

**CITY OF ROCHESTER
MICHIGAN**

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2006**

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, 2006	Opinion Date DECEMBER 13, 2006	Date Audit Report Submitted to State DECEMBER 27, 2006	

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
YEAR ENDED JUNE 30, 2006**

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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, 2006 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, 2006, 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
December 13, 2006

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, 2006 (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 as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. 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, and financial support to the Rochester Hills Public Library. Property taxes, sales taxes, fines, and state and federal 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 (like the Downtown Development Authority Fund) 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- Proprietary funds: when the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

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	\$29,747,435	\$22,788,139
Increase in net assets	2,019,583	505,305
Ending net assets	\$31,767,018	\$23,293,444

(Management Discussion and Analysis for the period ended June 30, 2006
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, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006
Assets						
Current and other assets	\$18,750,025	\$20,535,780	\$12,848,418	\$13,218,682	\$31,598,443	\$33,754,462
Capital assets	21,841,227	23,144,833	10,617,251	10,795,882	32,458,478	33,940,715
Total assets	\$40,591,252	\$43,680,613	\$23,465,669	\$24,014,564	\$64,056,921	\$67,695,177
Liabilities						
Long-term liabilities outstanding	\$8,320,046	\$7,535,487	\$-	\$-	\$8,320,046	\$7,535,487
Other liabilities	2,523,772	4,378,108	677,530	721,120	3,201,302	5,099,228
Total liabilities	\$10,843,818	\$11,913,595	\$677,530	\$721,120	\$11,521,348	\$12,634,715
Net Assets						
Invested in capital assets, net of related debt	\$21,841,227	\$23,144,833	\$10,617,251	\$10,795,882	\$32,458,478	\$33,940,715
Restricted	916,568	823,151	11,062,322	11,064,756	11,978,890	11,887,907
Unrestricted	6,989,639	7,799,034	1,108,566	1,432,806	8,098,205	9,231,840
Total net assets	\$29,747,435	\$31,767,018	\$22,788,139	\$23,293,444	\$52,535,574	\$55,060,462

The increase in total net assets from June 30, 2005 to June 30, 2006 is accounted for primarily by the purchase of capital assets. These changes will be detailed in the Capital Asset and Debt Administration section of the Management Discussion and Analysis.

(Management Discussion and Analysis for the period ended June 30, 2006
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, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006
Revenues						
Program revenues						
Charges for services	\$1,045,507	\$756,547	\$3,451,782	\$3,424,777	\$4,497,289	\$4,181,324
Operating grants & contributions	1,530,856	693,640	-	-	1,530,856	693,640
Capital grants & contributions	28,707	297,615	-	-	28,707	297,615
General revenues						
Property taxes	10,624,897	11,396,355	-	-	10,624,897	11,396,355
State shared revenues	-	864,304	-	-	-	864,304
Unrestricted investment earnings	395,307	876,365	244,039	474,493	639,346	1,350,858
Miscellaneous	144,567	273,303	-	-	144,567	273,303
Total revenues	\$13,769,841	\$15,158,129	\$3,695,821	\$3,899,270	\$17,465,662	\$19,057,399
Expenses						
General government	\$1,472,051	\$1,492,308	\$-	\$-	\$1,472,051	\$1,492,308
Public safety	3,465,691	3,656,032	-	-	3,465,691	3,656,032
Public works	1,521,104	1,594,422	-	-	1,521,104	1,594,422
Comm and econ dev	915,575	1,161,221	-	-	915,575	1,161,221
Highway and streets	248,228	1,808,258	-	-	248,228	1,808,258
Culture and recreation	1,170,204	1,257,624	-	-	1,170,204	1,257,624
Interest expense	396,561	364,681	-	-	396,561	364,681
Water and sewer	-	-	2,701,322	3,012,969	2,701,322	3,012,969
Automobile parking	-	-	53,529	34,956	53,529	34,956
Total expenses	\$9,189,414	\$11,334,586	\$2,754,851	\$3,047,925	\$11,944,265	\$14,382,511
Increase in net assets before transfers	\$4,580,427	\$3,823,543	\$940,970	\$851,345	\$5,521,397	\$4,674,888
Transfers	(\$414,954)	(\$1,803,960)	(\$375,200)	(\$346,040)	(\$790,154)	(\$2,150,000)
Increase in net assets	\$4,165,473	\$2,019,583	\$565,770	\$505,305	\$4,731,243	\$2,524,888
Net Assets - 6/30/04	\$29,747,435		\$22,788,139		\$52,535,574	
Net Assets - 6/30/05		\$31,767,018		\$23,293,444		\$55,060,462

A brief explanation of significant differences between the current and the period ended June 30, 2005 (referred to hereafter as the "prior period") follows.

The revenue for Charges for services dropped by \$288,960. This was due mostly to the following: a drop in permits and license revenues (84,000), the reclassification of cable TV franchise fee revenues (110,000) to Miscellaneous, and a dropoff in the completion of new special assessment district projects as compared to the prior period (56,000).

Capital grants and contributions increased by nearly \$300,000 due primarily to the receipt of a Trailway grant (175,000) and a CDBG grant for sidewalk and handicap ramp improvements (80,000).

Unrestricted investment earnings increased by over \$700,000 combined for Governmental and Business-type activities 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.

The second significant increase in Property taxes was based on an increase in general collections, 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 the Annual Awareness program (40,000), prior year property tax appeal settlement payments (62,000), an increase in interest on captured and escrowed principal collections due to the schools (67,000), and an increase in depreciation expense for new infrastructure (40,000).
- Highways and streets: this activity saw a significant increase back to normal levels due to the one-time capitalization of two major bridge projects (Second Street and East University) in the prior period which had been partially expended but not capitalized as of June 30, 2004.

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
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 and sewer and auto parking. The water and sewer activity is showing net revenue of \$332,289. This is primarily because the administrative cross-charge (273,000) 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 \$44,563. Expenditures for personnel, contracted services and equipment rental were reduced by approximately \$14,000 versus the prior period.

(Management Discussion and Analysis for the period ended June 30, 2006
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, 2006	PCT OF TOTAL	CHANGE FROM JUNE 30, 2005	PCT CHG.
Cash and investments	\$16,546,884	86.3%	\$758,273	4.8%
Accounts receivable – net	240,751	1.3%	(17,055)	-6.6%
Taxes receivable – net	72,466	0.4%	(109,026)	-60.1%
Due from other funds	491,712	2.6%	169,912	52.8%
Due from other gov't	821,450	4.3%	821,450	N/A
Special assessments rec.	922,216	4.8%	(255,655)	-21.7%
Prepaid expenses and other	68,888	0.7%	5,916	9.4%
Total Assets	19,164,367			
Liabilities	JUNE 30, 2006	PCT OF TOTAL	CHANGE FROM JUNE 30, 2005	PCT CHG.
Accounts payable	598,576	11.1%	(83,937)	-12.3%
Accrued liabilities	137,960	2.6%	(16,477)	-10.7%
Deferred revenues	877,536	16.3%	(266,578)	-23.3%
Due to other funds	94,670	1.7%	(188,488)	-66.6%
Due to other governments	3,316,892	61.4%	2,073,872	166.8%
Other liabilities	371,701	6.9%	(18,367)	-4.7%
Total Liabilities	5,397,335			
Fund Balance	JUNE 30, 2006	PCT OF TOTAL	CHANGE FROM JUNE 30, 2005	PCT CHG.
Reserved	833,151	6.0%	(98,417)	-10.5%
Unreserved – Gov't Funds	12,933,881	93.9%	(27,793)	-0.2%
Total Fund Balance	13,767,032			

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

The increase in Cash and investments was due primarily to an increase in tax revenue and investment returns which was discussed earlier in the report. The decrease in Taxes receivable was also due to an increase in prior year delinquent personal property payments. The increase in Due from other funds is due to an increase in delinquent personal property taxes collected and recognized.

