

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ROCHESTER	County OAKLAND
Fiscal Year End JUNE 30, 2007	Opinion Date OCTOBER 23, 2007	Date Audit Report Submitted to State NOVEMBER 18, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

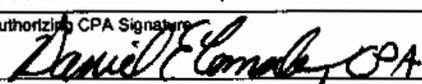
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) GUEST, OLDS AND WEST, PLC		Telephone Number 248-645-1411		
Street Address 30600 TELEGRAPH, SUITE 3165		City BINGHAM FARMS	State MI	Zip 48025
Authorizing CPA Signature 		Printed Name DANIEL E. TOMALA		License Number 1101017386

**CITY OF ROCHESTER
MICHIGAN**

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2007**

**CITY OF ROCHESTER
MICHIGAN
ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	2
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets.....	3
Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	7
Statement of Revenue, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Proprietary Funds:	
Statement of Net Assets.....	10
Statement of Revenue, Expenditures, and Changes in Net Assets.....	11
Statement of Cash Flows	12
Fiduciary Funds:	
Statement of Net Assets.....	14
Statement of Changes in Net Assets.....	15
Notes to Financial Statements.....	16
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	33
Budgetary Comparison Schedule – Major Streets Fund	35
Budgetary Comparison Schedule – Local Streets Fund.....	36

TABLE OF CONTENTS - Continued

Other Supplemental Information

Combining Balance Sheet – Non-major Governmental Funds.....	37
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds.....	38
Combining Balance Sheet – Non-major Special Revenue Funds.....	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Special Revenue Funds.....	40
Combining Balance Sheet – Non-major Debt Service Funds.....	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances- Non-major Debt Service Funds.....	42
Combining Balance Sheet – Non-major Capital Projects Funds.....	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Capital Projects Funds	44

INDEPENDENT AUDITOR'S REPORT

To the City Council
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 City of Rochester, Michigan as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Rochester, Michigan management. Our responsibility is to express an opinion 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, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Michigan basic financial statements. The accompanying other supplemental information, as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole

BINGHAM FARMS, MICHIGAN
October 23, 2007

Guest, Olds and West, PLC
GUEST, OLDS AND WEST, PLC
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Rochester's financial performance provides an overview of the City's financial activities for the year ended June 30, 2007 (referred to hereafter as the "current period"). Please read it in conjunction with the City's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities on the City's finances. For governmental activities, these statements tell how these services were financed. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including the police, fire, general administration, parks, public works, City Council, boards and commissions, highways and streets, Downtown Development Authority and financial support to the Rochester Hills Public Library. Property taxes, sales taxes, fines, and state grants finance most of these activities.

- Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and auto parking activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Funds control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the state's gas tax receipts in the Major Streets Fund and Local Streets Fund).

The City's two kinds of funds (governmental and proprietary) use different accounting approaches:

- Governmental funds: most of the City's basic services are reported in government funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary funds: when the City charges customers for the services it provides - water and sewer system and auto parking system - these services are reported in proprietary funds.

(Management Discussion and Analysis for the period ended June 30, 2007
Continues on Next Page)

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Tax Collection Fund, the Dental and Optical Fund, the Severance and Sick Fund, the Volunteer Firefighters Pension System Fund and the Retiree Hospitalization Fund. All of the City's fiduciary funds are reported in a separate Statement of Fiduciary Net Assets.

We exclude fiduciary activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Net Assets

For the current period, net assets changed as follows:

	Governmental Activities	Business-type Activities
Beginning net assets	\$31,767,018	\$23,293,444
Increase in net assets	4,150,872	612,196
Ending net assets	\$35,917,890	\$23,905,640

(Management Discussion and Analysis for the period ended June 30, 2007
Continues on Next Page)

This section will highlight some significant differences between the current- and prior-year assets, liabilities, and changes in net assets on the accrual basis of accounting.

	CITY OF ROCHESTER'S NET ASSETS					
	Governmental Activities		Business-type Activities		Total	
	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007
Assets						
Current and other assets	\$20,535,780	\$19,429,127	\$13,218,682	\$13,345,557	\$33,754,462	\$32,774,684
Capital assets	23,144,833	24,157,312	10,795,882	10,999,056	33,940,715	35,156,368
Total assets	\$43,680,613	\$43,586,439	\$24,014,564	\$24,344,613	\$67,695,177	\$67,931,052
Liabilities						
Long-term liabilities outstanding	\$6,749,702	\$5,852,768	\$-	\$-	\$6,749,702	\$5,852,768
Other liabilities	5,163,893	1,815,781	721,120	438,973	5,885,013	2,254,754
Total liabilities	\$11,913,595	\$7,668,549	\$721,120	\$438,973	\$12,634,715	\$8,107,522
Net Assets						
Invested in capital assets, net of related debt	\$23,144,833	\$24,157,312	\$10,795,882	\$10,999,056	\$33,940,715	\$35,156,368
Restricted	823,151	1,131,410	11,064,756	11,042,195	11,887,907	12,173,605
Unrestricted	7,799,034	10,629,168	1,432,806	1,864,389	9,231,840	12,493,557
Total net assets	\$31,767,018	\$35,917,890	\$23,293,444	\$23,905,640	\$55,060,462	\$59,823,530

The increase in total net assets from June 30, 2006 to June 30, 2007 is accounted for primarily by the reduction of long term liabilities and other liabilities. These changes will be described in another section of the Management Discussion and Analysis.

(Management Discussion and Analysis for the period ended June 30, 2007
 Continues on Next Page)

Changes in Net Assets Due to Changes in Revenue and Expenditures

The following is a condensed comparison of revenues and expenses between the prior and current reporting periods and explanations of significant differences.

	CITY OF ROCHESTER'S CHANGES IN NET ASSETS					
	Governmental Activities		Business-type Activities		Total	
	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007
Revenues						
Program revenues						
Charges for services	\$756,547	\$697,314	\$3,424,777	\$3,274,724	\$4,181,324	\$3,972,038
Operating grants & contributions	693,640	715,515	-	-	693,640	715,515
Capital grants & contributions	297,615	482,574	-	-	297,615	482,574
General revenues						
Property taxes	11,396,355	11,726,330	-	-	11,396,355	11,726,330
State shared revenues	864,304	872,945	-	-	864,304	872,945
Unrestricted investment earnings	876,365	1,178,383	474,493	605,215	1,350,858	1,783,598
Miscellaneous	273,303	217,978	-	-	273,303	217,978
Total revenues	\$15,158,129	\$15,891,039	\$3,899,270	\$3,879,939	\$19,057,399	\$19,770,978
Expenses						
General government	\$1,492,348	\$1,545,968	\$-	\$-	\$1,492,348	\$1,545,968
Public safety	3,656,032	3,728,349	-	-	3,656,032	3,728,349
Public works	1,594,422	1,765,370	-	-	1,594,422	1,765,370
Comm and econ dev	1,161,221	1,387,645	-	-	1,161,221	1,387,645
Highway and streets	1,808,258	2,109,981	-	-	1,808,258	2,109,981
Culture and recreation	1,257,624	1,243,291	-	-	1,257,624	1,243,291
Interest expense	364,681	323,243	-	-	364,681	323,243
Water and sewer	-	-	3,012,969	2,872,808	3,012,969	2,872,808
Automobile parking	-	-	34,956	31,255	34,956	31,255
Total expenses	\$11,334,586	\$12,103,847	\$3,047,925	\$2,904,063	\$14,382,511	\$15,007,910
Increase in net assets before transfers	\$3,823,543	\$3,787,192	\$851,345	\$975,876	\$4,674,888	\$4,763,068
Transfers	(\$1,803,960)	\$363,680	(\$346,040)	(\$363,680)	(\$2,150,000)	-
Increase in net assets	\$2,019,583	\$4,150,872	\$505,305	\$612,196	\$2,524,888	\$4,763,068
Net Assets - 6/30/06	\$31,767,018		\$23,293,444		\$55,060,462	
Net Assets - 6/30/07		\$35,917,890		\$23,905,640		\$59,823,530

A brief explanation of significant differences between the current period ended June 30, 2007, and the period ended June 30, 2006 (referred to hereafter as the "prior period") follows.

The revenue for Charges for services dropped about \$200,000. This was due mostly to a drop in permits and license revenues and a decrease in water demand.

Capital grants and contributions increased by nearly \$185,000 due primarily to the receipt of contributions from Crittenton Hospital for its share of the storm sewer improvements (just under \$500,000).

Unrestricted investment earnings increased in the Governmental Activities by \$302,018 and in the Business-type activities by \$130,722 due to an improving interest rate market for municipal investments, as well as investments in securities that were made with the assistance of MBIA Customized Asset Management for a total interest income of \$1,783,598.

