activities

<u>Capital Projects General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 4,885,513	\$ 1,057,348	\$ 17,435,354
445	1,352	483,330
-	12,132	418,376
-	-	242,746
-	-	113,519
<u>\$ 4,885,958</u>	<u>\$ 1,070,832</u>	<u>\$ 18,693,325</u>

\$ 9,151	\$ 883	\$ 386,463
10,599	1,443	178,972
-	-	242,746
-	-	424,922
-	-	386
-	-	246,659
<u>19,750</u>	<u>2,326</u>	<u>1,480,148</u>

-	348,164	348,164
-	160,348	160,348
-	372,315	372,315
-	-	7,220,982
-	187,679	4,245,160
4,866,208	-	4,866,208
<u>4,866,208</u>	<u>1,068,506</u>	<u>17,213,177</u>
<u>\$ 4,885,958</u>	<u>\$ 1,070,832</u>	

26,022,318

4,191,993
386

(5,061,685)

\$ 42,366,189

CITY OF ROCHESTER
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Downtown Development Authority</u>
Revenues				
Property Taxes	\$ 8,522,663	\$ -	\$ -	\$ 1,929,490
Licenses and Permits	69,537	-	-	-
Intergovernmental:				
Federal, State and Local	1,034,112	382,966	158,758	-
Charges for Services	567,800	-	-	142,680
Franchise Fees	184,020	-	-	-
Fines and Forfeitures	85,928	-	-	-
Special Assessments	-	-	46,188	250,369
Interest	263,817	28,270	9,187	44,296
Other	129,558	587	55,532	814
Total Revenues	<u>10,857,435</u>	<u>411,823</u>	<u>269,665</u>	<u>2,367,649</u>
Expenditures				
Current:				
General Government	1,570,661	-	-	-
Public Safety	3,855,674	-	-	-
Community Development	58,149	-	-	1,365,974
Public Works	1,708,563	262,297	381,563	-
Recreation and Cultural	1,159,613	-	-	-
Other	56,782	-	-	-
Debt Service:				
Principal	-	-	-	54,062
Interest and Other Charges	-	-	-	40,807
Capital Outlay	-	584,016	1,457,414	681,193
Total Expenditures	<u>8,409,442</u>	<u>846,313</u>	<u>1,838,977</u>	<u>2,142,036</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,447,993</u>	<u>(434,490)</u>	<u>(1,569,312)</u>	<u>225,613</u>
Other Financing Sources (Uses)				
Transfers In	-	2,500	1,551,000	-
Transfers Out	(1,604,500)	(254,662)	-	(493,940)
Total Other Financing Sources (Uses)	<u>(1,604,500)</u>	<u>(252,162)</u>	<u>1,551,000</u>	<u>(493,940)</u>
Net Change in Fund Balances	843,493	(686,652)	(18,312)	(268,327)
Fund Balances - Beginning	<u>6,377,489</u>	<u>1,842,894</u>	<u>811,771</u>	<u>2,376,107</u>
Fund Balances - Ending	<u>\$ 7,220,982</u>	<u>\$ 1,156,242</u>	<u>\$ 793,459</u>	<u>\$ 2,107,780</u>

Capital Projects General	Other Governmental	Total Governmental
\$ -	\$ 407,972	\$ 10,860,125
-	-	69,537
-	-	1,575,836
-	45,892	756,372
-	-	184,020
-	-	85,928
-	-	296,557
77,774	10,960	434,304
11,102	60,335	257,928
<u>88,876</u>	<u>525,159</u>	<u>14,520,607</u>
-	-	1,570,661
-	4,590	3,860,264
-	-	1,424,123
-	-	2,352,423
-	114,676	1,274,289
-	62	56,844
-	795,000	849,062
-	200,634	241,441
527,035	-	3,249,658
<u>527,035</u>	<u>1,114,962</u>	<u>14,878,765</u>
<u>(438,159)</u>	<u>(589,803)</u>	<u>(358,158)</u>
100,500	699,102	2,353,102
-	-	(2,353,102)
<u>100,500</u>	<u>699,102</u>	<u>-</u>
(337,659)	109,299	(358,158)
<u>5,203,867</u>	<u>959,207</u>	<u>17,571,335</u>
\$ <u>4,866,208</u>	\$ <u>1,068,506</u>	\$ <u>17,213,177</u>

CITY OF ROCHESTER
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

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

Net change in fund balances - total governmental funds	\$	(358,158)
--	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		1,901,245
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Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue(loss) of certain activities of internal service funds is reported with governmental activities.		309,865
---	--	---------