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 increase in Due from other governments is due to reclassifying state revenue sharing and state road funds in a separate row for the current period. In previous periods, state funds due as of June 30th had been recognized as "Accounts receivable - net".

The increase in the Due to other governments resulted from the current revenue 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, 2006	PCT OF TOTAL	CHANGE FROM JUNE 30, 2005	PCT CHG.
Taxes	\$11,565,561	73.9%	\$834,581	7.8%
Licenses	282,884	1.8%	-73,647	-20.7%
Intergovernmental	1,775,492	11.3%	234,698	15.2%
Service Charges and Sales	773,333	4.9%	-39,745	-4.9%
Fines and Forfeits	63,380	0.4%	-331	-0.5%
Miscellaneous	1,184,311	7.6%	428,843	56.8%
Total Revenues	15,644,961			
Expenditures	JUNE 30, 2006	PCT OF TOTAL	CHANGE FROM JUNE 30, 2005	PCT CHG.
General Government	2,608,764	19.1%	140,047	5.7%
Public Safety	3,527,179	25.9%	195,875	5.9%
Public Works	2,667,306	19.6%	-505,348	-15.9%
Sanitation	721,232	5.3%	33,370	4.8%
Parks and Recreation	560,073	4.1%	28,161	5.3%
Public Library	482,259	3.5%	21,443	4.7%
Planning Commission and ZBA	40,653	0.3%	-13,406	-24.8%
Capital Outlay	1,959,370	14.4%	152,823	8.5%
Debt Service	1,054,335	7.7%	85,669	8.8%
Total Expenditures	13,621,171			

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

The decrease on Planning Commission and ZBA was due to the completion of Master Plan update consultation by the City's Planner in the prior period.

The decrease in Public Works was primarily due to the completion of several significant bridge construction projects in the prior period.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City pre-funded important future objectives in the current period. First, the General Fund contributed \$2.15 million to the Retiree Hospitalization Fund in order to provide resources for future retiree health care obligations. Also, the General Fund contributed \$371,870 to the Fire Equipment Reserve Fund primarily to finance the replacement of the city's Tower Truck.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2006, the City had \$33,940,915 million 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 4.4 percent over last year.

	Governmental Activities		Business Activities	
	FY 04-05	FY 05-06	FY 04-05	FY 05-06
Land	\$3,656,450	\$3,656,450	\$363,253	\$363,253
Construction in Progress	0	231,990	0	0
Buildings	2,557,961	2,607,260	0	0
Improvements Other Than Buildings	133,599	561,854	0	0
Machinery and Equipment	551,936	984,096	10,253,998	10,432,629
Infrastructure	12,965,313	13,124,214	0	0
Internal Service Fund	1,975,968	1,978,969	0	0
	\$21,841,227	\$23,144,833	\$10,617,251	\$10,795,882

Major additions for the current period included the completion of the Lysander and Drace Street projects for approximately \$443,000, the purchase of a new ladder truck for the Fire Department (490,000), improvements to the Sanitary Sewer system (223,000), equipment for the Department of Public Works (198,000), Clinton River Gabions (172,000), improvements to the Vest Pocket Park (151,000), and the replacement of the DPW Salt Barn (132,000).

Debt

As of June 30, 2006, the City had \$7,173,169 in outstanding General Obligation bonds and land contracts payable compared to \$7,964,141 as of June 30, 2005. This represents a decrease of 9.9 percent as shown in the following table.

	04-05	05-06
General Obligation Bonds	6,910,000	6,165,000
Land Contract Payable	1,054,141	1,008,169
Totals	7,964,141	7,173,169

ECONOMIC FACTORS, MAJOR EXPENDITURES AND RATES

Beginning in the calendar year 2001 and continuing into the current period, the City has experienced a decrease in the state's Shared Revenue distributions. More decreases are anticipated for the future. The nationwide economic recovery has leveled off in the last year, with the housing market seeing declining values in some higher-end sectors. As has been the case since the year 2000, Michigan's economy has lagged behind the nation's in some key regards. The situation for the major domestic automakers who make their home in the Metro Detroit region is worrisome. The City will continue to budget Revenue Sharing cautiously.

For the upcoming period ending June 30, 2007, the City is planning some significant capital projects, including storm sewer improvements for \$250,000, Diversion Street and Trail Parking Lot improvements (125,000), Jaycee Field improvements (125,000), Tree Planting (85,000), and improvements to the Lion's Pavillion (70,000).

Road and bridge projects are budgeted in the Major and Local Streets funds totaling \$1,637,000.

Purchases of new vehicles for the Police Department are budgeted for \$65,000, including two new Police squad cars and a new ordinance officer vehicle.

The Revolving Equipment Fund is budgeted to purchase vehicles for use by the Department of Public Works and Parks and Recreation in the amount of \$328,000.

There are no plans to change the City of Rochester's property tax rates, which are designated for the City's general operations (including appropriations to several organizations which deliver cultural and recreational programs to the public), City-owned debt, and the operation of the Older Persons' Commission.

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

Thomas C. Skrobola
Finance Director

-2k-

**CITY OF ROCHESTER
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and investments	\$ 17,972,297	\$ 1,206,516	\$ 19,178,813
Receivables:			
Customers	333,257	708,653	1,041,910
Special assessments	922,216	-	922,216
Internal balances	-	-	-
Due from other governmental units	491,712	-	491,712
Due from fiduciary funds	726,656	-	726,656
Prepaid items and other assets	80,253	53,990	134,243
Inventories	9,389	48,050	57,439
Restricted assets	-	11,201,473	11,201,473
Capital assets - net	<u>23,144,833</u>	<u>10,795,882</u>	<u>33,940,715</u>
TOTAL ASSETS	43,680,613	24,014,564	67,695,177
LIABILITIES			
Accounts payable	551,555	485,854	1,037,409
Intergovernmental payables	3,316,892	-	3,316,892
Accrued and other liabilities	509,661	49,250	558,911
Liabilities from restricted assets	-	186,016	186,016
Noncurrent liabilities:			
Bonds and contracts payable, Due within one year	785,785	-	785,785
Bonds and contracts payable, Due in more than one year	6,387,384	-	6,387,384
Employee absences	<u>362,318</u>	<u>-</u>	<u>362,318</u>
TOTAL LIABILITIES	11,913,595	721,120	12,634,715