The increase in Property taxes was based on an increase in the taxable value of property as well as an increase in delinquent personal property tax collections.

Governmental Activities expenses changed significantly in the following cases:

- Community and economic development: this activity saw an increase of \$245,000 primarily due to increases in uncapitalized site improvements (DDA parking lot and road resurfacing in the downtown), and an increase in depreciation expense for new infrastructure of \$21,000.
- Highways and streets: this activity saw an increase of \$300,000, almost entirely due to additional expenditures for local road resurfacing.
-

The Statement of Activities

To aid in the understanding of the full Statement of Activities some additional explanation is appropriate. The format is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. Expenses are listed in the first column with revenues from that particular program reported to the right, resulting in a Net (Expense)/Revenue.

The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

Community Development	CDBG grants, community event revenues
Culture and Recreation	Cemetery fees
General Government	Administrative service fees, state and federal capital grants
Highways and Streets	Right of way license fees, storm sewer permits, gas and weight taxes, state trunkline maintenance charges, county tri-party grants, special assessment collections

Public Safety	School liaison program fees, building permit fees, business and pet license fees, ordinance violation fees, planning and zoning fees, state and federal grants for law enforcement, sales of confiscated assets
Public Works	Public works services fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

There are two "Business-type" activities: water & sewer and auto parking. The water and sewer activity is showing net revenue of \$276,925. This is primarily because the administrative cross-charge (287,000) that the Water and Sewer Fund pays to the General Fund is not recognized in the entity-wide statements because it is inter-fund activity and would be effectively counted twice.

The auto parking activity shows net revenue of \$93,736. There was an increase in contributions in lieu of parking of \$48,000.

(Management Discussion and Analysis for the period ended June 30, 2007
Continues on Next Page)

THE CITY'S FUNDS

This section will provide a summary of the basic financial statements for the city's funds, beginning with the combined governmental funds balance sheet.

Assets	JUNE 30, 2007	PCT OF TOTAL	CHANGE FROM JUNE 30, 2006	PCT CHG.
Cash and investments	\$16,692,463	93.6%	\$145,579	.8%
Accounts receivable - net	233,456	1.3%	(7,295)	-3.0%
Taxes receivable - net	75,073	0.4%	2,607	3.5%
Due from other funds	115,666	0.6%	(705,784)	-86.0%
Due from other gov't	-	N/A	(491,712)	-100.0%
Special assessments rec.	652,234	3.7%	(269,982)	-29.3%
Prepaid expenses and other	70,901	0.4%	2,013	2.9%
Total Assets	17,839,793			
Liabilities	JUNE 30, 2007	PCT OF TOTAL	CHANGE FROM JUNE 30, 2006	PCT CHG.
Accounts payable	504,887	30.4%	(93,689)	-15.6%
Accrued liabilities	157,589	9.5%	19,629	14.2%
Deferred revenues	652,409	39.2%	(225,127)	-25.7%
Due to other funds	1,065	N/A	(93,605)	-99.9%
Due to other governments	24,650	1.5%	(3,292,242)	-99.3%
Other liabilities	323,134	19.4%	(48,567)	-13.1%
Total Liabilities	1,663,734			
Fund Balance	JUNE 30, 2007	PCT OF TOTAL	CHANGE FROM JUNE 30, 2006	PCT CHG.
Reserved	1,136,410	7.0%	303,259	36.4%
Unreserved - Gov't Funds	15,039,649	93.0%	2,105,768	16.3%
Total Fund Balance	16,176,059			

The most significant changes in assets, liabilities and fund balance were in the Special assessments receivable and Deferred revenues, Due from other funds, Due from other governments, and Due to other governments.

The decrease in Due from other funds is due to distribution of personal property taxes from the tax collection fund.

The decreases in Special assessments receivable and Deferred revenue were due to the normal payment of Principal Shopping District accounts in the current period.

The decrease in Due from other governments is due to the county settlement of a portion of 2005 taxes during the 2006-2007 year.

The decrease in the Due to other governments resulted from the payment of past taxes collected and due to the local school district, intermediate schools and the State Education tax under Proposal A.

The following schedule presents a summary of general, special revenue, capital project, debt service, and permanent fund revenues and expenditures for the current period, and the amount and percentage of increases and decreases in relation to the prior period.

Revenues	JUNE 30, 2007	PCT OF TOTAL	CHANGE FROM JUNE 30, 2006	PCT CHG.
Taxes	\$11,951,457	73.9%	\$385,896	3.3%
Licenses	204,028	1.8%	(78,856)	-27.9%
Intergovernmental	1,594,771	11.3%	(180,721)	-10.2%
Service Charges and Sales	805,973	4.9%	32,640	4.2%
Fines and Forfeits	63,059	0.4%	(321)	-0.5%
Miscellaneous & Interest Income	1,820,553	7.6%	636,242	53.7%
Total Revenues	16,439,841			
Expenditures	JUNE 30, 2007	PCT OF TOTAL	CHANGE FROM JUNE 30, 2006	PCT CHG.
General Government	2,816,108	19.1%	207,344	7.9%
Public Safety	3,544,984	25.9%	17,805	0.5%
Public Works	3,247,203	19.6%	579,897	22.4%
Sanitation	744,712	5.3%	23,480	3.3%
Parks and Recreation	546,143	4.1%	(13,930)	-2.5%
Public Library	506,625	3.5%	24,366	5.1%
Planning Commission and ZBA	66,093	0.3%	25,440	62.6%
Capital Outlay	1,545,539	14.4%	(413,831)	-21.1%
Debt Service	1,013,407	7.7%	(40,928)	-3.9%
Total Expenditures	14,030,814			

The significant increase in the Revenue category Miscellaneous & Interest income was the result of the Crittenton Hospital contribution of almost \$500,000 for its portion of a storm sewer improvement project, and the increase in Interest income. Interest income comprises more than \$1,100,000 of the total.

A portion of the increase in the Expenditures category in various departments was due to increases in the cost of health care benefits and retirement contributions to MERS. The contributions to MERS are based on actuarial assessments.

The increase in Public Works was not in additional personnel, but, rather, DPW employees were assigned to a greater number of tasks in the Governmental activities funds than in the Business-type activities of the water and sewer system or the auto parking system.

The increase on Planning Commission and ZBA was due to the work on a new concept of zoning referred to as Form Based Codes by the City's planning consultant.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City pre-funded an important future objective in the current period. The General Fund contributed \$265,000 to the Fire Equipment Reserve Fund for the future purchase of a fire vehicle.

The City designated funds to Capital Projects for a future improvement for the cemetery in the amount of \$200,000 for decorative fencing for the perimeter of the cemetery, and earmarked a matching grant for the Legacy Project in the amount of \$250,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the City had \$35,156,368 invested in capital assets including police and fire equipment, buildings, park facilities, roads and water, sewer, and gas lines (see table below). This represents a net increase of almost 3.6 percent over last year.

	Governmental Activities		Business Activities	
	FY 05-06	FY 06-07	FY 05-06	FY 06-07
Land	\$3,656,450	\$3,656,450	\$363,253	\$363,253
Construction in Progress	231,990	340,660	0	0
Buildings	2,607,260	2,596,633	0	0
Improvements Other Than Buildings	561,854	620,913	0	0
Machinery and Equipment	984,096	990,467	10,432,629	10,635,803
Infrastructure	13,124,214	13,863,061	0	0
Internal Service Fund	1,978,969	2,089,128	0	0
	\$23,144,833	\$24,157,312	\$10,795,882	\$10,999,056

Major additions for the current period included the completion of the Griggs and Terry Street projects for approximately (\$597,000), improvements to the Storm Sewer system (\$879,000), and equipment for the Department of Public Works (\$306,000).

Debt

As of June 30, 2007, the City had \$6,384,615 in outstanding General Obligation bonds and land contracts payable compared to \$7,173,169 as of June 30, 2006. This represents a decrease of 11 percent as shown in the following table.

	05-06	06-07
General Obligation Bonds	\$6,165,000	\$5,425,000
Land Contract Payable	1,008,169	959,615
Totals	\$7,173,169	\$6,384,615

ECONOMIC FACTORS, MAJOR EXPENDITURES 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. The City will continue to budget Revenue Sharing cautiously.

For the upcoming period ending June 30, 2008, the City is planning some significant capital projects, including the Phase II expansion of the Rochester Community House (\$550,000) storm sewer improvements for (\$100,000), Diversion Street and Trail Parking Lot improvements (\$125,000), Jaycee Field improvements (\$125,000), Tree Removals and Planting (\$85,000), and improvements to the Lion's Pavilion (\$43,000).