Revenue reported in the statement of activities that does not provide current financial resources and is reported as deferred revenue in the governmental funds.		(438,791)
--	--	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		<u>792,299</u>
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Change in net assets in governmental activities	\$	<u><u>2,206,460</u></u>
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CITY OF ROCHESTER
Balance Sheet
Proprietary Funds
June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	<u>Activities Internal Service Fund</u>
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 912,193	\$ 40,925	\$ 953,118	\$ 2,254,196
Accounts Receivable	646,483	-	646,483	4,505
Inventory	47,550	500	48,050	9,389
Total Current Assets	<u>1,606,226</u>	<u>41,425</u>	<u>1,647,651</u>	<u>2,268,090</u>
Restricted Assets - Cash	<u>10,654,634</u>	<u>-</u>	<u>10,654,634</u>	<u>-</u>
Capital Assets	17,348,512	571,327	17,919,839	3,976,617
Less: Accumulated Depreciation	(5,283,636)	(228,378)	(5,512,014)	(2,041,189)
Net Capital Assets	<u>12,064,876</u>	<u>342,949</u>	<u>12,407,825</u>	<u>1,935,428</u>
Total Assets	<u>\$ 24,325,736</u>	<u>\$ 384,374</u>	<u>\$ 24,710,110</u>	<u>\$ 4,203,518</u>
<u>LIABILITIES AND EQUITY</u>				
Current Liabilities (Payable from Current Assets):				
Accounts Payable	\$ 765,892	\$ 293	\$ 766,185	\$ 9,385
Accrued Liabilities	6,208	97	6,305	2,140
Deposits	35,100	-	35,100	-
Total Current Liabilities (Payable from Current Assets)	<u>807,200</u>	<u>390</u>	<u>807,590</u>	<u>11,525</u>
Equity:				
Invested in Capital Assets, Net of Related Debt	12,064,876	342,949	12,407,825	1,935,428
Restricted for Improvements	10,668,922	-	10,668,922	-
Unrestricted	784,738	41,035	825,773	2,256,565
Total Equity	<u>23,518,536</u>	<u>383,984</u>	<u>23,902,520</u>	<u>4,191,993</u>
Total Liabilities and Equity	<u>\$ 24,325,736</u>	<u>\$ 384,374</u>	<u>\$ 24,710,110</u>	<u>\$ 4,203,518</u>

CITY OF ROCHESTER
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Funds
For the Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	
<u>Operating Revenues:</u>				
Water Sales	\$ 1,424,189	\$ -	\$ 1,424,189	\$ -
Sewage Disposal Fees	1,494,577	-	1,494,577	-
Charges for Services	24,908	95,987	120,895	982,098
Miscellaneous	7,316	198	7,514	31,067
Total Operating Revenues	<u>2,950,990</u>	<u>96,185</u>	<u>3,047,175</u>	<u>1,013,165</u>
<u>Operating Expenses:</u>				
Water Distribution	1,199,380	-	1,199,380	-
Sewage Collection and Disposal	1,566,094	-	1,566,094	-
Administrative	399,250	117,060	516,310	159,531
Operation and Maintenance	20,685	65,707	86,392	393,787
Depreciation	330,150	-	330,150	201,754
Total Operating Expenses	<u>3,515,559</u>	<u>182,767</u>	<u>3,698,326</u>	<u>755,072</u>
Operating Income (Loss)	<u>(564,569)</u>	<u>(86,582)</u>	<u>(651,151)</u>	<u>258,093</u>
<u>Non-Operating Revenues (Expenses):</u>				
Interest Earned	<u>356,258</u>	<u>1,301</u>	<u>357,559</u>	<u>51,772</u>
Income (Loss) before Contributions	(208,311)	(85,281)	(293,592)	309,865
Capital Contributions	<u>6,600</u>	<u>-</u>	<u>6,600</u>	<u>-</u>
Net Income (Loss)	(201,711)	(85,281)	(286,992)	309,865
Fund Equity, Beginning	<u>23,720,247</u>	<u>469,265</u>	<u>24,189,512</u>	<u>3,882,128</u>
Fund Equity, Ending	<u>\$ 23,518,536</u>	<u>\$ 383,984</u>	<u>\$ 23,902,520</u>	<u>\$ 4,191,993</u>

CITY OF ROCHESTER
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	<u>Activities Internal Service Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers and users	\$ 3,038,553	\$ 96,185	\$ 3,134,738	\$ 1,012,423
Payments to suppliers	(3,349,150)	(183,632)	(3,532,782)	(686,134)
Payments to employees	(576)	-	(576)	113,580
Net Cash Provided (Used) by Operating Activities	<u>(311,173)</u>	<u>(87,447)</u>	<u>(398,620)</u>	<u>439,869</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Refundable Deposits	<u>(6,200)</u>	<u>-</u>	<u>(6,200)</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Capital Contributions	6,600	-	6,600	-
Acquisition and Construction of Capital Assets	<u>(1,128,084)</u>	<u>-</u>	<u>(1,128,084)</u>	<u>(123,693)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,121,484)</u>	<u>-</u>	<u>(1,121,484)</u>	<u>(123,693)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Earned	<u>356,258</u>	<u>1,301</u>	<u>357,559</u>	<u>51,772</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,082,599)	(86,146)	(1,168,745)	367,948
Cash and Cash Equivalents, Beginning	<u>12,649,426</u>	<u>127,071</u>	<u>12,776,497</u>	<u>1,886,248</u>
Cash and Cash Equivalents, Ending	<u>\$ 11,566,827</u>	<u>\$ 40,925</u>	<u>\$ 11,607,752</u>	<u>\$ 2,254,196</u>
<u>Balance Sheet Classifications:</u>				
Cash and Cash Equivalents	\$ 912,193	\$ 40,925	\$ 953,118	\$ 2,254,196
Restricted Assets - Cash and Cash Equivalents	10,654,634	-	10,654,634	-
Total	<u>\$ 11,566,827</u>	<u>\$ 40,925</u>	<u>\$ 11,607,752</u>	<u>\$ 2,254,196</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ (564,569)	\$ (86,582)	\$ (651,151)	\$ 258,093
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	330,150	-	330,150	201,754
(Increase) Decrease in Receivables	1,849	-	1,849	(742)
(Increase) Decrease in Due from Other Funds	85,714	-	85,714	-
Increase (Decrease) in Accounts Payable	103,988	(846)	103,142	(19,151)
Increase (Decrease) in Accrued Liabilities	(576)	(19)	(595)	(85)
Increase (Decrease) in Due to Other Funds	(267,729)	-	(267,729)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (311,173)</u>	<u>\$ (87,447)</u>	<u>\$ (398,620)</u>	<u>\$ 439,869</u>