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

Guest, Olds and West, PLC
Certified Public Accountants

CITY OF ROCHESTER
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
NET ASSETS			
Invested in capital assets, net of related debt	23,144,833	10,795,882	33,940,715
Restricted:			
Water & Sewer	-	11,064,756	11,064,756
Special revenue	298,276	-	298,276
Debt Service	154,713	-	154,713
Capital projects	370,162	-	370,162
Unrestricted	<u>7,799,034</u>	<u>1,432,806</u>	<u>9,231,840</u>
TOTAL NET ASSETS	<u>\$ 31,767,018</u>	<u>\$ 23,293,444</u>	<u>\$ 55,060,462</u>

CITY OF ROCHESTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

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
Functions/Programs							
Primary government - Governmental activities:							
General government	\$ 1,492,348	\$ 119,537	\$ -	\$ 297,615	\$ (1,075,196)	\$ -	\$ (1,075,196)
Public safety	3,656,032	443,474	4,919	-	(3,207,639)	-	(3,207,639)
Public works	1,594,422	38,466	-	-	(1,555,956)	-	(1,555,956)
Community and economic development	1,161,221	110,392	-	-	(1,050,829)	-	(1,050,829)
Highway and streets	1,808,258	-	688,721	-	(1,119,537)	-	(1,119,537)
Culture and recreation	1,257,624	44,678	-	-	(1,212,946)	-	(1,212,946)
Interest expense	364,681	-	-	-	(364,681)	-	(364,681)
Total governmental activities	11,334,586	756,547	693,640	297,615	(9,586,784)	-	(9,586,784)
Business-type activities:							
Water and sewer	3,012,969	3,345,258	-	-	-	332,289	332,289
Automobile parking system	34,956	79,519	-	-	-	44,563	44,563
Total business-type activities	3,047,925	3,424,777	-	-	-	376,852	376,852
Total primary government	\$ 14,382,511	\$ 4,181,324	\$ 693,640	\$ 297,615	(9,586,784)	376,852	(9,209,932)
General revenues:							
Property taxes and related fees					11,396,355	-	11,396,355
State-shared revenues					864,304	-	864,304
Franchise tax					111,063	-	111,063
Unrestricted investment earnings					876,365	474,493	1,350,858
Miscellaneous					149,603	-	149,603
Gain on sale of assets					12,637	-	12,637
Transfers					(1,803,960)	(346,040)	(2,150,000)
Total general revenues and transfers					11,606,367	128,453	11,734,820
Change in Net Assets					2,019,583	505,305	2,524,888
Net Assets - Beginning of year					29,747,435	22,788,139	52,535,574
Net Assets - End of year					\$ 31,767,018	\$ 23,293,444	\$ 55,060,462

**CITY OF ROCHESTER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006**

		MAJOR STREETS FUND	LOCAL STREETS FUND	DOWNTOWN DEVELOPMENT AUTHORITY FUND	CAPITAL PROJECTS GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and investments	\$ 3,951,068	\$ 1,631,958	\$ 1,172,862	\$ 4,326,377	\$ 4,555,813	\$ 908,806	\$ 16,546,884
Accounts receivable - net	128,050	72,181	30,520	-	10,000	-	240,751
Taxes receivable - net	27,175	-	-	44,407	-	884	72,466
Due from other governmental units	224,231	-	-	169,929	-	97,552	491,712
Due from other funds	276,730	-	-	451,301	87,488	5,931	821,450
Special assessments receivable	-	-	105,273	815,870	1,073	-	922,216
Prepaid expenses and other assets	48,340	6,440	2,644	-	8,765	2,699	68,888
TOTAL ASSETS	\$ 4,655,594	\$ 1,710,579	\$ 1,311,299	\$ 5,807,884	\$ 4,663,139	\$ 1,015,872	\$ 19,164,367
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 234,237	\$ 16,920	\$ 250,634	\$ 39,730	\$ 55,409	\$ 1,646	\$ 598,576
Accrued and other liabilities	100,374	-	4,507	33,079	-	-	137,960
Deferred revenues	271	-	103,715	773,550	-	-	877,536
Due to other funds	5,387	18	165	288	-	88,812	94,670
Due to other governmental units	4,412	-	-	3,312,480	-	-	3,316,892
Other liabilities	371,701	-	-	-	-	-	371,701
TOTAL LIABILITIES	716,382	16,938	359,021	4,159,127	55,409	90,458	5,397,335
FUND BALANCES							
Reserved	-	-	-	-	10,000	823,151	833,151
Unreserved - Reported in:							
General Fund	3,939,212	-	-	-	-	-	3,939,212
Special Revenue Fund	-	1,693,641	952,278	-	-	102,263	2,748,182
Capital Projects Fund	-	-	-	1,648,757	4,597,730	-	6,246,487
TOTAL FUND BALANCES	3,939,212	1,693,641	952,278	1,648,757	4,607,730	925,414	13,767,032
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,655,594	\$ 1,710,579	\$ 1,311,299	\$ 5,807,884	\$ 4,663,139	\$ 1,015,872	\$ 19,164,367

The Notes to Financial Statements are :

**CITY OF ROCHESTER
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2006**

FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 13,767,032
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	21,165,864
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	877,536
Internal Service Fund is included as part of governmental activities	3,492,073
The funds do not report bond indebtedness as a liability until it comes due for payment	(7,173,169)
Employee compensated absences are not due and payable in the current period and are not reported in funds	<u>(362,318)</u>
NET ASSETS OF GOVERNMENTAL FUNDS	<u>\$ 31,767,018</u>