Road and bridge projects are budgeted in the Major and Local Streets funds totaling \$2,132,000.

Purchases of new equipment for the Police Department is budgeted for \$125,000.

The Revolving Equipment Fund is budgeted to purchase vehicles for use by the various departments in the amount of \$228,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipal Offices at 400 Sixth Street, Rochester, Michigan, or call (248) 651-9061.

Kenneth A. Johnson
City Manager

CITY OF ROCHESTER
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and investments	\$ 18,219,873	\$ 1,432,288	\$ 19,652,161
Receivables:			
Customers	349,610	739,205	1,088,815
Special assessments	652,234	-	652,234
Internal balances	-	-	-
Due from other governmental units	-	-	-
Due from fiduciary funds	114,601	-	114,601
Prepaid items and other assets	83,420	88,622	172,042
Inventories	9,389	48,050	57,439
Restricted assets	-	11,037,392	11,037,392
Capital assets - net	<u>24,157,312</u>	<u>10,999,056</u>	<u>35,156,368</u>
TOTAL ASSETS	43,586,439	24,344,613	67,931,052
LIABILITIES			
Accounts payable	457,012	321,901	778,913
Intergovernmental payables	24,650	-	24,650
Accrued and other liabilities	480,723	38,100	518,823
Liabilities from restricted assets	-	78,972	78,972
Noncurrent liabilities:			
Bonds and contracts payable, Due within one year	853,396	-	853,396
Bonds and contracts payable, Due in more than one year	5,531,219	-	5,531,219
Employee absences	<u>321,549</u>	<u>-</u>	<u>321,549</u>
TOTAL LIABILITIES	7,668,549	438,973	8,107,522

The Notes to Financial Statements are an
Integral Part of this Statement.

CITY OF ROCHESTER
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,157,312	10,999,056	35,156,368
Restricted:			
Water & Sewer	-	11,042,195	11,042,195
Special revenue	312,950	-	312,950
Debt Service	163,117	-	163,117
Capital projects	655,343	-	655,343
Unrestricted	<u>10,629,168</u>	<u>1,864,389</u>	<u>12,493,557</u>
TOTAL NET ASSETS	<u>\$ 35,917,890</u>	<u>\$ 23,905,640</u>	<u>\$ 59,823,530</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

CITY OF ROCHESTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government - Governmental activities:							
General government	\$ 1,545,968	\$ 126,601	\$ 3,814	\$ 482,574	\$ (932,979)	\$ -	\$ (932,979)
Public safety	3,728,349	366,030	2,574	-	(3,359,745)	-	(3,359,745)
Public works	1,765,370	40,631	-	-	(1,724,739)	-	(1,724,739)
Community and economic development	1,387,645	124,183	-	-	(1,263,462)	-	(1,263,462)
Highway and streets	2,109,981	-	709,127	-	(1,400,854)	-	(1,400,854)
Culture and recreation	1,243,291	39,869	-	-	(1,203,422)	-	(1,203,422)
Interest expense	323,243	-	-	-	(323,243)	-	(323,243)
Total governmental activities	<u>12,103,847</u>	<u>697,314</u>	<u>715,515</u>	<u>482,574</u>	<u>(10,208,444)</u>	<u>-</u>	<u>(10,208,444)</u>
Business-type activities:							
Water and sewer	2,872,808	3,149,733	-	-	-	276,925	276,925
Automobile parking system	31,255	124,991	-	-	-	93,736	93,736
Total business-type activities	<u>2,904,063</u>	<u>3,274,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>370,661</u>	<u>370,661</u>
Total primary government	<u>\$ 15,007,910</u>	<u>\$ 3,972,038</u>	<u>\$ 715,515</u>	<u>\$ 482,574</u>	<u>(10,208,444)</u>	<u>370,661</u>	<u>(9,837,783)</u>
General revenues:							
Property taxes and related fees					11,726,330	-	11,726,330
State-shared revenues					872,945	-	872,945
Franchise tax					122,716	-	122,716
Unrestricted investment earnings					1,178,383	605,215	1,783,598
Miscellaneous					94,720	-	94,720
Gain on sale of assets					542	-	542
Transfers					363,680	(363,680)	-
Total general revenues and transfers					<u>14,359,316</u>	<u>241,535</u>	<u>14,600,851</u>
Change in Net Assets					4,150,872	612,196	4,763,068
Net Assets - Beginning of year					<u>31,767,018</u>	<u>23,293,444</u>	<u>55,060,462</u>
Net Assets - End of year					<u>\$ 35,917,890</u>	<u>\$ 23,905,640</u>	<u>\$ 59,823,530</u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CITY OF ROCHESTER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

		MAJOR STREETS FUND	LOCAL STREETS FUND	DOWNTOWN DEVELOPMENT AUTHORITY FUND	CAPITAL PROJECTS GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and investments	\$ 5,442,271	\$ 1,922,044	\$ 841,343	\$ 2,254,369	\$ 4,986,702	\$ 1,245,734	\$ 16,692,463
Accounts receivable - net	125,039	73,432	29,985	-	5,000	-	233,456
Taxes receivable - net	25,570	-	-	48,765	-	738	75,073
Due from other governmental units	-	-	-	-	-	-	-
Due from other funds	114,605	-	-	-	-	1,061	115,666
Special assessments receivable	-	-	128,470	523,764	-	-	652,234
Prepaid expenses and other assets	<u>52,372</u>	<u>5,486</u>	<u>2,717</u>	<u>-</u>	<u>7,860</u>	<u>2,466</u>	<u>70,901</u>
TOTAL ASSETS	\$ 5,759,857	\$ 2,000,962	\$ 1,002,515	\$ 2,826,898	\$ 4,999,562	\$ 1,249,999	\$ 17,839,793
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 228,771	\$ 19,065	\$ 160,563	\$ 26,448	\$ 62,617	\$ 7,423	\$ 504,887
Accrued and other liabilities	116,090	-	3,776	37,723	-	-	157,589
Deferred revenues	529	-	126,180	525,700	-	-	652,409
Due to other funds	-	-	-	-	-	1,065	1,065
Due to other governmental units	8,735	-	-	15,915	-	-	24,650
Other liabilities	<u>323,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,134</u>
TOTAL LIABILITIES	677,259	19,065	290,519	605,786	62,617	8,488	1,663,734
FUND BALANCES							
Reserved	-	-	-	-	5,000	1,131,410	1,136,410
Unreserved - Reported in:							
General Fund	5,082,598	-	-	-	-	-	5,082,598
Special Revenue Fund	-	1,981,897	711,996	-	-	110,101	2,803,994
Capital Projects Fund	-	-	-	2,221,112	4,931,945	-	7,153,057
TOTAL FUND BALANCES	5,082,598	1,981,897	711,996	2,221,112	4,936,945	1,241,511	16,176,059
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,759,857	\$ 2,000,962	\$ 1,002,515	\$ 2,826,898	\$ 4,999,562	\$ 1,249,999	\$ 17,839,793

Quest, Olds and West, P.C.
Certified Public Accountants

The Notes to Financial Statements are an Integral Part of this Statement.

**CITY OF ROCHESTER
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2007**

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$16,176,059
Amounts reported for governmental activities in the statement of net activities are different because:	
Capital assets used in the governmental activities are not current financial resources and are not reported in the governmental funds balance sheet	22,068,184
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	652,409
Internal Service Fund is included as part of governmental activities	3,727,402
The funds do not report bond indebtedness as a liability until it comes due for payment	(6,384,615)
Employee compensated absences are not due and payable in the current period and are not reported in funds	<u>(321,549)</u>
NET ASSETS OF GOVERNMENTAL FUNDS	<u>\$35,917,890</u>