CITY OF ROCHESTER
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Pension Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 108,682	\$ 345,922
 LIABILITIES		
Due to Other	-	345,922
 NET ASSETS Held in Trust For Employees'		
Retirement Benefits	\$ 108,682	-

CITY OF ROCHESTER
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009

	<u>Pension Trust Fund</u>
Additions	
Contributions - employer	\$ 9,991
Investment Income	
Interest	<u>1,100</u>
Total Additions	11,091
Deductions	
Employee Benefits	<u>30,732</u>
Change in Net Assets	(19,641)
Net Assets - Beginning	<u>128,323</u>
Net Assets - Ending	<u>\$ 108,682</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Rochester, Michigan, is governed by an elected seven-member City Council. Services are provided to residents in the areas of police and fire protection, building code enforcement, planning and zoning, refuse removal, parks and recreation, road construction, street lighting, and water and sewer. There are no component units for which the City is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund 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.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Fund accounts for the resources of State gas and weight tax revenue that are restricted for use on local streets.

The Downtown Development Authority accounts for the captured property tax revenue for promotion and development within the downtown development plan.

The Capital Projects-General Fund accounts for the special resources used for the acquisition or major renovation of capital facilities.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

The Automobile Parking System Fund accounts for the activities of the City's parking system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Pension Trust Fund accounts for the activity of the Fire Department Retirement System, which accumulates resources for pension benefit payments to qualified fire department employees.

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for construction projects and their related revenue sources.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables – Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, if applicable.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-60
Infrastructure	10-20
Water & Sewer Lines	50
Equipment	3-7
Vehicles	2-10

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

5. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets.

6. Long Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

7. Fund Equity

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

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

General Obligation Bonds	\$ 3,825,000
Land Contracts Payable	854,388
Compensated Absences Payable	<u>382,297</u>
	<u>\$ 5,061,685</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital Outlay	\$ 3,249,658
Depreciation Expense	<u>(1,348,413)</u>
	<u>\$ 1,901,245</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal Repayments:	
Bonds and Land Contracts	\$ 849,062
Increase in Compensated Absences	<u>(56,763)</u>
	<u>\$ 792,299</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. On or before the first Monday in April, the City Manager submits to the Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an activity basis within the General Fund and on a total fund basis in other governmental funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than the second Monday in May, the budget is legally enacted through adoption of a resolution in accordance with the Michigan Uniform Accounting and Budgeting Act.
4. The City Manager is authorized by the Council to transfer budgeted amounts within appropriations. However, any revisions that alter the total appropriation must be approved by the City Council.
5. Appropriations for the fiscal year lapse every June 30. Council may re-appropriate any amount at its discretion.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2009 several budget amendments were made and are reflected in the financial statements.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

Excess of Expenditures Over Appropriations in Budgetary Funds

The budgets for the General and Special Revenue Funds are adopted at the activity level; expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
Major Streets Fund:			
Routine Maintenance	\$ 107,390	\$135,290	\$ 27,900
Traffic Services	40,216	42,123	1,907
Winter Maintenance	74,404	77,303	2,899
Transfer Out	86,100	254,662	168,562
Local Streets Fund:			
Routine Maintenance	181,060	215,567	34,507
Traffic Services	12,618	14,983	2,365
Winter Maintenance	124,564	142,549	17,985

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2009 are as follows:

Cumulative Balance at June 30, 2008	\$ (386,546)
Fees Collected in Fiscal Year 2009	44,681
Expenditures in Fiscal Year 2009	<u>(221,363)</u>
Revenues Over (Under) Expenditures	<u>\$ (563,228)</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk. In the event of a bank failure, the City's deposits may not be recovered. The City's does not have an investment policy for custodial credit risk. As of June 30, 2009, the City's book balance of its deposits was \$31,751,381; the total book balance was \$31,751,906, due to \$525 in cash on hand. The bank balance was \$32,120,283 which was exposed to custodial credit risk as follows:

	Bank Balance
Insured by F.D.I.C.	\$ 4,056,365
Government Sponsored Entities	8,611,517
Uninsured and Uncollateralized	19,452,401
Total	\$ 32,120,283

A reconciliation of cash is as follows:

Statement of Net Assets	
Cash and Cash Equivalents	\$ 20,642,668
Restricted Cash	10,654,634
Fiduciary Funds:	
Trust & Agency Funds	454,604
Total	\$ 31,751,906

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of deposits are as follows:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Certificates of Deposit	\$ 11,500,000	114 days
Federal Home Loan Banks	4,102,183	1.69 years
Federal Farm Credit Banks	1,527,444	1.81 years
Treasury Notes	2,981,890	1.01 years
FNMA	496,803	.54 years
FHLMC	930,396	1.59 years
Bank Investment Pools	16,482,134	Demand
Savings and Checking Accounts	267,746	Demand
	<u>\$ 32,120,283</u>	

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Government Agencies	\$ 9,198,425	AAA	S&P
MBIA Gov. Investment Pool	2,145,550	AAA/m	S&P
Bank Investment Pools	14,257,083	Not Rated	

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. The City has more than 5 percent of its investments in the following:

<u>U.S. Government Agencies:</u>	
Federal Home Loan Banks	12.8%

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 3,656,450	\$ -	\$ -	\$ 3,656,450
Capital Assets, being depreciated:				
Buildings and Improvements	4,175,072	-	-	4,175,072
Improvements-Non Building	967,700	-	-	967,700
Machinery and Equipment	2,341,239	32,675	-	2,373,914
Infrastructure	24,580,619	3,216,983	-	27,797,602
Internal Service Fund	3,852,924	123,693	-	3,976,617
	<u>35,917,554</u>	<u>3,373,351</u>	<u>-</u>	<u>39,290,905</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(1,124,367)	(108,428)	-	(1,232,795)
Improvements-Non Building	(307,793)	(27,345)	-	(335,138)
Machinery and Equipment	(1,121,888)	(166,027)	-	(1,287,915)
Infrastructure	(9,045,959)	(1,046,613)	-	(10,092,572)
Internal Service Fund	(1,839,435)	(201,754)	-	(2,041,189)
	<u>(13,439,442)</u>	<u>(1,550,167)</u>	<u>-</u>	<u>(14,989,609)</u>
Governmental Activities Capital Assets, net	<u>\$ 26,134,562</u>	<u>\$ 1,823,184</u>	<u>\$ -</u>	<u>\$ 27,957,746</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 363,253	\$ -	\$ -	\$ 363,253
Capital Assets, being depreciated:				
Sewage Disposal System	8,777,081	506,515	-	9,283,596
Water Distribution System	7,367,706	621,569	-	7,989,275
Improvements Parking Lots	166,609	-	-	166,609
Parking Meters	59,776	-	-	59,776
Other Equipment	57,330	-	-	57,330
	<u>16,428,502</u>	<u>1,128,084</u>	<u>-</u>	<u>17,556,586</u>
Less: Accumulated Depreciation:				
Sewage Disposal System	(2,267,085)	(160,064)	-	(2,427,149)
Water Distribution System	(2,642,049)	(166,862)	-	(2,808,911)
Improvements Parking Lots	(166,609)	-	-	(166,609)
Parking Meters	(59,776)	-	-	(59,776)
Other Equipment	(46,345)	(3,224)	-	(49,569)
	<u>(5,181,864)</u>	<u>(330,150)</u>	<u>-</u>	<u>(5,512,014)</u>
Business-type Activities				
Capital Assets, net	<u>\$ 11,609,891</u>	<u>\$ 797,934</u>	<u>\$ -</u>	<u>\$ 12,407,825</u>

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

General Government	\$ 79,584
Public Safety	133,356
Public Works	932,960
Community Development	137,023
Recreation and Cultural	65,490
Charged though Internal Service Funds	201,754
	<u>\$ 1,550,167</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2009 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	\$ 69,746
Local Street Fund	Major Street Fund	173,000
		<u>\$ 242,746</u>

Note, interfund balance due amounts represent unsettled amounts due at year end.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 173,000
Local Street Fund	General Fund	1,378,000
Major Street Fund	DDA	2,500
Cemetery	General Fund	111,000
1996 Highway Debt	Major Street Fund	81,662
1990 DDA Debt	DDA	20,750
1991 DDA Debt	DDA	25,750
1996 DDA Debt	DDA	444,940
Capital Projects Fund	General Fund	100,500
Fire Equipment Reserve	General Fund	15,000
		<u>\$ 2,353,102</u>

Transfers represent the following:

DDA transferred to debt service funds to make annual debt service payments.

Major Street Fund transferred to debt fund to make annual debt service payments.

All other transfers are operating transfers to fund street and other construction projects in the current year.

D. Restricted Assets and Reserves

Business-Type Activities – The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is the detail of the business-type activities restricted assets on June 30, 2009:

Water & Sewer Improvement Account	<u>\$10,654,634</u>
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CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2009:

Governmental Activities:	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Balance</u> <u>Within 1 Year</u>
1994 Unlimited Tax Bonds maturing through 10-1-2013, interest 4%-5%	\$ 1,700,000	\$ -	\$ (200,000)	\$ 1,500,000	\$ 250,000
1990 Limited Tax Bonds maturing through 10-1-2010, interest at 5%-7%	400,000	-	-	400,000	200,000
1991 Limited Tax Bonds maturing through 10-1-2009, interest at 5%	500,000	-	-	500,000	250,000
1996 Michigan Transportation Fund Bonds maturing through 10-1-2010, interest 4.9%-5.1%	250,000	-	(75,000)	175,000	75,000
1996 Unlimited Tax Bonds maturing through 10-1-2008, interest at 5.1%	445,000	-	(445,000)	-	-
2001 Unlimited Tax Bonds maturing through 4-1-2020, interest 4%-5%	1,325,000	-	(75,000)	1,250,000	75,000
Land Contracts Payable due 4-1-2025, interest at 4.5%	869,841	-	(35,478)	834,363	37,108
Land Contracts Payable due August 2010, interest at 7.5%	38,609	-	(18,584)	20,025	20,025
	<u>5,528,450</u>	<u>-</u>	<u>(849,062)</u>	<u>4,679,388</u>	<u>907,133</u>
Compensated Absences	325,534	56,763	-	382,297	-
	<u>\$ 5,853,984</u>	<u>\$ 56,763</u>	<u>\$ (849,062)</u>	<u>\$ 5,061,685</u>	<u>\$ 907,133</u>

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2009:

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2009 are as follows:

Year Ended	Governmental Activities	
	Principal	Interest
2010	\$ 907,133	\$ 194,535
2011	938,813	148,907
2012	415,596	117,499
2013	442,461	100,059
2014	469,412	81,458
2015-2019	829,602	279,548
2020-2024	618,711	73,889
2025	57,660	1,253
	\$ 4,679,388	\$ 997,148

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2008 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	11.5964
Voted Sewer Debt	.4000
Older Persons Comm.	.2440
Older Persons Comm. Debt	.1900
Total	12.4304 mills

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system. The plan covers all full time employees except the City Manager. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2008.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. Public works employee members contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. All other City employee members contribute 5% of annual compensation. The City is required to contribute at an actuarially determined rate.

c. Annual Pension Cost

During the fiscal year ended June 30, 2009, the City's contributions totaling \$306,246 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2008.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Three Year Trend Information</u>				
<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Valuation</u> <u>Date</u> <u>Dec. 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2007	2005	\$295,035	100%	-0-
2008	2006	270,158	100%	-0-
2009	2007	306,246	100%	-0-

The information presented above was determined as part of the actuarial valuations at the dates indicated.

2. Firefighters Defined Benefit Plan

a. Plan Description

The City of Rochester has established a defined benefit plan as of July 1, 1989 for the Rochester Volunteer Firefighters Association. The plan provides for a defined benefit of \$3.00 per month for each year of service with a maximum of thirty-five years of service. The amount was increased to \$4.00 per month effective January 2008. The plan provides for vesting of benefits after 10 years of service. All volunteer firefighters that have attained eighteen years of age and completed the required training and 1000 hours of service are eligible to participate. Entry date is July 1st following satisfaction of the above requirements. Participants may elect normal retirement on the first day of the month following attainment of age 55. The City's contribution for the year ended June 30, 2009 was \$9,991 in accordance with contribution requirements determined by an actuarial valuation of the plan as of July 1, 2007. The Rochester Volunteer Firefighters Defined Benefit Plan (the Plan) is considered part of the City of Rochester financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Rochester Fire Department Defined Benefit Plan – Continued

b. Annual Pension Cost

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 15 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7%.

Schedule of Employer Contributions

<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u>	<u>Valuation</u> <u>Date</u> <u>July 1</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2007	2005	\$ 9,676	100%	-0-
2008	2006	7,739	100%	-0-
2009	2007	9,991	100%	-0-

3. City of Rochester – Defined Contribution Plan

a. Plan Description

The City of Rochester contributes to a defined contribution money purchase pension plan for the City Manager. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The City Manager, if not covered by MERS, is eligible to participate in the plan. Contributions made by the City for an employee vest immediately. During the year, the City's required and actual contributions amounted to \$12,354.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

Change in Accounting – The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) and related liabilities and note disclosures in other plans in which the City participates. GASB Statement No. 45 was effective for the City for the year beginning July 1, 2008. Current year expenses include the current year “pay-as-you-go” amount and the recognition of the unfunded current year actuarial recommended contribution (ARC) in the governmental activities. This change had no impact on beginning net assets. The changes in financial reporting as a result of this statement are outlined below.

Plan Description – The City provides post retirement health care insurance coverage to all non-union employees and their spouses, the Department of Public Works union employees and the police union employees who retire from the City. They are provided with 4% of the cost of single and/or spouse coverage premiums for each year of employment. Currently 12 retirees are receiving benefits. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$172,697.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has budgeted to fund this obligation on an actuarial basis.

Funding Progress – For the year ended June 30, 2009, the City has estimated the cost of providing retiree healthcare benefits through an actuarial study that complies with the requirements of GASB 45. The study computes an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

The computed contribution and actual funding are summarized as follows:

Annual Required Contribution (recommended)	\$ 308,537
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
Annual OPEB Cost	<u>\$ 308,537</u>

Amounts Contributed:

Payments of current premiums	(172,697)
Advance funding	<u>(389,599)</u>
Increase(Decrease) in net OPEB obligation	(253,759)
OPEB obligation - Beginning of Year	-
OPEB obligation - End of Year	<u><u>\$ (253,759)</u></u>

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2006:

Actuarial Value of Assets	\$ 4,869,017
Actuarial Accrued Liability (AAL)	6,402,137
Unfunded AAL (UAAL)	1,533,120
Funded Ratio	76.05%
Ratio of UAAL to covered payroll	Not available

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF ROCHESTER
Notes to Financial Statements
June 30, 2009

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits – Continued

In the December 31, 2006 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0 percent investment rate of return. The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years.

C. Risk Management

The City is exposed to risks of loss related to property loss, torts, and errors and omissions. The City has purchased commercial insurance for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ROCHESTER
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2009

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u>
12/31/04	\$11,580,247	\$13,109,802	\$1,529,555	88%	\$3,205,994	48%
12/31/05	12,212,649	13,596,770	1,384,121	90	3,289,737	42
12/31/06	13,164,029	14,685,002	1,520,973	90	3,280,051	46
12/31/07	13,989,804	15,547,219	1,557,415	90	3,246,295	48
12/31/08	14,308,424	17,061,907	2,753,483	84	3,702,990	74

Additional information as of December 31, 2008, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 12.90%
Includes inflation at 4.5%	
Cost of living adjustments	None

Rochester Volunteer Firefighters Retirement System
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>
7/01/05	\$89,851	\$132,874	\$43,023	68%
7/01/06	103,024	139,365	36,341	74
7/01/07	116,050	150,926	34,876	77
7/01/08	128,323	168,807	40,484	76