CITY OF ROCHESTER
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	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	\$ 8,839,857	-	\$ 35,543	\$ 2,289,470	-	\$ 400,691	\$ 11,565,561
Licenses and permits	282,884	-	-	-	-	-	282,884
Intergovernmental revenue	879,927	448,242	184,835	-	175,000	87,488	1,775,492
Service charges and sales	725,034	-	-	-	-	48,299	773,333
Fines and forfeits	63,380	-	-	-	-	-	63,380
Miscellaneous	126,092	3,044	64,935	110,392	55,783	3,807	364,053
Interest income	374,054	57,719	43,688	145,450	167,106	32,241	820,258
TOTAL REVENUES	<u>11,291,228</u>	<u>509,005</u>	<u>329,001</u>	<u>2,545,312</u>	<u>397,889</u>	<u>572,526</u>	<u>15,644,961</u>
EXPENDITURES							
General public	1,419,465	-	-	1,044,983	-	144,316	2,608,764
Public safety	3,527,179	-	-	-	-	-	3,527,179
Public works	876,396	405,906	1,385,004	-	-	-	2,667,306
Sanitation	721,232	-	-	-	-	-	721,232
Parks and recreation	560,073	-	-	-	-	-	560,073
Public library	482,259	-	-	-	-	-	482,259
Planning commission and zoning board	40,653	-	-	-	-	-	40,653
Capital outlay	-	-	-	658,831	723,051	577,488	1,959,370
Debt Service:							
Principal	-	-	-	-	-	745,000	745,000
Interest	-	-	-	-	-	309,335	309,335
TOTAL EXPENDITURES	<u>7,627,257</u>	<u>405,906</u>	<u>1,385,004</u>	<u>1,703,814</u>	<u>723,051</u>	<u>1,776,139</u>	<u>13,621,171</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,663,971	103,099	(1,056,003)	841,498	(325,162)	(1,203,613)	2,023,790
OTHER FINANCING SOURCES (USES)							
Transfers in	-	352,500	620,000	-	1,075,000	1,126,304	3,173,804
Transfers (out)	(4,681,870)	(96,700)	-	(545,160)	-	(74)	(5,323,804)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(1,017,899)	358,899	(436,003)	296,338	749,838	(77,383)	(126,210)
FUND BALANCE							
Beginning of year	4,957,111	1,334,742	1,388,281	1,352,419	3,857,892	1,002,797	13,893,242
FUND BALANCE - JUNE 30, 2006	<u>\$ 3,939,212</u>	<u>\$ 1,693,641</u>	<u>\$ 952,278</u>	<u>\$ 1,648,757</u>	<u>\$ 4,607,730</u>	<u>\$ 925,414</u>	<u>\$ 13,767,032</u>

**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, 2006**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (126,210)
 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.	
	1,300,604
 Revenue reported in the statement of activities that does provide current financial resources and is reported as deferred revenue in the governmental funds.	
	(169,206)
 Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long- term liabilities in the Statement of Net Assets.	
	790,972
 Increase in accumulated employee severance and sick pay is recorded when earned in the statement of activities.	
	(6,413)
 Internal Service Fund is also included in governmental activities.	
	<u>229,836</u>
 CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	 <u>\$ 2,019,583</u>

**CITY OF ROCHESTER
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,038,799	\$ 167,717	\$ 1,206,516	\$1,425,413
Accounts receivable - net	705,783	2,870	708,653	83,230
Inventory	47,550	500	48,050	9,389
Due from other funds	-	-	-	-
Prepaid expenses	53,990	-	53,990	11,365
TOTAL CURRENT ASSETS	1,846,122	171,087	2,017,209	1,529,397
NONCURRENT ASSETS				
Restricted cash and cash equivalents	11,201,473	-	11,201,473	-
Capital assets	10,452,933	342,949	10,795,882	1,978,969
TOTAL ASSETS	\$ 23,500,528	\$ 514,036	\$24,014,564	\$3,508,366
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 485,367	\$ 15	\$ 485,382	\$ 16,169
Due to other funds	465	7	472	124
Refundable deposits	49,250	-	49,250	-
Payable from restricted assets	186,016	-	186,016	-
TOTAL CURRENT LIABILITIES	721,098	22	721,120	16,293
NET ASSETS				
Invested in capital assets - net of related debt	10,452,933	342,949	10,795,882	1,978,969
Restricted for replacement	50,703	-	50,703	-
Restricted for capital improvements	11,014,053	-	11,014,053	-
Unrestricted	1,261,741	171,065	1,432,806	1,513,104
TOTAL NET ASSETS	22,779,430	514,014	23,293,444	3,492,073
TOTAL LIABILITIES AND NET ASSETS	\$ 23,500,528	\$ 514,036	\$24,014,564	\$3,508,366

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, 2006**

	<u>BUSINESS TYPE ACTIVITIES</u>			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
REVENUES				
Water sales	\$ 1,577,782	\$ -	\$ 1,577,782	\$ -
Sewage disposal fees	1,607,410	-	1,607,410	-
Penalty income	29,467	13,849	43,316	-
Water and sewer taps	66,425	-	66,425	-
Charges for sales and services	55,180	99,554	154,734	852,333
Miscellaneous	<u>8,994</u>	<u>116</u>	<u>9,110</u>	<u>1,102</u>
TOTAL REVENUE	<u>3,345,258</u>	<u>113,519</u>	<u>3,458,777</u>	<u>853,435</u>
OPERATING EXPENSES				
Water distribution	1,231,455	-	1,231,455	-
Sewage collection and disposal	1,404,146	-	1,404,146	-
Administrative	351,783	102,120	453,903	152,039
Operation and maintenance	-	34,956	34,956	355,363
Depreciation	<u>303,505</u>	<u>-</u>	<u>303,505</u>	<u>189,442</u>
TOTAL OPERATING EXPENSES	<u>3,290,889</u>	<u>137,076</u>	<u>3,427,965</u>	<u>696,844</u>
OPERATING INCOME (LOSS)	54,369	(23,557)	30,812	156,591
NON-OPERATING REVENUES (EXPENSES)				
Sale of rental equipment	-	-	-	17,130
Interest income	<u>467,464</u>	<u>7,029</u>	<u>474,493</u>	<u>56,115</u>
NET INCOME (LOSS) BEFORE TRANSFERS	521,833	(16,528)	505,305	229,836
Transfers from other funds	-	-	-	-
Transfers to (other) funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	521,833	(16,528)	505,305	229,836
NET ASSETS - Beginning of year (Restated)	<u>22,257,597</u>	<u>530,542</u>	<u>22,788,139</u>	<u>3,262,237</u>
NET ASSETS - End of year	<u>\$ 22,779,430</u>	<u>\$ 514,014</u>	<u>\$ 23,293,444</u>	<u>\$ 3,492,073</u>

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

Guest, Olds and West, PLC
Certified Public Accountants

**CITY OF ROCHESTER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006**

	BUSINESS TYPE ACTIVITIES			
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 3,360,272	\$ 116,858	\$ 3,477,130	\$ 834,788
Payments to suppliers	(2,425,007)	(10,626)	(2,435,633)	(356,183)
Payments to employees	(201,984)	(11,823)	(213,807)	(94,670)
Interfund activity	(419,304)	(116,946)	(536,250)	(43,677)
Other operating revenue	8,994	129	9,123	1,102
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>322,971</u>	<u>(22,408)</u>	<u>300,563</u>	<u>341,360</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Refundable deposits	7,550	-	7,550	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(407,432)	-	(407,432)	(245,622)
Proceeds from sale of equipment	-	-	-	23,337
NET CASH (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	<u>(407,432)</u>	<u>-</u>	<u>(407,432)</u>	<u>(222,285)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments	413,474	7,029	420,503	44,750
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>336,563</u>	<u>(15,379)</u>	<u>321,184</u>	<u>163,825</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>11,903,709</u>	<u>183,096</u>	<u>12,086,805</u>	<u>1,261,588</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 12,240,272</u>	<u>\$ 167,717</u>	<u>\$ 12,407,989</u>	<u>\$ 1,425,413</u>

CITY OF ROCHESTER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - Continued
 FOR THE YEAR ENDED JUNE 30, 2006