CITY OF ROCHESTER
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	GENERAL FUND	MAJOR STREETS FUND	LOCAL STREETS FUND	DOWNTOWN DEVELOPMENT AUTHORITY FUND	CAPITAL PROJECTS GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Taxes and special assessments	\$ 9,279,954	\$ -	\$ 47,352	\$ 2,208,164	\$ -	\$ 415,987	\$ 11,951,457
Licenses and permits	204,028	-	-	-	-	-	204,028
Intergovernmental revenue	885,644	499,824	209,303	-	-	-	1,594,771
Service charges and sales	763,567	-	-	-	-	42,406	805,973
Fines and forfeits	63,059	-	-	-	-	-	63,059
Miscellaneous	86,842	402	850	124,183	503,319	290	715,886
Interest income	457,935	90,646	47,766	237,777	229,769	40,774	1,104,667
TOTAL REVENUES	<u>11,741,029</u>	<u>590,872</u>	<u>305,271</u>	<u>2,570,124</u>	<u>733,088</u>	<u>499,457</u>	<u>16,439,841</u>
EXPENDITURES							
General public	1,544,923	-	-	1,127,750	-	143,435	2,816,108
Public safety	3,544,984	-	-	-	-	-	3,544,984
Public works	986,903	414,747	1,845,553	-	-	-	3,247,203
Sanitation	744,712	-	-	-	-	-	744,712
Parks and recreation	546,143	-	-	-	-	-	546,143
Public library	506,625	-	-	-	-	-	506,625
Planning commission and zoning board	66,093	-	-	-	-	-	66,093
Capital outlay	-	-	-	379,406	1,166,133	-	1,545,539
Debt Service:							
Principal	-	-	-	-	-	740,000	740,000
Interest	-	-	-	-	-	273,407	273,407
TOTAL EXPENDITURES	<u>7,940,383</u>	<u>414,747</u>	<u>1,845,553</u>	<u>1,507,156</u>	<u>1,166,133</u>	<u>1,156,842</u>	<u>14,030,814</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,800,646	176,125	(1,540,282)	1,062,968	(433,045)	(657,385)	2,409,027
OTHER FINANCING SOURCES (USES)							
Transfers in	-	205,000	1,300,000	30,000	762,260	973,482	3,270,742
Transfers (out)	(2,657,260)	(92,869)	-	(520,613)	-	-	(3,270,742)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	1,143,386	288,256	(240,282)	572,355	329,215	316,097	2,409,027
FUND BALANCE							
Beginning of year	3,939,212	1,693,641	952,278	1,648,757	4,607,730	925,414	13,767,032
FUND BALANCE - JUNE 30, 2007	<u>\$ 5,082,598</u>	<u>\$ 1,981,897</u>	<u>\$ 711,996</u>	<u>\$ 2,221,112</u>	<u>\$ 4,936,945</u>	<u>\$ 1,241,511</u>	<u>\$ 16,176,059</u>

Guest, Olds and West, PLC
 Certified Public Accountants

**CITY OF ROCHESTER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

**NET CHANGE IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS** **\$ 2,409,027**

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of these
assets is allocated over their estimated useful lives and
reported as depreciation expenses. This is the amount by
which capital outlays exceeded depreciation in the
current period. 902,320

Revenue reported in the statement of activities that does
provide current financial resources and is reported
as deferred revenue in the governmental funds. (225,127)

Repayment of bond principal is an expenditure in the
governmental funds, but the repayment reduces long-
term liabilities in the Statement of Net Assets. 788,554

Increase in accumulated employee severance and sick pay
is recorded when earned and reduced when expended,
in the statement of activities. 40,769

Internal Service Fund is also included in governmental
activities. 235,329

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 4,150,872**

**CITY OF ROCHESTER
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,234,188	\$ 198,100	\$ 1,432,288	\$1,527,410
Accounts receivable - net	735,027	4,178	739,205	104,145
Inventory	47,550	500	48,050	9,389
Due from other funds	-	-	-	-
Prepaid expenses	88,622	-	88,622	12,519
TOTAL CURRENT ASSETS	2,105,387	202,778	2,308,165	1,653,463
NONCURRENT ASSETS				
Restricted cash and cash equivalents	11,037,392	-	11,037,392	-
Capital assets	10,656,107	342,949	10,999,056	2,089,128
TOTAL ASSETS	\$ 23,798,886	\$ 545,727	\$24,344,613	\$3,742,591
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 321,310	\$ 591	\$ 321,901	\$ 15,189
Due to other funds	-	-	-	-
Refundable deposits	38,100	-	38,100	-
Payable from restricted assets	78,972	-	78,972	-
TOTAL CURRENT LIABILITIES	438,382	591	438,973	15,189
NET ASSETS				
Invested in capital assets - net of related debt	10,656,107	342,949	10,999,056	2,089,128
Restricted for replacement	53,448	-	53,448	-
Restricted for capital improvements	10,988,747	-	10,988,747	-
Unrestricted	1,662,202	202,187	1,864,389	1,638,274
TOTAL NET ASSETS	23,360,504	545,136	23,905,640	3,727,402
TOTAL LIABILITIES AND NET ASSETS	\$ 23,798,886	\$ 545,727	\$24,344,613	\$3,742,591

The Notes to Financial Statements are an
Integral Part of this Statement.

**CITY OF ROCHESTER
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2007**

	<u>BUSINESS TYPE ACTIVITIES</u>			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
REVENUES				
Water sales	\$ 1,485,107	\$ -	\$ 1,485,107	\$ -
Sewage disposal fees	1,612,323	-	1,612,323	-
Penalty income	29,337	9,715	39,052	-
Water and sewer taps	12,815	-	12,815	-
Charges for sales and services	5,237	149,168	154,405	847,894
Miscellaneous	4,914	108	5,022	8,851
TOTAL REVENUE	<u>3,149,733</u>	<u>158,991</u>	<u>3,308,724</u>	<u>856,745</u>
OPERATING EXPENSES				
Water distribution	1,351,102	-	1,351,102	-
Sewage collection and disposal	1,148,884	-	1,148,884	-
Administrative	352,676	106,800	459,476	140,610
Operation and maintenance	-	31,255	31,255	352,768
Depreciation	311,026	-	311,026	201,754
TOTAL OPERATING EXPENSES	<u>3,163,688</u>	<u>138,055</u>	<u>3,301,743</u>	<u>695,132</u>
OPERATING INCOME (LOSS)	(13,955)	20,936	6,981	161,613
NON-OPERATING REVENUES (EXPENSES)				
Sale of rental equipment	-	-	-	-
Interest income	595,029	10,186	605,215	73,716
NET INCOME (LOSS) BEFORE TRANSFERS	581,074	31,122	612,196	235,329
Transfers from other funds	-	-	-	-
Transfers (to) other funds	-	-	-	-
CHANGE IN NET ASSETS	581,074	31,122	612,196	235,329
NET ASSETS - Beginning of year	<u>22,779,430</u>	<u>514,014</u>	<u>23,293,444</u>	<u>3,492,073</u>
NET ASSETS - End of year	<u>\$ 23,360,504</u>	<u>\$ 545,136</u>	<u>\$ 23,905,640</u>	<u>\$ 3,727,402</u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CITY OF ROCHESTER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2007**

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 3,115,575	\$ 157,575	\$ 3,273,150	\$ 826,978
Payments to suppliers	(2,311,778)	(11,935)	(2,323,713)	(351,641)
Payments to employees	(254,604)	(8,985)	(263,589)	(102,286)
Interfund activity	(452,572)	(116,619)	(569,191)	(44,400)
Other operating revenue	4,916	161	5,077	8,797
	101,537	20,197	121,734	337,448
NET CASH PROVIDED BY OPERATING ACTIVITIES				
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Refundable deposits	(11,150)	-	(11,150)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(619,475)	-	(619,475)	(308,013)
Proceeds from sale of equipment	-	-	-	-
NET CASH (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(619,475)	-	(619,475)	(308,013)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	560,396	10,186	570,582	72,562
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,308	30,383	61,691	101,997
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	12,240,272	167,717	12,407,989	1,425,413
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,271,580	\$ 198,100	\$ 12,469,680	\$ 1,527,410

CITY OF ROCHESTER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - Continued
 FOR THE YEAR ENDED JUNE 30, 2007

	BUSINESS TYPE ACTIVITIES				INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	TOTAL	
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (13,955)	\$ 20,936	\$ 6,981	\$ 161,613	
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	311,026	-	311,026	201,754	
Proceeds from sale of assets	-	-	-	-	
Changes in assets and liabilities					
Accounts receivable	(29,244)	(1,308)	(30,552)	(20,916)	
Inventories	-	-	-	-	
Other assets	1	-	1	-	
Accounts payable	(165,826)	576	(165,250)	(4,880)	
Other liabilities	(465)	(7)	(472)	(123)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 101,537	\$ 20,197	\$ 121,734	\$ 337,448	

**CITY OF ROCHESTER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	PENSION AND OTHER EMPLOYEE BENEFITS	AGENCY
ASSETS		
Cash and cash equivalents	\$ 476,240	\$ 147,330
Reimbursements receivable	351	-
Due from other funds	-	-
TOTAL ASSETS	<u>\$ 476,591</u>	<u>\$ 147,330</u>
LIABILITIES		
Accounts payable	\$ 1,375	\$ -
Accrued and other liabilities	32,977	-
Payroll withholdings	-	12,203
Due to other funds	-	114,616
Prepaid taxes	-	20,511
Due to other governments	-	-
Undistributed tax collections	-	-
TOTAL LIABILITIES	<u>34,352</u>	<u>\$ 147,330</u>
NET ASSETS - Held in trust for pension and other employee benefits	<u>\$ 442,239</u>	

The Notes to Financial Statements are an
Integral Part of this Statement.