Additional information as of July 1, 2008, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization period	15 years
Asset valuation method	At market
Actuarial assumptions:	
Investment rate of return	7%

CITY OF ROCHESTER
General Fund
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
General Property Taxes	\$ 8,175,000	\$ 8,500,000	\$ 8,522,663	\$ 22,663
Licenses and Permits	86,000	68,400	69,537	1,137
Intergovernmental - State and Local	1,060,222	1,011,500	1,034,112	22,612
Charges for Services	555,320	562,395	567,800	5,405
Franchise Fees	150,000	183,000	184,020	1,020
Fines	75,000	80,000	85,928	5,928
Interest	250,000	255,000	263,817	8,817
Reimbursements	56,500	78,660	77,231	(1,429)
Other Revenues	7,000	37,685	52,327	14,642
Total Revenues	<u>10,415,042</u>	<u>10,776,640</u>	<u>10,857,435</u>	<u>80,795</u>
Expenditures:				
General Government:				
City Council	87,205	70,820	68,783	2,037
City Manager	344,168	321,141	321,033	108
Elections	23,500	25,069	25,026	43
Finance	602,750	588,047	582,963	5,084
City Clerk	114,333	114,325	112,185	2,140
Board of Review	2,750	2,575	2,548	27
Civic Center	75,740	82,175	82,164	11
Other General Services	361,625	392,595	375,959	16,636
Total General Government	<u>1,612,071</u>	<u>1,596,747</u>	<u>1,570,661</u>	<u>26,086</u>
Public Safety:				
Police	3,226,335	3,182,107	3,162,091	20,016
Fire	410,973	480,539	472,220	8,319
Protective Inspections	260,900	229,662	221,363	8,299
Total Public Safety	<u>3,898,208</u>	<u>3,892,308</u>	<u>3,855,674</u>	<u>36,634</u>
Community Development:				
Planning Commission	37,450	57,130	56,373	757
Zoning Board of Appeals	5,000	2,315	1,776	539
Total Community Development	<u>42,450</u>	<u>59,445</u>	<u>58,149</u>	<u>1,296</u>
Public Works:				
Department of Public Works	1,115,090	937,253	930,240	7,013
Sanitation	812,100	780,700	778,323	2,377
Total Public Works	<u>1,927,190</u>	<u>1,717,953</u>	<u>1,708,563</u>	<u>9,390</u>
Recreation and Cultural:				
Parks and Recreation	596,610	589,025	581,563	7,462
Library	525,000	515,879	515,879	-
Older Persons Commission	61,640	62,171	62,171	-
Total Recreation and Cultural	<u>1,183,250</u>	<u>1,167,075</u>	<u>1,159,613</u>	<u>7,462</u>
Contingencies	147,373	70,000	56,782	13,218
Total Expenditures	<u>8,810,542</u>	<u>8,503,528</u>	<u>8,409,442</u>	<u>94,086</u>
Excess (Deficiency) of Revenues Over Expenditures	1,604,500	2,273,112	2,447,993	174,881
Other Financing Uses: Operating Transfers Out	<u>(1,604,500)</u>	<u>(1,604,500)</u>	<u>(1,604,500)</u>	<u>-</u>
Change in Fund Balance	\$ <u>-</u>	\$ <u>668,612</u>	843,493	\$ <u>174,881</u>
Fund Balance - July 1			<u>6,377,489</u>	
Fund Balance - June 30			\$ <u>7,220,982</u>	

CITY OF ROCHESTER
Major Streets Fund
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 446,300	\$ 382,300	\$ 382,966	\$ 666
Interest	80,000	26,000	28,270	2,270
Other	340	588	587	(1)
Total Revenues	<u>526,640</u>	<u>408,888</u>	<u>411,823</u>	<u>2,935</u>
Expenditures:				
Highways and Streets:				
General Administration	37,780	36,853	7,581	29,272
Routine Maintenance	87,300	107,390	135,290	(27,900)
Street Construction	1,127,000	701,376	584,016	117,360
Traffic Services	36,700	40,216	42,123	(1,907)
Winter Maintenance	53,500	74,404	77,303	(2,899)
Total Expenditures	<u>1,342,280</u>	<u>960,239</u>	<u>846,313</u>	<u>113,926</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(815,640)</u>	<u>(551,351)</u>	<u>(434,490)</u>	<u>116,861</u>
Other Financing Sources (Uses):				
Operating Transfers In	380,500	2,500	2,500	-
Operating Transfers Out	(86,100)	(86,100)	(254,662)	(168,562)
Total Other Financing Sources (Uses)	<u>294,400</u>	<u>(83,600)</u>	<u>(252,162)</u>	<u>(168,562)</u>
Net Change in Fund Balance	(521,240)	(634,951)	(686,652)	(51,701)
Fund Balance - July 1	<u>1,842,894</u>	<u>1,842,894</u>	<u>1,842,894</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 1,321,654</u>	<u>\$ 1,207,943</u>	<u>\$ 1,156,242</u>	<u>\$ (51,701)</u>