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
	\$ 54,369	\$ (23,557)	\$ 30,812	\$ 156,591
	303,505	-	303,505	189,442
	(54,908)	(605)	(55,513)	11,118
	24,008	3,455	27,463	(17,545)
	4,223	92	4,315	1,630
	<u>(8,226)</u>	<u>(1,793)</u>	<u>(10,019)</u>	<u>124</u>
	<u>\$ 322,971</u>	<u>\$ (22,408)</u>	<u>\$ 300,563</u>	<u>\$ 341,360</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH FROM
 OPERATING ACTIVITIES

Operating income (loss)
 Adjustments to reconcile operating income
 to net cash from operating activities:
 Depreciation
 Proceeds from sale of assets
 Changes in assets and liabilities
 Accounts payable
 Accounts receivable
 Inventories
 Other assets
 Other liabilities

NET CASH PROVIDED BY OPERATING ACTIVITIES

**CITY OF ROCHESTER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

	PENSION AND OTHER EMPLOYEE BENEFITS	AGENCY
ASSETS		
Cash and cash equivalents	\$ 463,111	\$ 799,283
Due from other funds	-	6,668
TOTAL ASSETS	<u>\$ 463,111</u>	<u>\$ 805,951</u>
LIABILITIES		
Accounts payable	\$ 2,165	\$ -
Accrued and other liabilities	31,050	-
Payroll withholdings	-	10,416
Due to other funds	-	731,170
Prepaid taxes	-	13,979
Due to other governments	-	1,680
Undistributed tax collections	-	48,706
TOTAL LIABILITIES	<u>33,215</u>	<u>\$ 805,951</u>
NET ASSETS - Held in trust for pension and other employee benefits	<u>\$ 429,896</u>	

**CITY OF ROCHESTER
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2006**

	PENSION AND OTHER EMPLOYEE BENEFITS
ADDITIONS	
Contributions - employer	\$ 2,524,208
 INVESTMENT INCOME	
Interest	<u>18,202</u>
 TOTAL ADDITIONS	2,542,410
 DEDUCTIONS	
Employee benefits	<u>4,261,417</u>
 CHANGE IN NET ASSETS	(1,719,007)
 NET ASSETS - Beginning of year	<u>2,148,903</u>
 NET ASSETS - End of year	<u>\$ 429,896</u>

**CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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, 2006

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.

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,

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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 our 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 2005 taxable valuation of the City totaled \$722,353,745 million and is used for the July 1, 2005 tax bills; this resulted in property tax revenues as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City operating mills	12.8834	12,131,599
Older Persons Commission	0.2440	158,407
Debt Service	0.6100	396,328

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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 contracts 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, 2006

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, 2006 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, 2006, 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	\$ -	\$112,022	\$112,022
Police Department	82,695	-	82,695
Department of Public Works	38,349	-	38,349
Non-union Personnel	127,271	1,980	129,251
TOTAL	\$248,315	\$114,002	\$362,317

The liability has been funded by transfers to the Fiduciary Funds in prior years. As of June 30, 2006, the Severance and Sick Pay account maintained in the Fiduciary Funds has a balance of \$260,502.

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, 2006

Changes in Beginning Fund Balances/Net Assets – The following discloses the restatement of proprietary fund balances as of the beginning of the fiscal year:

	<u>Water & Sewer</u>
Fund balance, beginning of the year, as previously stated	\$22,457,415
Decrease resulting from the recognition of the sewage disposal charges paid during y/e 6/30/06, appropriately allocable to y/e 6/30/05	(216,189)
Increase resulting from the recognition of non-residential surcharge revenue associated with sewage disposal charges, appropriately allocable to y/e 6/30/05	16,371
Fund balance, beginning of the year, as restated	<u>\$22,257,597</u>

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.”

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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 – The City did not have significant expenditure budget variances.

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:

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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 \$17,226,174 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.

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	\$4,213,283	8.25 months
Fannie Mae	3,723,924	2.1 years
Federal Home Loan Banks	2,896,756	1.6 years
Freddie Mac	2,483,996	2.4 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	\$3,317,959	AAA	S&P
Bank investment pools	3,878,482	Not rated	
Inter-local agreement fund - MBIA	1,146,632	Not rated	

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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

U.S. government agencies:

Federal Home Loan Banks	7.73%
Fannie Mae	12.13%
Freddie Mac	9.80%

NOTE 4 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFER

The following is a summary of the inter-fund receivables at June 30, 2006:

<u>Fund Due To:</u>	<u>Fund Due From:</u>	<u>Amount</u>
General	Trust & Agency - Payroll	\$ 3,000
General	Trust & Agency - Account Payable	1,680
General	Tax Collection	270,938
General	Debt Service	1,112
Debt Service	Tax Collection	5,931
DDA	Tax Collection	451,301
General Capital Projects	CDBG	87,488
Water & Sewer Operations	Water & Sewer Improvements	1,500
Trust & Agency - Payroll	General	5,372
Trust & Agency - Payroll	Major Streets	18
Trust & Agency - Payroll	Local Streets	164
Trust & Agency - Payroll	Cemetery	212
Trust & Agency - Payroll	DDA	288
Trust & Agency - Payroll	Auto Parking	7
Trust & Agency - Payroll	Water & Sewer Operations	465
Trust & Agency - Payroll	Internal Service	124
Tax Collection	General	15
		<hr/>
Total		<u>\$ 829,615</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

The following is a summary of inter-fund transfers during y/e 6/30/06:

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	\$ 96,700
Transfer from Downtown Development Authority to Major Street Fund	2,500
Transfer of unrestricted General Fund resources to Major Street Fund	350,000
Transfer of unrestricted General Fund resources to Local Street Fund	620,000
Transfer from MVHF Capital Project to MVHF Debt Service	74
Transfer from Downtown Development Authority to DDA Debt Funds	542,660
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	386,870
Transfer of unrestricted General Fund resources to fund General Capital Projects	1,075,000
Transfer of unrestricted General Fund resources to fund retiree health care	<u>2,150,000</u>
Total inter-fund transfers	<u>\$5,323,804</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, 2006:

Revenue Bond Restrictions	
Improvement and Replacement Account	\$11,014,053
Bond Reserve Replacement Account	<u>50,703</u>
Total Restricted Assets	<u>\$11,064,756</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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>231,990</u>
Subtotal	3,656,450	231,990	-	3,888,440
Capital Assets Being Depreciated				
Buildings	3,407,746	132,025	-	3,539,771
Improvements Other Than Buildings	385,829	432,364	-	818,193
Machinery and Equipment	1,336,344	509,400	-	1,845,744
Infrastructure	19,188,927	1,106,993	112,377	20,183,543
Internal Service Fund	<u>3,414,731</u>	<u>198,650</u>	<u>165,777</u>	<u>3,447,604</u>
Subtotal	27,733,577	2,379,432	278,154	29,834,855
Less Accumulated Depreciation for				
Buildings	849,785	82,726	-	932,511
Improvements Other Than Buildings	252,230	4,109	-	256,339
Machinery and Equipment	784,408	77,240	-	861,648
Infrastructure	6,223,614	943,349	107,634	7,059,329
Internal Service Fund	<u>1,438,763</u>	<u>189,442</u>	<u>159,570</u>	<u>1,468,635</u>
Subtotal	9,548,800	1,296,866	267,204	10,578,462
Net Capital Assets Being Depreciated	<u>18,184,777</u>	<u>1,082,566</u>	<u>10,950</u>	<u>19,256,393</u>
Net Capital Assets	<u>\$ 21,841,227</u>	<u>\$ 1,314,556</u>	<u>\$ 10,950</u>	<u>\$ 23,144,833</u>