Guest, Olds and West, PLC
Certified Public Accountants

**CITY OF ROCHESTER
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007**

	PENSION AND OTHER EMPLOYEE BENEFITS
ADDITIONS	
Contributions - employer	\$ 418,214
INVESTMENT INCOME	
Interest	<u>23,277</u>
TOTAL ADDITIONS	441,491
DEDUCTIONS	
Employee benefits	<u>429,148</u>
CHANGE IN NET ASSETS	12,343
NET ASSETS - Beginning of year	<u>429,896</u>
NET ASSETS - End of year	<u>\$ 442,239</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Rochester (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rochester:

A. Reporting Entity

The City is governed by an elected seven-member City Council. 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 activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally 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.

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 revenue.

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. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues 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, expenditures relating to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

Property taxes, franchise taxes, licenses, state-shared revenue (which is unrestricted), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

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

The Capital Projects – Downtown Development Authority Fund accounts for the resources of property taxes collected for the tax increment financing plan for the adopted downtown development plan.

The City reports the following major proprietary funds:

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

The Agency funds account for assets held on behalf of third parties.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

Amounts reported as program revenue 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 revenue rather than as program revenue. General revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services, such as water and sewer distribution and collection and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, and bank investment pools. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents – For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

Property Tax Revenue – Properties are assessed as of December 31; the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls. The County Tax Revolving Fund reimburses the City for the real property portion of these taxes and assumes collection responsibilities.

The 2006 taxable valuation of the City totaled \$753,851,560 (a portion of which is captured by the DDA) and is used for the July 1, 2006 tax bills. Ad valorem taxes levied raised operating, OPC, and debt tax revenues as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City operating mills	12.8834	8,800,000
Older Persons Commission	0.2440	166,000
Debt Service	0.6100	416,000

Tax revenue reflected above is net of approximately \$900,000 captured by the DDA.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the City’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “revenue bond reserve” account is used to report resources set aside to protect against any potential future deficiencies in the revenue bond current debt service account.

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 column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 100 years
Roads	10 to 20 years
Vehicles	2 to 10 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused sick and compensatory time off benefits. All sick and compensatory time off is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Liability for Sick Leave Pay and Compensatory Time Off –The City has contractual obligations with both the police department employees and the department of public works employees. Both of these union contacts provide for payment of unused accumulated sick time upon termination of employment.

The City has also established policies affecting all of the non-union personnel which provide for both payments of accumulated unused sick time and accumulated unused compensatory time off (unpaid overtime hours).

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

In addition, the Council adopted a resolution providing for a separate computation of severance pay or termination pay for the City Manager. This resolution provides for severance pay of ninety days, if sixty days notice in advance of a voluntary resignation is submitted and an escalating number of days of termination pay up to a maximum of three hundred sixty days (after nine full years of service) if terminated by the Council with less than the number of days notice as provided in the formula.

The following table indicates the amount which would have been due the Manager on June 30, 2007 had his employment been terminated by the Council without notice. The termination pay is a contingent liability and is not due the City Manager if termination is voluntary or the result of his failure to perform the duties of his office or his conviction of an illegal act. However, the ninety-day severance pay is an obligation of the City providing the City Manager submits a sixty-day notice in advance of his voluntary resignation.

As of June 30, 2007, the estimated liability for all sick leave and compensatory time off has been computed as follows:

CLASSIFICATION	SICK LEAVE	SEVERANCE & C.T.O	TOTAL
City Manager	\$ -	\$115,383	\$115,383
Police Department	66,452	-	66,452
Department of Public Works	35,356	-	35,356
Non-union Personnel	101,857	2,501	104,358
TOTAL	\$203,665	\$117,884	\$321,549

The liability has been funded by transfers to the Fiduciary Funds in prior years. As of June 30, 2007, the Severance and Sick Pay account maintained in the Fiduciary Funds has a balance of \$254,397.

Long-term Obligations – In the government-wide financial statements and the 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. Significant bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information – The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, except that operating transfers have been included in the revenue and expenditure categories, rather than as “other financing sources.”

The City Council follows these procedures in establishing the budgetary data reflected in the 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 1st. 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. Not 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 30th. Council may re-appropriate any amount at its discretion.

The budget presents information by fund, function, department and line items. The level of budgetary control adopted by the City Council is at the department level.

Excess of Expenditures Over Appropriation in Budgeted Funds – During the fiscal year ended June 30, 2007, the City had expenditures in excess of budget in the Local Streets Fund totaling \$218,513.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans 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 with 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.

The City has designated twelve financial institutions for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs and all other instruments allowed by the State as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail as follows:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$17,059,727 of bank deposits (certificates of deposit, checking, savings, bank investment pool, and inter-local MBIA accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City had no investment securities that were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

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. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
T-Bills	\$2,086,155	2.7 years
Fannie Mae	3,362,026	2.3 years
Federal Home Loan Banks	2,380,614	2.7 years
Freddie Mac	3,437,296	3.2 years
Federal Farm Credit Banks	501,784	2.7 years

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 rating of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency	\$9,681,720	AAA	S&P
Bank investment pools	7,197,172	Not rated	

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one issuer. At June 30, 2007 the City had more than 5 percent of its investments in the following:

U.S. government agencies:	
Federal Home Loan Banks	8.20%
Fannie Mae	11.58%
Freddie Mac	11.84%

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of the inter-fund receivables at June 30, 2007:

<u>Fund Due To:</u>	<u>Fund Due From:</u>	<u>Amount</u>
General	Trust & Agency - Payroll	\$ 3,000
General	Tax Collection	111,600
General	Debt Service	5
Water & Sewer Operations	Water & Sewer Improvements	<u>1,500</u>
 Total		 <u>\$ 116,105</u>

The following is a summary of inter-fund transfers during y/e 6/30/07:

Transfers of resources related to street expenditures (certain funds account for resources that are intended to be spent in other funds).

Transfer from Major Street Fund to Motor Vehicle Highway Debt Fund	\$ 92,869
Transfer from Downtown Development Authority to Major Street Fund	5,000
Transfer of unrestricted General Fund resources to Major Street Fund	200,000
Transfer of unrestricted General Fund resources to Local Street Fund	1,300,000
Transfer from Downtown Development Authority to DDA Debt Funds	515,613
Transfer of unrestricted General Fund resources to maintain the cemetery	100,000
Transfer of unrestricted General Fund resources to the Fire Equipment maintenance and replacement	265,000
Transfer of unrestricted General Fund resources to fund General Capital Projects	762,260
Transfer of unrestricted General Fund resources to DDA Fund	<u>30,000</u>
 Total inter-fund transfers	 <u>\$3,270,742</u>

NOTE 5 – 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.

Following is the detail of the business-type activities restricted assets at June 30, 2007:

Revenue Bond Restrictions	
Improvement and Replacement Account	\$10,988,747
Bond Reserve Replacement Account	<u>53,448</u>
Total Restricted Assets	<u>\$11,042,195</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 6 – CAPITAL ASSETS

