

**CITY OF ROCHESTER  
Oakland County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended  
June 30, 2008**



CITY OF ROCHESTER  
For the Year Ended June 30, 2008

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FINANCIAL SECTION



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## Independent Auditor's Report

November 4, 2008

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rochester's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in cursive script that reads "Post Smythe Lutz and Ziel of Plymouth".

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



## Management's Discussion and Analysis

As management of the City of Rochester, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended June 30, 2008.

### Financial Highlights

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$64,349,241 (*net assets*). Of this amount, \$20,252,399 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,525,711.
- At the close of the most recent fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$17,571,335. Of this amount, \$16,741,199 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,377,489, or 80 percent of total general fund expenditures.
- The City of Rochester's total debt decreased by \$852,180 (13 percent) during the current fiscal year as a result of annual debt payments made.

### Overview of the Financial Statements

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

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

### Government-wide financial statements.

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

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

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

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

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

### **Fund financial statements.**

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

### **Governmental funds.**

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

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

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

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

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

***Proprietary funds.***

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

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

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

***Fiduciary funds.***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Rochester's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Notes to the financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-43 of this report.

## Government-wide Financial Analysis

Assets exceeded liabilities by \$64,349,241 at the close of the most recent fiscal year. Of the City of Rochester's net assets, 50 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Rochester's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	Current and other assets	\$ 21,298,862	\$ 19,429,127	\$ 13,558,593	\$ 13,345,557	\$ 34,857,455
Capital Assets	26,134,562	24,157,312	11,609,891	10,999,056	37,744,453	35,156,368
Total Assets	47,433,424	43,586,439	25,168,484	24,344,613	72,601,908	67,931,052
Long-term liabilities	5,853,984	5,852,768	-	-	5,853,984	5,852,768
Other liabilities	1,419,711	1,815,781	978,972	438,973	2,398,683	2,254,754
Total Liabilities	7,273,695	7,668,549	978,972	438,973	8,252,667	8,107,522
Net Assets:						
Invested in capital assets, net of related debt	20,606,112	24,157,312	11,609,891	10,999,056	32,216,003	35,156,368
Restricted	830,136	1,131,410	11,050,703	11,042,195	11,880,839	12,173,605
Unrestricted	18,723,481	10,629,168	1,528,918	1,864,389	20,252,399	12,493,557
Total Net Assets	\$ 40,159,729	\$ 35,917,890	\$ 24,189,512	\$ 23,905,640	\$ 64,349,241	\$ 59,823,530

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

Net assets increased by \$4,525,711 during the current fiscal year.

City of Rochester - Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,680,061	\$ 697,314	\$ 3,195,518	\$ 3,274,724	\$ 5,875,579	\$ 3,972,038
Operating Grants & Contrib.	683,990	715,515	-	-	683,990	715,515
Capital Grants & Contrib.	4,898	482,574	34,100	-	38,998	482,574
General Revenues:						
Property Taxes	11,339,232	11,726,330	-	-	11,339,232	11,726,330
State Shared Revenues	841,726	872,945	-	-	841,726	872,945
Franchise Fees	173,515	122,716	-	-	173,515	122,716
Miscellaneous	-	95,262	-	-	-	95,262
Unrestricted Invest. Earnings	992,769	1,178,383	480,419	605,215	1,473,188	1,783,598
Total Revenues	16,716,191	15,891,039	3,710,037	3,879,939	20,426,228	19,770,978
Expenses:						
General Government	1,789,615	1,545,968	-	-	1,789,615	1,545,968
Public Safety	3,826,669	3,728,349	-	-	3,826,669	3,728,349
Public Works	3,706,880	3,875,351	-	-	3,706,880	3,875,351
Community Development	1,427,300	1,387,645	-	-	1,427,300	1,387,645
Recreation and Cultural	1,440,314	1,243,291	-	-	1,440,314	1,243,291
Interest on Long-Term Debt	283,574	323,243	-	-	283,574	323,243
Automobile Parking System	-	-	183,395	31,255	183,395	31,255
Water and Sewer	-	-	3,242,770	2,872,808	3,242,770	2,872,808
Total Expenses	12,474,352	12,103,847	3,426,165	2,904,063	15,900,517	15,007,910
Transfers	-	363,680	-	(363,680)	-	-
Change in Net Assets	\$ 4,241,839	\$ 4,150,872	\$ 283,872	\$ 612,196	\$ 4,525,711	\$ 4,763,068

Key elements of this net asset increase include the repaving of roads, expansion of the Community House building, and the purchase of a Special Unit Response Truck for the fire department without incurring additional debt to pay for it.