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

	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	7,827,281	301,637	-	8,128,918
Water Distribution System	6,398,635	180,499	-	6,579,134
Parking Meters	59,776	-	-	59,776
Other Equipment	57,330	-	-	57,330
Subtotal	14,509,631	482,136	-	14,991,767
Less Accumulated Depreciation for				
Improvements Parking Lots	166,609	-	-	166,609
Sewage Disposal System	1,791,614	154,475	-	1,946,089
Water Distribution System	2,197,006	147,311	-	2,344,317
Parking Meters	59,776	-	-	59,776
Other Equipment	40,628	1,719	-	42,347
Subtotal	4,255,633	303,505	-	4,559,138
Net Capital Assets Being Depreciated	10,253,998	178,631	-	10,432,629
Net Capital Assets	\$ 10,617,251	\$ 178,631	\$ -	\$ 10,795,882

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

Governmental Activities	
General Government	\$ 65,466
Public Safety	80,476
Public Works	758
Recreation and Culture	51,394
Internal Service Fund Depreciation is Charged to the Various Functions Based on Their Usage of the Assets	189,442
Community and Economic Development	116,282
Highway Streets	793,048
Total Governmental Activities	\$ 1,296,866
Business-Type Activities	
Water and Sewer Fund	\$ 303,505

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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	\$106,346	\$815,870

(Notes to Financial Statements Continues on Next Page)

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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, 2005	(REDUCTIONS) ADDITIONS	ENDING BALANCE JUNE 30, 2006	DUE WITHIN ONE YEAR
1994 Unlimited Tax Bonds maturing through October 1, 2013 with interest ranging from 4% to 7%	\$ 2,300,000	\$ (200,000)	\$ 2,100,000	\$ 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%	475,000	(75,000)	400,000	75,000
1996 Unlimited Tax Bonds maturing through October 1, 2008 with interest ranging from 4.4% to 5.1%	1,735,000	(420,000)	1,315,000	415,000
2001 Unlimited Tax Bonds maturing through April 1, 2020 with interest ranging from 4.0% to 6.0%	1,500,000	(50,000)	1,450,000	50,000
Land Contract Payable due April 2025 with interest at 4.50%	967,435	(31,122)	936,313	29,783
Land Contract Payable due August 2010 with interest at 7.50%	86,706	(14,850)	71,856	16,002
TOTAL	\$7,964,141	(\$790,972)	\$7,173,169	\$785,785

CITY OF ROCHESTER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS-Continued
JUNE 30, 2006

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>
2007	\$1,108,275
2008	1,136,490
2009	1,087,230
2010	1,101,669
2011	1,101,619
2012-2016	2,029,475
2017-2021	1,176,700
2022-2025	<u>283,743</u>
TOTAL	<u>\$9,025,201</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, 2006

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, 2006, is as follows:

Building permit revenue		\$129,798
Related expenditures		
Direct costs	\$ 293,442	
Estimated overhead costs	5,000	
 Total construction code expenditures		298,442
 Shortfall		(\$168,644)

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, 2006

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.

Funding Policy

Police members contribute 5% of annual compensation. Non-police members contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. 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, 2005 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
6/30/2004	64,618	100%	-
6/30/2005	90,781	100%	-
6/30/2006	238,884	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)
12/31/2003	11,046,855	11,809,584	762,729	94	3,010,220	25
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

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, 2005 and June 30, 2006 amounted to \$10,778 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, 2006

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, 2005 and June 30, 2006 were \$7,700 and \$9,581.

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, eight retirees are receiving benefits. The costs of retirees' health care benefits are recognized as a current expenditure. For the year ended June 30, 2006 costs recognized for current premiums totaled \$71,260. The transfer to MERS of \$4,146,350 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, 2006**

REVENUES

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)
GENERAL PROPERTY TAXES				
Property taxes	\$ 8,000,000	\$ 8,300,000	\$ 8,437,311	\$ 137,311
Interest and penalties	50,000	50,000	108,447	58,447
Collection fees	250,000	290,000	294,099	4,099
	<u>8,300,000</u>	<u>8,640,000</u>	<u>8,839,857</u>	<u>199,857</u>
LICENSES AND PERMITS				
Building department	110,000	163,000	151,798	(11,202)
Clerks department	16,000	16,000	20,023	4,023
Cable television franchise	100,000	110,000	111,063	1,063
	<u>226,000</u>	<u>289,000</u>	<u>282,884</u>	<u>(6,116)</u>
INTERGOVERNMENTAL REVENUE				
State shared taxes	886,200	879,400	879,927	527
SERVICE CHARGES AND SALES				
Misc. services and sales	204,450	214,450	239,934	25,484
Administrative cross charge	485,040	485,040	485,100	60
	<u>689,490</u>	<u>699,490</u>	<u>725,034</u>	<u>25,544</u>
FINES AND FORFEITS				
Other ordinance fines	70,000	56,000	63,380	7,380
MISCELLANEOUS				
Rent-Municipal Building	4,800	4,800	4,800	-
Interest on investments	90,000	230,000	374,054	144,054
Other items	7,830	68,500	121,292	52,792
	<u>102,630</u>	<u>303,300</u>	<u>500,146</u>	<u>196,846</u>
TOTAL REVENUE	<u>\$10,274,320</u>	<u>\$10,867,190</u>	<u>\$ 11,291,228</u>	<u>\$ 424,038</u>