Capital assets activity of the City for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 3,656,450	\$ -	\$ -	\$ 3,656,450
Construction in Progress	<u>231,990</u>	<u>328,915</u>	<u>220,245</u>	<u>340,660</u>
Subtotal	3,888,440	328,915	220,245	3,997,110
Capital Assets Being Depreciated				
Buildings	3,539,771	85,301	-	3,625,072
Improvements Other Than Buildings	818,193	84,786	-	902,979
Machinery and Equipment	1,845,744	136,491	-	1,982,235
Infrastructure	20,183,543	1,732,162	-	21,915,705
Internal Service Fund	<u>3,447,604</u>	<u>311,913</u>	<u>-</u>	<u>3,759,517</u>
Subtotal	29,834,855	2,350,653	-	32,185,508
Less Accumulated Depreciation for				
Buildings	932,511	95,928	-	1,028,439
Improvements Other Than Buildings	256,339	25,727	-	282,066
Machinery and Equipment	861,648	130,120	-	991,768
Infrastructure	7,059,329	993,315	-	8,052,644
Internal Service Fund	<u>1,468,635</u>	<u>201,754</u>	<u>-</u>	<u>1,670,389</u>
Subtotal	10,578,462	1,446,844	-	12,025,306
Net Capital Assets Being Depreciated	<u>19,256,393</u>	<u>903,809</u>	<u>-</u>	<u>20,160,202</u>
Net Capital Assets	<u>\$ 23,144,833</u>	<u>\$ 1,232,724</u>	<u>\$ 220,245</u>	<u>\$ 24,157,312</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$ 363,253	\$ -	\$ -	\$ 363,253
Capital Assets Being Depreciated				
Improvements Parking Lots	166,609	-	-	166,609
Sewage Disposal System	8,128,918	329,952	-	8,458,870
Water Distribution System	6,579,134	184,248	-	6,763,382
Parking Meters	59,776	-	-	59,776
Other Equipment	<u>57,330</u>	<u>-</u>	<u>-</u>	<u>57,330</u>
Subtotal	14,991,767	514,200	-	15,505,967
Less Accumulated Depreciation for				
Improvements Parking Lots	166,609	-	-	166,609
Sewage Disposal System	1,946,089	160,498	-	2,106,587
Water Distribution System	2,344,317	148,866	-	2,493,183
Parking Meters	59,776	-	-	59,776
Other Equipment	<u>42,347</u>	<u>1,662</u>	<u>-</u>	<u>44,009</u>
Subtotal	4,559,138	311,026	-	4,870,164
Net Capital Assets Being Depreciated	<u>10,432,629</u>	<u>203,174</u>	<u>-</u>	<u>10,635,803</u>
Net Capital Assets	<u>\$ 10,795,882</u>	<u>\$ 203,174</u>	<u>\$ -</u>	<u>\$ 10,999,056</u>

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

Governmental Activities	
General Government	\$ 65,466
Public Safety	133,356
Public Works	13,960
Recreation and Culture	65,490
Internal Service Fund Depreciation is Charged to the Various Functions Based on Their Usage of the Assets	201,754
Community and Economic Development	137,023
Highway Streets	<u>829,795</u>
Total Governmental Activities	<u>\$ 1,446,844</u>
Business-Type Activities	
Water and Sewer Fund	<u>\$ 311,026</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 7 - RECEIVABLES

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$128,470	\$523,764

(Notes to Financial Statements Continues on Next Page)

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 8 – LONG-TERM DEBT

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.

	BEGINNING BALANCE JULY 1, 2006	(REDUCTIONS) ADDITIONS	ENDING BALANCE JUNE 30, 2007	DUE WITHIN ONE YEAR
1994 Unlimited Tax Bonds maturing through October 1, 2013 with interest ranging from 4% to 7%	\$ 2,100,000	\$ (200,000)	\$ 1,900,000	\$ 200,000
1990 Limited Tax Bonds maturing October 1, 2009 and 2010 with interest at 5.0%	400,000	-	400,000	-
1991 Limited Tax Bonds maturing October 1, 2009 and 2010 with interest at 5.0%	500,000	-	500,000	-
1996 Michigan Transportation Fund Bonds maturing through October 1, 2010 with interest ranging from 4.2% to 5.1%	400,000	(75,000)	325,000	75,000
1996 Unlimited Tax Bonds maturing through October 1, 2008 with interest ranging from 4.4% to 5.1%	1,315,000	(415,000)	900,000	455,000
2001 Unlimited Tax Bonds maturing through April 1, 2020 with interest ranging from 4.0% to 6.0%	1,450,000	(50,000)	1,400,000	75,000
Land Contract Payable due April 2025 with interest at 4.50%	936,313	(32,552)	903,761	31,151
Land Contract Payable due August 2010 with interest at 7.50%	71,856	(16,002)	55,854	17,245
TOTAL	\$7,173,169	(\$788,554)	\$6,384,615	\$853,396

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

Annual debt service requirements to maturity for the above (governmental) bond and note obligations are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2008	\$1,133,015
2009	1,087,230
2010	1,101,669
2011	1,091,194
2012	533,095
2013-2017	1,729,225
2018-2022	1,017,875
2023-2025	<u>209,723</u>
TOTAL	<u>\$7,903,026</u>

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Workers' Compensation for claims relating to workers' compensation and purchases private insurance coverage for liability and general claims. The Downtown Development Authority utilizes the Michigan Municipal risk pool for general liability claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

NOTE 10 – CONSTRUCTION CODE FEES

The City oversees building constructions in accordance with the state's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City's fee structure is not intended to recover the cost of the building permit revenue. Beginning January 1, 2000, the law requires that the use of fees generated can only be used for the operation of the department including an allocation of estimated overhead costs. A summary of the revenues and expenditures for the year ended June 30, 2007, is as follows:

Building permit revenue		\$56,644
Related expenditures		
Direct costs	\$ 260,476	
Estimated overhead costs	5,000	
 Total construction code expenditures		265,476
 Shortfall		(\$208,832)

NOTE 11 – PENDING LITIGATION

In the normal course of its activities, the City becomes a party in various legal actions. Legal counsel and management of the City are of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, have not reflected loss reserves in the financial statements.

NOTE 12 – PENSION PLANS

A. MERS:

Plan Description - The City of Rochester participates in the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 220, Public Acts of 1996, as amended, and the constitution of the State of Michigan. The plan covers all employees except the City Manager and is financed by both employee and employer contributions.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service; police department and non-union participants at age 50 with 25 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to a reduction of benefits.

The MERS issues a publicly available financial report. That report may be obtained by writing to the Michigan Municipal Retirement System, 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

Funding 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 an actuarially determined rate. The contribution requirements of plan members and the City are established by Act No. 220 of the Public Acts of 1996, and the MERS Plan Document as revised.

Annual Pension Cost

The annual required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age normal funding actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

REQUIRED SUPPLEMENTARY INFORMATION
THREE-YEAR TREND INFORMATION

FISCAL YEAR FUNDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
6/30/2005	90,781	100%	-
6/30/2006	238,884	100%	-
6/30/2007	295,035	100%	-

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUND AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((B-A)/C)
12/31/2004	11,580,247	13,109,802	1,529,555	88	3,205,994,	48
12/31/2005	12,212,649	13,596,770	1,384,121	90	3,289,737	42
12/31/2006	13,164,029	14,685,002	1,520,973	90	3,280,051	46

B. ICMA:

By agreement with the City Manager, a deferred compensation plan is purchased from the International City Management Association Retirement Corporation. The net cost to the City for the year ended June 30, 2006 and June 30, 2007 amounted to \$11,422 and \$11,089 respectively. All contributions to the plan together with accumulated earnings thereon remain an asset of the City of Rochester subject to its control and right to withdrawal.

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2007

C. Firefighters Defined Benefit

The City of Rochester has established a Defined Benefit Pension 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 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. Contributions for the years ended June 30, 2006 and June 30, 2007 were \$9,581 and \$9,676.

NOTE 13 – POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 12, the City provides post-employment health care benefits in accordance with the non-union benefit resolution.

All non-union employees and their spouses, the Department of Public Works union employees and the police union employees who retire from the City are provided with 4% of the cost of single and/or spouse coverage premiums for each year of employment. Currently, twelve retirees are receiving benefits. The costs of retirees' health care benefits are recognized as a current expenditure. For the year ended June 30, 2007 costs recognized for current premiums totaled \$89,388. The transfer to MERS of \$270,667 for irrevocable funding of future post-employment benefits is also recognized.

Upcoming Reporting Change – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

**CITY OF ROCHESTER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

REVENUES

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)
GENERAL PROPERTY TAXES				
Property taxes	\$ 8,450,000	\$ 8,600,000	\$ 8,835,138	\$ 235,138
Interest and penalties	50,000	80,000	140,412	60,412
Collection fees	<u>260,000</u>	<u>270,000</u>	<u>304,404</u>	<u>34,404</u>
	<u>8,760,000</u>	<u>8,950,000</u>	<u>9,279,954</u>	<u>329,954</u>
LICENSES AND PERMITS				
Building department	120,000	59,000	62,634	3,634
Clerks department	16,000	16,000	18,678	2,678
Cable television franchise	<u>100,000</u>	<u>110,000</u>	<u>122,716</u>	<u>12,716</u>
	<u>236,000</u>	<u>185,000</u>	<u>204,028</u>	<u>19,028</u>
INTERGOVERNMENTAL REVENUE				
State shared taxes	<u>868,900</u>	<u>888,900</u>	<u>885,644</u>	<u>(3,256)</u>
SERVICE CHARGES AND SALES				
Misc. services and sales	214,450	233,450	255,995	22,545
Administrative cross charge	<u>507,360</u>	<u>507,360</u>	<u>507,572</u>	<u>212</u>
	<u>721,810</u>	<u>740,810</u>	<u>763,567</u>	<u>22,757</u>
FINES AND FORFEITS				
Other ordinance fines	<u>60,000</u>	<u>55,000</u>	<u>63,059</u>	<u>8,059</u>
MISCELLANEOUS				
Rent-Municipal Building	4,800	4,800	4,800	-
Interest on investments	180,000	270,000	457,935	187,935
Other items	<u>17,000</u>	<u>74,000</u>	<u>82,042</u>	<u>8,042</u>
	<u>201,800</u>	<u>348,800</u>	<u>544,777</u>	<u>195,977</u>
TOTAL REVENUE	<u>\$10,848,510</u>	<u>\$11,168,510</u>	<u>\$ 11,741,029</u>	<u>\$ 572,519</u>