CITY OF ROCHESTER
Local Streets Fund
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 185,000	\$ 159,000	\$ 158,758	\$ (242)
Special Assessments	30,000	42,763	46,188	3,425
Interest	30,000	9,200	9,187	(13)
Other	500	55,532	55,532	-
Total Revenues	<u>245,500</u>	<u>266,495</u>	<u>269,665</u>	<u>3,170</u>
Expenditures:				
Highways and Streets:				
General Administration	57,880	52,329	8,464	43,865
Routine Maintenance	176,400	181,060	215,567	(34,507)
Street Construction	932,870	1,503,963	1,457,414	46,549
Traffic Services	19,900	12,618	14,983	(2,365)
Winter Maintenance	58,450	124,564	142,549	(17,985)
Total Expenditures	<u>1,245,500</u>	<u>1,874,534</u>	<u>1,838,977</u>	<u>35,557</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,000,000)</u>	<u>(1,608,039)</u>	<u>(1,569,312)</u>	<u>38,727</u>
Other Financing Sources (Uses):				
Operating Transfers In	1,000,000	1,378,000	1,551,000	(173,000)
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>1,000,000</u>	<u>1,378,000</u>	<u>1,551,000</u>	<u>(173,000)</u>
Net Change in Fund Balance	-	(230,039)	(18,312)	(134,273)
Fund Balance - July 1	<u>811,771</u>	<u>811,771</u>	<u>811,771</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 811,771</u>	<u>\$ 581,732</u>	<u>\$ 793,459</u>	<u>\$ (134,273)</u>

CITY OF ROCHESTER
Downtown Development Authority Fund
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 1,968,250	\$ 2,304,882	\$ 1,929,490	\$ (375,392)
Special Assessments	250,000	250,000	250,369	369
Charges for Services	161,500	161,500	142,680	(18,820)
Interest	55,300	55,300	44,296	(11,004)
Other	-	-	814	814
Total Revenues	<u>2,435,050</u>	<u>2,771,682</u>	<u>2,367,649</u>	<u>(404,033)</u>
Expenditures:				
Community Development:				
Downtown Development	965,870	1,013,008	1,023,943	(10,935)
Promotions	374,000	374,000	342,031	31,969
Debt Service:				
Principal	54,062	54,062	54,062	-
Interest	40,888	40,888	40,807	81
Capital Outlay	660,000	707,858	681,193	26,665
Total Expenditures	<u>2,094,820</u>	<u>2,189,816</u>	<u>2,142,036</u>	<u>47,780</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>340,230</u>	<u>581,866</u>	<u>225,613</u>	<u>(356,253)</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(540,900)	(540,900)	(493,940)	46,960
Total Other Financing Sources (Uses)	<u>(540,900)</u>	<u>(540,900)</u>	<u>(493,940)</u>	<u>46,960</u>
Net Change in Fund Balance	(200,670)	40,966	(268,327)	(309,293)
Fund Balance - July 1	<u>2,376,107</u>	<u>2,376,107</u>	<u>2,376,107</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 2,175,437</u>	<u>\$ 2,417,073</u>	<u>\$ 2,107,780</u>	<u>\$ (309,293)</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ROCHESTER
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue	Debt Service	Capital Projects Fire Equipment Reserve	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 560,968	\$ 148,216	\$ 348,164	\$ 1,057,348
Accounts Receivable	1,352	-	-	1,352
Taxes Receivable	-	12,132	-	12,132
Total Assets	\$ 562,320	\$ 160,348	\$ 348,164	\$ 1,070,832
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 883	\$ -	\$ -	\$ 883
Accrued Liabilities	1,443	-	-	1,443
Total Liabilities	2,326	-	-	2,326
Fund Balance:				
Reserved for :				
Capital Projects	-	-	348,164	348,164
Debt Service	-	160,348	-	160,348
Cemetery	315,950	-	-	315,950
Other	56,365	-	-	56,365
Unreserved	187,679	-	-	187,679
Total Fund Balance	559,994	160,348	348,164	1,068,506
Total Liabilities and Fund Balance	\$ 562,320	\$ 160,348	\$ 348,164	\$ 1,070,832

CITY OF ROCHESTER
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects Fire Equipment Reserve</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:				
Property Taxes	\$ -	\$ 407,972	\$ -	\$ 407,972
Charges for Services	45,892	-	-	45,892
Interest	7,012	125	3,823	10,960
Other	60,335	-	-	60,335
Total Revenues	<u>113,239</u>	<u>408,097</u>	<u>3,823</u>	<u>525,159</u>
Expenditures:				
Public Safety	4,590	-	-	4,590
Recreation and Cultural	114,676	-	-	114,676
Other	-	62	-	62
Debt Service:				
Principal	-	795,000	-	795,000
Interest and Other Charges	-	200,634	-	200,634
Total Expenditures	<u>119,266</u>	<u>995,696</u>	<u>-</u>	<u>1,114,962</u>
Excess (Deficiency) of Revenues Over Expenditures	(6,027)	(587,599)	3,823	(589,803)
Other Financing Sources:				
Operating Transfers In	<u>111,000</u>	<u>573,102</u>	<u>15,000</u>	<u>699,102</u>
Change in Fund Balances	104,973	(14,497)	18,823	109,299
Fund Balances - July 1	<u>455,021</u>	<u>174,845</u>	<u>329,341</u>	<u>959,207</u>
Fund Balances - June 30	<u>\$ 559,994</u>	<u>\$ 160,348</u>	<u>\$ 348,164</u>	<u>\$ 1,068,506</u>