**CITY OF ROCHESTER
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

EXPENDITURES

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)
GENERAL GOVERNMENT				
City Council	\$ 75,480	\$ 75,480	\$ 64,260	\$ 11,220
Manager	405,240	405,240	390,639	14,601
Elections	34,240	34,240	17,997	16,243
Finance	469,920	469,920	464,454	5,466
Clerk	100,290	100,290	92,905	7,385
Board of Review	2,750	2,750	1,719	1,031
Civic Center	86,050	86,050	71,128	14,922
Other general services	325,100	325,100	316,363	8,737
TOTAL GENERAL GOVERNMENT	<u>1,499,070</u>	<u>1,499,070</u>	<u>1,419,465</u>	<u>79,605</u>
PUBLIC SAFETY				
Police department	3,027,840	3,027,840	2,879,034	148,806
Fire department	355,800	355,800	354,703	1,097
Protective inspection	383,540	333,540	293,442	40,098
TOTAL PUBLIC SAFETY	<u>3,767,180</u>	<u>3,717,180</u>	<u>3,527,179</u>	<u>190,001</u>
PUBLIC WORKS	1,080,060	960,060	876,396	83,664
SANITATION	755,100	733,100	721,232	11,868
PUBLIC LIBRARY	470,000	483,000	482,259	741
PARKS AND RECREATION	533,660	533,660	560,073	(26,413)
PLANNING COMMISSION	38,050	38,050	38,581	(531)
ZONING BOARD OF APPEALS	3,200	3,200	2,072	1,128
BUDGET CONTINGENCY	100,000	-	-	-
TRANSFERS OUT	<u>2,028,000</u>	<u>4,699,870</u>	<u>4,681,870</u>	<u>18,000</u>
TOTAL EXPENDITURES	<u>10,274,320</u>	<u>12,667,190</u>	<u>12,309,127</u>	<u>358,063</u>
FUND BALANCE- BEGINNING OF YEAR	<u>4,957,111</u>	<u>4,957,111</u>	<u>4,957,111</u>	<u>-</u>
FUND BALANCE- END OF YEAR	<u>\$4,957,111</u>	<u>\$ 3,157,111</u>	<u>\$ 3,939,212</u>	<u>\$ 782,101</u>

**CITY OF ROCHESTER
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)
Revenues	\$ 458,720	\$ 458,720	\$ 509,005	\$ 50,285
Operating transfer in	<u>202,500</u>	<u>352,500</u>	<u>352,500</u>	<u>-</u>
Total Revenues	661,220	811,220	861,505	50,285
Expenditures	<u>630,650</u>	<u>780,650</u>	<u>502,606</u>	<u>278,044</u>
Fund Balance - Beginning of year	1,334,742	1,334,742	1,334,742	-
Fund balance (appropriated) surplus	<u>30,570</u>	<u>30,570</u>	<u>358,899</u>	<u>328,329</u>
Fund Balance - End of year	<u>\$ 1,365,312</u>	<u>\$ 1,365,312</u>	<u>\$ 1,693,641</u>	<u>\$ 328,329</u>

**CITY OF ROCHESTER
LOCAL STREETS FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2006**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)
Revenues	\$ 196,500	\$ 196,500	\$ 329,001	\$ 132,501
Operating transfer in	<u>370,000</u>	<u>620,000</u>	<u>620,000</u>	<u>-</u>
Total Revenues	566,500	816,500	949,001	132,501
Expenditures	<u>665,850</u>	<u>1,270,850</u>	<u>1,385,004</u>	<u>(114,154)</u>
Fund Balance - Beginning of year	1,388,281	1,388,281	1,388,281	-
Fund balance (appropriated) surplus	<u>(99,350)</u>	<u>(454,350)</u>	<u>(436,003)</u>	<u>18,347</u>
Fund Balance - End of year	<u>\$ 1,288,931</u>	<u>\$ 933,931</u>	<u>\$ 952,278</u>	<u>\$ 18,347</u>

**CITY OF ROCHESTER
NON-MAJOR GOVERNMENTAL
COMBINING BALANCE SHEET
JUNE 30, 2006**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash and investments	\$ 399,698	\$ 138,946	\$ 370,162	\$ 908,806
Due from other governmental units	87,488	10,064	-	97,552
Due from other funds	-	5,931	-	5,931
Taxes receivable - net	-	884	-	884
Prepaid expenses	<u>2,699</u>	<u>-</u>	<u>-</u>	<u>2,699</u>
TOTAL ASSETS	<u>\$ 489,885</u>	<u>\$ 155,825</u>	<u>\$ 370,162</u>	<u>\$ 1,015,872</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 1,646	\$ -	\$ -	\$ 1,646
Accrued payroll	-	-	-	-
Due to other funds	<u>87,700</u>	<u>1,112</u>	<u>-</u>	<u>88,812</u>
TOTAL LIABILITIES	<u>89,346</u>	<u>1,112</u>	<u>-</u>	<u>90,458</u>
FUND BALANCES				
Reserved	298,276	154,713	370,162	823,151
Unreserved	<u>102,263</u>	<u>-</u>	<u>-</u>	<u>102,263</u>
TOTAL FUND BALANCES	<u>400,539</u>	<u>154,713</u>	<u>370,162</u>	<u>925,414</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 489,885</u>	<u>\$ 155,825</u>	<u>\$ 370,162</u>	<u>\$ 1,015,872</u>

**CITY OF ROCHESTER
NON-MAJOR GOVERNMENTAL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES				
Sales and services	\$ 48,299	\$ -	\$ -	\$ 48,299
Intergovernmental revenue	87,488	-	-	87,488
Taxes	-	400,691	-	400,691
Interest income	15,451	853	15,937	32,241
Miscellaneous	<u>936</u>	<u>2,871</u>	<u>-</u>	<u>3,807</u>
TOTAL REVENUES	<u>152,174</u>	<u>404,415</u>	<u>15,937</u>	<u>572,526</u>
EXPENDITURES				
Administrative	137,867	6,449	-	144,316
Capital outlay	87,488	-	490,000	577,488
Principal and interest	<u>-</u>	<u>1,054,335</u>	<u>-</u>	<u>1,054,335</u>
TOTAL EXPENDITURES	<u>225,355</u>	<u>1,060,784</u>	<u>490,000</u>	<u>1,776,139</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(73,181)	(656,369)	(474,063)	(1,203,613)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	639,434	386,870	1,126,304
Transfers out	<u>-</u>	<u>-</u>	<u>(74)</u>	<u>(74)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	26,819	(16,935)	(87,267)	(77,383)
FUND BALANCE - JULY 1, 2005	<u>373,720</u>	<u>171,648</u>	<u>457,429</u>	<u>1,002,797</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 400,539</u>	<u>\$ 154,713</u>	<u>\$ 370,162</u>	<u>\$ 925,414</u>

**CITY OF ROCHESTER
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	TOTAL NON-MAJOR SPECIAL REVENUE FUNDS
ASSETS				
Cash and investments	\$336,152	\$ 35,952	\$ 27,594	\$ 399,698
Due from other governmental units	-	-	87,488	87,488
Due from other funds	-	-	-	-
Prepaid expenses	<u>2,699</u>	<u>-</u>	<u>-</u>	<u>2,699</u>
TOTAL ASSETS	<u>\$338,851</u>	<u>\$ 35,952</u>	<u>\$ 115,082</u>	<u>\$ 489,885</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,646	\$ -	\$ -	\$ 1,646
Accrued payroll	-	-	-	-
Due to other funds	<u>212</u>	<u>-</u>	<u>87,488</u>	<u>87,700</u>
TOTAL LIABILITIES	<u>1,858</u>	<u>-</u>	<u>87,488</u>	<u>89,346</u>
 FUND BALANCES				
Reserved	298,276	-	-	298,276
Unreserved	<u>38,717</u>	<u>35,952</u>	<u>27,594</u>	<u>102,263</u>
TOTAL FUND BALANCES	<u>336,993</u>	<u>35,952</u>	<u>27,594</u>	<u>400,539</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$338,851</u>	<u>\$ 35,952</u>	<u>\$ 115,082</u>	<u>\$ 489,885</u>