**CITY OF ROCHESTER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

EXPENDITURES

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)
GENERAL GOVERNMENT				
City Council	\$ 75,850	\$ 75,850	\$ 67,841	\$ 8,009
Manager	425,080	370,080	362,648	7,432
Elections	34,240	34,240	16,615	17,625
Finance	486,100	486,100	486,220	(120)
Clerk	104,470	104,470	98,551	5,919
Board of Review	2,750	3,900	3,862	38
Civic Center	79,390	88,390	82,148	6,242
Other general services	393,100	470,450	427,038	43,412
TOTAL GENERAL GOVERNMENT	<u>1,600,980</u>	<u>1,633,480</u>	<u>1,544,923</u>	<u>88,557</u>
PUBLIC SAFETY				
Police department	3,197,870	3,059,870	2,942,820	117,050
Fire department	368,170	368,170	341,688	26,482
Protective inspection	385,520	291,120	260,476	30,644
TOTAL PUBLIC SAFETY	<u>3,951,560</u>	<u>3,719,160</u>	<u>3,544,984</u>	<u>174,176</u>
PUBLIC WORKS	1,115,640	1,115,640	986,903	128,737
SANITATION	765,100	765,100	744,712	20,388
PUBLIC LIBRARY	502,000	507,000	506,625	375
PARKS AND RECREATION	554,720	622,620	546,143	76,477
PLANNING COMMISSION	38,050	62,050	62,659	(609)
ZONING BOARD OF APPEALS	3,200	3,200	3,434	(234)
BUDGET CONTINGENCY	60,000	-	-	-
TRANSFERS OUT	<u>2,257,260</u>	<u>2,657,260</u>	<u>2,657,260</u>	<u>-</u>
TOTAL EXPENDITURES	<u>10,848,510</u>	<u>11,085,510</u>	<u>10,597,643</u>	<u>487,867</u>
FUND BALANCE- BEGINNING OF YEAR	<u>3,939,212</u>	<u>3,939,212</u>	<u>3,939,212</u>	<u>-</u>
FUND BALANCE- END OF YEAR	<u>\$ 3,939,212</u>	<u>\$ 4,022,212</u>	<u>\$ 5,082,598</u>	<u>\$ 1,060,386</u>

**CITY OF ROCHESTER
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)
Revenues	\$ 481,600	\$ 481,600	\$ 590,872	\$ 109,272
Operating transfer in	<u>202,500</u>	<u>202,500</u>	<u>205,000</u>	<u>2,500</u>
Total Revenues	684,100	684,100	795,872	111,772
Expenditures	<u>666,980</u>	<u>666,980</u>	<u>507,616</u>	<u>159,364</u>
Fund Balance - Beginning of year	1,693,641	1,693,641	1,693,641	-
Fund balance (appropriated) surplus	<u>17,120</u>	<u>17,120</u>	<u>288,256</u>	<u>271,136</u>
Fund Balance - End of year	<u>\$1,710,761</u>	<u>\$1,710,761</u>	<u>\$1,981,897</u>	<u>\$ 271,136</u>

**CITY OF ROCHESTER
LOCAL STREETS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)
Revenues	\$ 215,500	\$ 215,500	\$ 305,271	\$ 89,771
Operating transfer in	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,300,000</u>	<u>-</u>
Total Revenues	1,515,500	1,515,500	1,605,271	89,771
Expenditures	<u>1,627,040</u>	<u>1,627,040</u>	<u>1,845,553</u>	<u>(218,513)</u>
Fund Balance - Beginning of year	952,278	952,278	952,278	-
Fund balance (appropriated) surplus	<u>(111,540)</u>	<u>(111,540)</u>	<u>(240,282)</u>	<u>(128,742)</u>
Fund Balance - End of year	<u>\$ 840,738</u>	<u>\$ 840,738</u>	<u>\$ 711,996</u>	<u>\$ (128,742)</u>

**CITY OF ROCHESTER
NON-MAJOR GOVERNMENTAL
COMBINING BALANCE SHEET
JUNE 30, 2007**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and investments	\$ 428,008	\$ 162,383	\$ 655,343	\$ 1,245,734
Due from other governmental units	-	-	-	-
Due from other funds	-	1,061	-	1,061
Taxes receivable - net	-	738	-	738
Prepaid expenses	<u>2,466</u>	<u>-</u>	<u>-</u>	<u>2,466</u>
TOTAL ASSETS	<u>\$ 430,474</u>	<u>\$ 164,182</u>	<u>\$ 655,343</u>	<u>\$ 1,249,999</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 7,423	\$ -	\$ -	\$ 7,423
Accrued payroll	-	-	-	-
Due to other funds	<u>-</u>	<u>1,065</u>	<u>-</u>	<u>1,065</u>
TOTAL LIABILITIES	<u>7,423</u>	<u>1,065</u>	<u>-</u>	<u>8,488</u>
FUND BALANCES				
Reserved	312,950	163,117	655,343	1,131,410
Unreserved	<u>110,101</u>	<u>-</u>	<u>-</u>	<u>110,101</u>
TOTAL FUND BALANCES	<u>423,051</u>	<u>163,117</u>	<u>655,343</u>	<u>1,241,511</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 430,474</u>	<u>\$ 164,182</u>	<u>\$ 655,343</u>	<u>\$ 1,249,999</u>

**CITY OF ROCHESTER
NON-MAJOR GOVERNMENTAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES				
Sales and services	\$ 42,406	\$ -	\$ -	\$ 42,406
Intergovernmental revenue	-	-	-	-
Taxes	-	415,987	-	415,987
Interest income	19,730	863	20,181	40,774
Miscellaneous	290	-	-	290
TOTAL REVENUES	<u>62,426</u>	<u>416,850</u>	<u>20,181</u>	<u>499,457</u>
EXPENDITURES				
Administrative	139,914	3,521	-	143,435
Capital outlay	-	-	-	-
Principal and interest	-	1,013,407	-	1,013,407
TOTAL EXPENDITURES	<u>139,914</u>	<u>1,016,928</u>	<u>-</u>	<u>1,156,842</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(77,488)	(600,078)	20,181	(657,385)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	608,482	265,000	973,482
Transfers out	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	22,512	8,404	285,181	316,097
FUND BALANCE - JULY 1, 2006	<u>400,539</u>	<u>154,713</u>	<u>370,162</u>	<u>925,414</u>
FUND BALANCE - JUNE 30, 2007	<u>\$ 423,051</u>	<u>\$ 163,117</u>	<u>\$ 655,343</u>	<u>\$ 1,241,511</u>

CITY OF ROCHESTER
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	TOTAL NON-MAJOR SPECIAL REVENUE FUNDS
ASSETS				
Cash and investments	\$359,994	\$ 40,269	\$ 27,745	\$ 428,008
Due from other governmental units	-	-	-	-
Due from other funds	-	-	-	-
Prepaid expenses	<u>2,466</u>	<u>-</u>	<u>-</u>	<u>2,466</u>
TOTAL ASSETS	<u>\$362,460</u>	<u>\$ 40,269</u>	<u>\$ 27,745</u>	<u>\$ 430,474</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 7,423	\$ -	\$ -	\$ 7,423
Accrued payroll	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>7,423</u>	<u>-</u>	<u>-</u>	<u>7,423</u>
 FUND BALANCES				
Reserved	312,950	-	-	312,950
Unreserved	<u>42,087</u>	<u>40,269</u>	<u>27,745</u>	<u>110,101</u>
TOTAL FUND BALANCES	<u>355,037</u>	<u>40,269</u>	<u>27,745</u>	<u>423,051</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$362,460</u>	<u>\$ 40,269</u>	<u>\$ 27,745</u>	<u>\$ 430,474</u>