**Governmental activities**

Governmental activities increased net assets by \$4,241,839.

**Business-type activities**

Business-type activities increased net assets by \$283,872.

**Financial Analysis of the Government's Funds**

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

**Governmental funds.**

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

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$17,571,335, all of which constitutes *unreserved fund balance*, which is available for spending at the government's discretion. Total governmental fund balances increased \$1,395,276 for the 2007-2008 fiscal year.

The General Fund is the chief operating fund of the City of Rochester. At the end of the current fiscal year, the total fund balance of the general fund was \$6,377,489, all of which is unreserved. General Fund fund balance represents 80 percent of total general fund expenditures.

The fund balance of the City's General Fund increased by \$1,294,891 during the fiscal year.

**Proprietary funds.**

The City of Rochester's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Proprietary funds at the end of the year amounted to \$1,528,918.

## **General Fund Budgetary Highlights**

There was a \$412,790 increase between the original budget and the final amended budget total in revenues and a total \$447,095 decrease in expenditures.

## **Capital Asset and Debt Administration**

### **Capital assets.**

The City of Rochester's investment in capital assets for its governmental and business type activities is \$37,744,453 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, machinery and equipment, and roads. The increase in the City of Rochester's investment in capital assets for the current fiscal year was an 8 percent increase for governmental activities, and a 6 percent increase in business-type activities.

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

- University Street Reconstruction
- Community House Renovation Phase II
- Fire Special Response Unit Truck
- Other Street Repaving Projects

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

### **Long-term debt.**

At the end of the current fiscal year, the City of Rochester had total bond and contract debt outstanding of \$5,528,450, which is all in the governmental activities. The City of Rochester's total bond and land contract debt decreased by \$856,165 (13 percent) during the current fiscal year. This is a result of debt principal payments made during the year.

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

## **Economic Factors and Next Year's Budgets and Rates**

As has been the case since the year 2000, Michigan's economy has lagged behind the nation's economy in some key regards. The situation for the major domestic automakers that make their home in the Metro Detroit region is worrisome and housing values are declining and foreclosures are increasing. The City will continue to budget State revenue sharing cautiously. The City is anticipating state shared revenue to remain the same or even decrease next year.

As part of a balanced budget that the City has adopted for fiscal year 2008-2009, the City reduced the property tax millage rates by .90 mills or approximately 7% for next year. Also, the taxable value has decreased by approximately 2% for fiscal year 2008-2009.

## **Requests for Information**

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

BASIC FINANCIAL STATEMENTS



**CITY OF ROCHESTER**  
**Statement of Net Assets**  
**June 30, 2008**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 20,190,430	\$ 1,523,819	\$ 21,714,249
Receivables (net of allowance for uncollectibles):			
Accounts	228,450	648,332	876,782
Taxes	45,775	-	45,775
Special Assessments	383,561	-	383,561
Due from Other Funds	302,095	85,714	387,809
Due from Other Governmental Units	139,162	-	139,162
Inventory	9,389	48,050	57,439
Restricted Assets - Cash and Cash Equivalents	-	11,252,678	11,252,678
Capital Assets (Net of Accumulated Depreciation)	26,134,562	11,609,891	37,744,453
Total Assets	<u>47,433,424</u>	<u>25,168,484</u>	<u>72,601,908</u>
 <b><u>LIABILITIES</u></b>			
Accounts Payable	709,873	578,403	1,288,276
Accrued Liabilities	220,272	6,900	227,172
Due to Other Funds	120,080	267,729	387,809
Due to Other Governmental Units	16,441	-	16,441
Other	353,045	41,300	394,345
Liabilities Payable from Restricted Assets	-	84,640	84,640
Noncurrent Liabilities:			
Due within one year	849,062	-	849,062
Due in more than one year	5,004,922	-	5,004,922
Total Liabilities	<u>7,273,695</u>	<u>978,972</u>	<u>8,252,667</u>
 <b><u>NET ASSETS</u></b>			
Invested in Capital Assets, net of related debt	20,606,112	11,609,891	32,216,003
Restricted for:			
Special Revenue	315,950	-	315,950
Debt Service	184,845	-	184,845
Capital Projects	329,341	-	329,341
Water and Sewer	-	11,050,703	11,050,703
Unrestricted	18,723,481	1,528,918	20,252,399
Total Net Assets	<u>\$ 40,159,729</u>	<u>\$ 24,189,512</u>	<u>\$ 64,349,241</u>