CITY OF ROCHESTER
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT FUND	TOTAL NON-MAJOR SPECIAL REVENUE FUND
REVENUES				
Sales and services	\$ 44,678	\$ 3,621	\$ -	\$ 48,299
Intergovernmental revenue	-	-	87,488	87,488
Interest income	14,082	1,230	139	15,451
Miscellaneous	<u>936</u>	<u>-</u>	<u>-</u>	<u>936</u>
TOTAL REVENUES	<u>59,696</u>	<u>4,851</u>	<u>87,627</u>	<u>152,174</u>
EXPENDITURES				
Administrative	137,867	-	-	137,867
Capital outlay	<u>-</u>	<u>-</u>	<u>87,488</u>	<u>87,488</u>
TOTAL EXPENDITURES	<u>137,867</u>	<u>-</u>	<u>87,488</u>	<u>225,355</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(78,171)	4,851	139	(73,181)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	-	-	100,000
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	21,829	4,851	139	26,819
FUND BALANCE - JULY 1, 2005	<u>315,164</u>	<u>31,101</u>	<u>27,455</u>	<u>373,720</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 336,993</u>	<u>\$ 35,952</u>	<u>\$ 27,594</u>	<u>\$ 400,539</u>

**CITY OF ROCHESTER
NON-MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	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	\$ 15,804	\$ 46,450	\$ 18,548	\$ 15,570	\$ 11,965	\$ 30,609	\$ 138,946
Due from other governmental units	-	6,765	-	-	-	3,299	10,064
Due from other funds	-	5,635	-	-	-	296	5,931
Taxes receivable - net	-	570	-	-	-	314	884
TOTAL ASSETS	<u>\$ 15,804</u>	<u>\$ 59,420</u>	<u>\$ 18,548</u>	<u>\$ 15,570</u>	<u>\$ 11,965</u>	<u>\$ 34,518</u>	<u>\$ 155,825</u>
LIABILITIES							
Due to other funds	\$ -	\$ 747	\$ -	\$ -	\$ -	\$ 365	\$ 1,112
FUND BALANCES							
Reserved	<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>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 15,804</u>	<u>\$ 59,420</u>	<u>\$ 18,548</u>	<u>\$ 15,570</u>	<u>\$ 11,965</u>	<u>\$ 34,518</u>	<u>\$ 155,825</u>

CITY OF ROCHESTER
NON-MAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND
CHANGES IN FUND BALANCE
YEAR END JUNE 30, 2006

		1996	1994	1991	1990	1996	2001	TOTAL
		HIGHWAY	GENERAL	LIMITED	LIMITED	LIMITED	GENERAL	NON-MAJOR
		FUND	OBLIGATION	TAX	TAX	TAX	OBLIGATION	DEBT
		BONDS	BONDS	DEVELOPMENT	DEVELOPMENT	DEVELOPMENT	BONDS	SERVICE
		BONDS	BONDS	BONDS	BONDS	BONDS	BONDS	FUNDS
REVENUES								
Taxes	\$	-	270,618	-	-	-	130,073	\$ 400,691
Interest income		144	364	39	23	16	267	853
Miscellaneous		-	-	-	-	-	2,871	2,871
TOTAL REVENUES		<u>144</u>	<u>270,982</u>	<u>39</u>	<u>23</u>	<u>16</u>	<u>133,211</u>	<u>404,415</u>
EXPENDITURES								
Principal on bonds		75,000	200,000	-	-	420,000	50,000	745,000
Interest on bonds		21,300	99,350	25,000	20,000	75,860	67,825	309,335
Paying agency fees		400	750	750	750	300	300	3,250
Miscellaneous		-	2,339	-	-	-	860	3,199
TOTAL EXPENDITURES		<u>96,700</u>	<u>302,439</u>	<u>25,750</u>	<u>20,750</u>	<u>496,160</u>	<u>118,985</u>	<u>1,060,784</u>
EXCESS (DEFICIENCY) OF REVENUES								
OVER EXPENDITURES		(96,556)	(31,457)	(25,711)	(20,727)	(496,144)	14,226	(656,369)
OTHER FINANCING SOURCES (USES)								
Transfers In		96,774	-	25,750	20,750	496,160	-	639,434
Transfers Out		-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES								
OVER EXPENDITURES		218	(31,457)	39	23	16	14,226	(16,935)
AND OTHER USES								
FUND BALANCE -								
JULY 1, 2005		15,586	90,130	18,509	15,547	11,949	19,927	171,648
FUND BALANCE -								
JUNE 30, 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>

**CITY OF ROCHESTER
NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	FIRE EQUIPMENT RESERVE	1996 CONSTRUCTION FUND	OPC CONSTRUCTION FUND	TOTAL NON-MAJOR CAPITAL PROJECTS FUNDS
ASSETS				
Cash and investments	\$ 370,162	-	-	\$ 370,162
Due from other funds	-	-	-	-
TOTAL ASSETS	<u>\$ 370,162</u>	<u>-</u>	<u>-</u>	<u>\$ 370,162</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	-	-	-	-
Due to other funds	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Reserved	<u>370,162</u>	<u>-</u>	<u>-</u>	<u>370,162</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 370,162</u>	<u>-</u>	<u>-</u>	<u>\$ 370,162</u>

CITY OF ROCHESTER
NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND
CHANGES IN FUND BALANCE
YEAR END JUNE 30, 2006

	FIRE EQUIPMENT RESERVE	1996 CONSTRUCTION FUND	TOTAL NON-MAJOR CAPITAL PROJECTS FUNDS
REVENUES			
Interest income	\$ 15,936	1	\$ 15,937
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>15,936</u>	<u>1</u>	<u>\$ 15,937</u>
EXPENDITURES			
Capital outlay	490,000	-	\$ 490,000
Administration	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>490,000</u>	<u>-</u>	<u>490,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(474,064)</u>	<u>1</u>	<u>(474,063)</u>
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	386,870	-	386,870
Operating Transfers Out	<u>-</u>	<u>(74)</u>	<u>(74)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(87,194)</u>	<u>(73)</u>	<u>(87,267)</u>
UNAPPROPRIATED FUND BALANCE - JULY 1, 2005	<u>457,356</u>	<u>73</u>	<u>457,429</u>
UNAPPROPRIATED FUND BALANCE - JUNE 30, 2006	<u>\$ 370,162</u>	<u>-</u>	<u>\$ 370,162</u>

**CITY OF ROCHESTER
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2006**

**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, 2006, as was the case at June 30, 2005, 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, 2006 was \$58,673. One twelfth of its annual debt service for the upcoming year ending June 30, 2007, would be approximately \$20,450.

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 the Manager 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.

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