CITY OF ROCHESTER
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT FUND	TOTAL NON-MAJOR SPECIAL REVENUE FUND
REVENUES				
Sales and services	\$ 39,869	\$ 2,537	\$ -	\$ 42,406
Intergovernmental revenue	-	-	-	-
Interest income	17,639	1,940	151	19,730
Miscellaneous	290	-	-	290
TOTAL REVENUES	<u>57,798</u>	<u>4,477</u>	<u>151</u>	<u>62,426</u>
EXPENDITURES				
Administrative	139,754	160	-	139,914
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>139,754</u>	<u>160</u>	<u>-</u>	<u>139,914</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(81,956)	4,317	151	(77,488)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	-	-	100,000
Transfers out	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	18,044	4,317	151	22,512
FUND BALANCE - JULY 1, 2006	<u>336,993</u>	<u>35,952</u>	<u>27,594</u>	<u>400,539</u>
FUND BALANCE - JUNE 30, 2007	<u>\$ 355,037</u>	<u>\$ 40,269</u>	<u>\$ 27,745</u>	<u>\$ 423,051</u>

**CITY OF ROCHESTER
NON-MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

		1996 HIGHWAY FUND BONDS	1994 GENERAL OBLIGATION BONDS	1991 LIMITED TAX DEVELOPMENT BONDS	1990 LIMITED TAX DEVELOPMENT BONDS	1996 LIMITED TAX DEVELOPMENT BONDS	2001 GENERAL OBLIGATION BONDS	TOTAL NON - MAJOR DEBT SERVICE FUNDS
ASSETS								
Cash	\$	15,428	48,108	17,838	14,844	11,697	54,468	162,383
Due from other governmental units	-	-	-	-	-	-	-	-
Due from other funds	159	152	-	-	-	-	750	1,061
Taxes receivable - net	-	487	-	-	-	-	251	738
TOTAL ASSETS	\$	15,587	48,747	17,838	14,844	11,697	55,469	164,182
LIABILITIES								
Due to other funds	\$	152	913	-	-	-	-	1,065
FUND BALANCES								
Reserved	15,435	47,834	17,838	14,844	11,697	55,469	163,117	164,182
TOTAL LIABILITIES AND FUND BALANCES	\$	15,587	48,747	17,838	14,844	11,697	55,469	164,182

CITY OF ROCHESTER
 NON-MAJOR DEBT SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND
 CHANGES IN FUND BALANCE
 YEAR END JUNE 30, 2007

	1996 HIGHWAY FUND BONDS	1994 GENERAL OBLIGATION BONDS	1991 LIMITED TAX DEVELOPMENT BONDS	1990 LIMITED TAX DEVELOPMENT BONDS	1996 LIMITED TAX DEVELOPMENT BONDS	2001 GENERAL OBLIGATION BONDS	TOTAL NON-MAJOR DEBT SERVICE FUNDS
REVENUES							
Taxes	\$ -	\$ 279,619	\$ -	\$ -	\$ -	\$ 136,368	\$ 415,987
Interest income	31	324	40	24	32	412	863
Miscellaneous	-	-	-	-	-	-	-
TOTAL REVENUES	<u>31</u>	<u>279,943</u>	<u>40</u>	<u>24</u>	<u>32</u>	<u>136,780</u>	<u>416,850</u>
EXPENDITURES							
Principal on bonds	75,000	200,000	-	-	415,000	50,000	740,000
Interest on bonds	17,869	89,850	25,000	20,000	55,613	65,075	273,407
Paying agency fees	400	750	750	750	300	300	3,250
Miscellaneous	-	182	-	-	-	89	271
TOTAL EXPENDITURES	<u>93,269</u>	<u>290,782</u>	<u>25,750</u>	<u>20,750</u>	<u>470,913</u>	<u>115,464</u>	<u>1,016,928</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(93,238)	(10,839)	(25,710)	(20,726)	(470,881)	21,316	(600,078)
OTHER FINANCING SOURCES (USES)							
Transfers in	92,869	-	25,000	20,000	470,613	-	608,482
Transfers (out)	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(369)	(10,839)	(710)	(726)	(268)	21,316	8,404
FUND BALANCE - JULY 1, 2006	<u>15,804</u>	<u>58,673</u>	<u>18,548</u>	<u>15,570</u>	<u>11,965</u>	<u>34,153</u>	<u>154,713</u>
FUND BALANCE - JUNE 30, 2007	<u>\$ 15,435</u>	<u>\$ 47,834</u>	<u>\$ 17,838</u>	<u>\$ 14,844</u>	<u>\$ 11,697</u>	<u>\$ 55,469</u>	<u>\$ 163,117</u>

**CITY OF ROCHESTER
NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2007**

	FIRE EQUIPMENT RESERVE	1996 CONSTRUCTION FUND	TOTAL NON-MAJOR CAPITAL PROJECTS FUNDS
ASSETS			
Cash and investments	\$ 655,343	-	\$ 655,343
Due from other funds	-	-	-
TOTAL ASSETS	\$ 655,343	-	\$ 655,343
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES			
Reserved	655,343	-	655,343
TOTAL LIABILITIES AND FUND BALANCES	\$ 655,343	-	\$ 655,343

CITY OF ROCHESTER
NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND
CHANGES IN FUND BALANCE
YEAR END JUNE 30, 2007

	FIRE EQUIPMENT RESERVE	1996 CONSTRUCTION FUND	TOTAL NON-MAJOR CAPITAL PROJECTS FUNDS
REVENUES			
Interest income	\$ 20,181	-	\$ 20,181
Miscellaneous	-	-	-
TOTAL REVENUES	<u>20,181</u>	<u>-</u>	<u>20,181</u>
EXPENDITURES			
Capital outlay	-	-	-
Administration	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	20,181	-	20,181
OTHER FINANCING SOURCES (USES)			
Operating transfers in	265,000	-	265,000
Operating transfers (out)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	285,181	-	285,181
UNAPPROPRIATED FUND BALANCE - JULY 1, 2006	<u>370,162</u>	<u>-</u>	<u>370,162</u>
UNAPPROPRIATED FUND BALANCE - JUNE 30, 2007	<u>\$ 655,343</u>	<u>-</u>	<u>\$ 655,343</u>

Guest, Olds and West, PLC

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CITY OF ROCHESTER COMMENTS AND RECOMMENDATIONS JUNE 30, 2007

1994 GENERAL OBLIGATION TAX BONDS DEBT RETIREMENT FUND

In accordance with the Non-Arbitrage and Tax Compliance Certificate for the 1994 General Obligation Bonds, the "Debt Retirement Fund is established primarily to achieve a proper matching of revenues and debt service within each bond year and will be depleted at least once each year, except for a reasonable carryover amount (not to exceed the greater of one year's earnings on the Debt Retirement Fund or 1/12 of annual debt service)." At June 30, 2007, as was the case at June 30, 2006, the Debt Retirement Fund for the 1994 General Obligation Funds Tax Bonds fund balance exceeded the required carryover amount. The fund balance at June 30, 2007 was \$47,834. One twelfth of its annual debt service for the upcoming year ending June 30, 2008, would be approximately \$24,500.

Recommendation

For the fiscal year ending June 30, 2005, the tax rate for the 1994 General Obligation Bonds was lowered from .44 mills to .41 mills in accordance with our recommendations from previous years. It is our recommendation that Management and Council continue to monitor the 1994 General Obligation Bond fund and adjust future tax levies accordingly to avoid an excessive fund balance in the fund which could result in a violation of the Non-Arbitrage Agreement.

UNIFORM BUDGETING AND ACCOUNTING ACT

PA 2 of 1968, the Uniform Budgeting and Accounting Act, as amended, requires that a deviation from the original general appropriations act (original budget) shall not be made without amending the general appropriations act. When necessary, the budget must be amended, and the amendments must be approved by the legislative body. Excess of expenditures over appropriations in budgeted funds shall be acknowledged.

During the fiscal year ended June 30, 2007, the City had expenditures in excess of budget in the Local Streets fund totaling \$218,513.

Recommendation

Excess expenditures were related to street construction. Because of the progress billing nature of these costs they can be challenging to anticipate near year-end. Nonetheless, we recommend that Management and Council monitor appropriations sufficient to avoid expenditures in excess of appropriations in the future.

Guest, Olds and West, PLC

GUEST, OLDS AND WEST, PLC
Certified Public Accountants

Guest, Olds and West, PLC

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

To the City Council
Rochester, Michigan

We have audited the financial statements of City of Rochester, Michigan as of and for the year ended June 30, 2007 and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America .

In planning and performing our audit, we considered City of Rochester, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the its internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rochester, Michigan's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We have identified no significant deficiencies or material weaknesses.

This report is intended solely for the information and use of management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

BINGHAM FARMS, MICHIGAN
October 23, 2007

Guest, Olds and West, PLC
GUEST, OLDS AND WEST, PLC
Certified Public Accountants