CITY OF ROCHESTER
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2009

	<u>Cemetery</u>	<u>Drug Law Enforcement</u>	<u>Community Development Block Grant</u>	<u>Band Shelter</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 428,710	\$ 48,041	\$ 27,852	\$ 56,365	\$ 560,968
Accounts Receivable	<u>1,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,352</u>
Total Assets	<u>\$ 430,062</u>	<u>\$ 48,041</u>	<u>\$ 27,852</u>	<u>\$ 56,365</u>	<u>\$ 562,320</u>
 <u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts Payable	\$ 883	\$ -	\$ -	\$ -	\$ 883
Accrued Liabilities	<u>1,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,443</u>
Total Liabilities	<u>2,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,326</u>
Fund Balance:					
Reserved for Cemetery	315,950	-	-	-	315,950
Reserved for Other	-	-	-	56,365	56,365
Unreserved	<u>111,786</u>	<u>48,041</u>	<u>27,852</u>	<u>-</u>	<u>187,679</u>
Total Fund Balance	<u>427,736</u>	<u>48,041</u>	<u>27,852</u>	<u>56,365</u>	<u>559,994</u>
Total Liabilities and Fund Balance	<u>\$ 430,062</u>	<u>\$ 48,041</u>	<u>\$ 27,852</u>	<u>\$ 56,365</u>	<u>\$ 562,320</u>

CITY OF ROCHESTER
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2009

	<u>Cemetery</u>	<u>Drug Law Enforcement</u>	<u>Community Development Block Grant</u>	<u>Band Shelter</u>	<u>Total</u>
Revenues:					
Charges for Services	\$ 45,892	\$ -	\$ -	\$ -	\$ 45,892
Interest Earned	5,703	920	24	365	7,012
Donation	-	-	-	56,000	56,000
Other	835	3,500	-	-	4,335
Total Revenues	<u>52,430</u>	<u>4,420</u>	<u>24</u>	<u>56,365</u>	<u>113,239</u>
Expenditures:					
Public Safety	-	4,590	-	-	4,590
Recreation and Cultural	114,676	-	-	-	114,676
Total Expenditures	<u>114,676</u>	<u>4,590</u>	<u>-</u>	<u>-</u>	<u>119,266</u>
Excess (Deficiency) of Revenues Over Expenditures	(62,246)	(170)	24	56,365	(6,027)
Other Financing Sources:					
Transfers In	111,000	-	-	-	111,000
Net Change in Fund Balance	48,754	(170)	24	56,365	104,973
Fund Balance - July 1	378,982	48,211	27,828	-	455,021
Fund Balance - June 30	<u>\$ 427,736</u>	<u>\$ 48,041</u>	<u>\$ 27,852</u>	<u>\$ 56,365</u>	<u>\$ 559,994</u>

CITY OF ROCHESTER
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2009

	<u>1994 General Obligation Bonds</u>	<u>1996 Highway Fund Bonds</u>	<u>1990 DDA Limited Tax Bonds</u>	<u>1991 DDA Limited Tax Bonds</u>	<u>1996 DDA Limited Tax Bonds</u>
<u>ASSETS</u>					
Cash	\$ 56,356	\$ 11,027	\$ 14,877	\$ 17,882	\$ -
Taxes Receivable	<u>8,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 64,563</u>	<u>\$ 11,027</u>	<u>\$ 14,877</u>	<u>\$ 17,882</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance:					
Reserved For Debt Service	<u>64,563</u>	<u>11,027</u>	<u>14,877</u>	<u>17,882</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 64,563</u>	<u>\$ 11,027</u>	<u>\$ 14,877</u>	<u>\$ 17,882</u>	<u>\$ -</u>

<u>2001 General Obligation Bonds</u>	<u>Total</u>
\$ 48,074	\$ 148,216
3,925	12,132
\$ 51,999	\$ 160,348
\$ -	\$ -
51,999	160,348
\$ 51,999	\$ 160,348

CITY OF ROCHESTER
Nonmajor Debt Service Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended June 30, 2009

	1994 General Obligation Bonds	1996 Highway Fund Bonds	1990 DDA Limited Tax Bonds	1991 DDA Limited Tax Bonds	1996 DDA Limited Tax Bonds
Revenues:					
Property Taxes	\$ 276,575	\$ -	\$ -	\$ -	\$ -
Interest Earned	40	-	-	-	-
Total Revenues	<u>276,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Principal Retirement	200,000	75,000	-	-	445,000
Interest	70,250	10,697	20,000	25,000	11,362
Paying Agent Fees	750	400	750	750	300
Other	-	-	12	10	-
Total Expenditures	<u>271,000</u>	<u>86,097</u>	<u>20,762</u>	<u>25,760</u>	<u>456,662</u>
Excess (Deficiency) of Revenues Over Expenditures	5,615	(86,097)	(20,762)	(25,760)	(456,662)
Other Financing Sources: Transfers In	-	81,662	20,750	25,750	444,940
Change in Fund Balances	5,615	(4,435)	(12)	(10)	(11,722)
Fund Balance - July 1	<u>58,948</u>	<u>15,462</u>	<u>14,889</u>	<u>17,892</u>	<u>11,722</u>
Fund Balance - June 30	<u>\$ 64,563</u>	<u>\$ 11,027</u>	<u>\$ 14,877</u>	<u>\$ 17,882</u>	<u>\$ -</u>

2001 General Obligation Bonds	Total
\$ 131,397	\$ 407,972
85	125
131,482	408,097
75,000	795,000
60,075	197,384
300	3,250
40	62
135,415	995,696
(3,933)	(587,599)
-	573,102
(3,933)	(14,497)
55,932	174,845
\$ 51,999	\$ 160,348