**CITY OF ROCHESTER**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 1,789,615	\$ 1,194,920	\$ 21,637	\$ 4,898
Public Safety	3,826,669	513,396	4,554	-
Community Development	1,427,300	212,439	-	-
Public Works	3,706,880	668,215	657,799	-
Recreation and Cultural	1,440,314	91,091	-	-
Interest on Long-Term Debt	283,574	-	-	-
Total Governmental Activities	<u>12,474,352</u>	<u>2,680,061</u>	<u>683,990</u>	<u>4,898</u>
Business-type Activities:				
Water and Sewer	3,242,770	3,096,640	-	34,100
Automobile parking system	183,395	98,878	-	-
Total Business-type Activities	<u>3,426,165</u>	<u>3,195,518</u>	<u>-</u>	<u>34,100</u>
Grand Total	<u>\$ 15,900,517</u>	<u>\$ 5,875,579</u>	<u>\$ 683,990</u>	<u>\$ 38,998</u>

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

Change in Net Assets  
Net Assets - Beginning

Net Assets - Ending

**Net (Expense) Revenue and Changes in Net Assets**

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (568,160)	\$ -	\$ (568,160)
(3,308,719)	-	(3,308,719)
(1,214,861)	-	(1,214,861)
(2,380,866)	-	(2,380,866)
(1,349,223)	-	(1,349,223)
(283,574)	-	(283,574)
<u>(9,105,403)</u>	<u>-</u>	<u>(9,105,403)</u>
-	(112,030)	(112,030)
-	(84,517)	(84,517)
<u>-</u>	<u>(196,547)</u>	<u>(196,547)</u>
<u>(9,105,403)</u>	<u>(196,547)</u>	<u>(9,301,950)</u>
11,339,232	-	11,339,232
841,726	-	841,726
173,515	-	173,515
992,769	480,419	1,473,188
<u>13,347,242</u>	<u>480,419</u>	<u>13,827,661</u>
4,241,839	283,872	4,525,711
<u>35,917,890</u>	<u>23,905,640</u>	<u>59,823,530</u>
<u>\$ 40,159,729</u>	<u>\$ 24,189,512</u>	<u>\$ 64,349,241</u>

**CITY OF ROCHESTER**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Downtown Development Authority</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 6,914,381	\$ 1,786,313	\$ 902,294	\$ 2,519,872
Receivables (net of allowance for uncollectibles):				
Accounts	211,329	1,993	740	-
Taxes	32,838	-	-	12,721
Special Assessments	-	-	126,312	257,249
Due from Other Funds	4	267,729	33,301	-
Due from Other Governmental Units	-	95,455	43,707	-
Total Assets	<u>\$ 7,158,552</u>	<u>\$ 2,151,490</u>	<u>\$ 1,106,354</u>	<u>\$ 2,789,842</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts Payable	\$ 251,588	\$ 305,910	\$ 79,572	\$ 27,634
Accrued and Other Liabilities	178,984	2,686	3,117	20,808
Due to Other Funds	-	-	85,714	33,301
Due to Other Governmental Units	-	-	-	16,441
Deferred Revenue	55,748	-	126,180	257,249
Other	294,743	-	-	58,302
Total Liabilities	<u>781,063</u>	<u>308,596</u>	<u>294,583</u>	<u>413,735</u>
Fund Balances:				
Reserved:				
Capital Projects	-	-	-	-
Debt Service	-	-	-	-
Other	-	-	-	-
Unreserved:				
General Fund	6,377,489	-	-	-
Special Revenue Funds	-	1,842,894	811,771	2,376,107
Capital Project Funds	-	-	-	-
Total Fund Balances	<u>6,377,489</u>	<u>1,842,894</u>	<u>811,771</u>	<u>2,376,107</u>
Total Liabilities and Fund Balances	<u>\$ 7,158,552</u>	<u>\$ 2,151,490</u>	<u>\$ 1,106,354</u>	<u>\$ 2,789,842</u>

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

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

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

Governmental funds defer recognition of revenue.

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

Net Assets of Governmental Activities

<u>Capital Projects General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 5,211,012	\$ 970,310	\$ 18,304,182
9,660	965	224,687
-	216	45,775
-	-	383,561
-	1,061	302,095
-	-	139,162
<u>\$ 5,220,672</u>	<u>\$ 972,552</u>	<u>\$ 19,399,462</u>

\$ 6,205	\$ 10,428	\$ 681,337
10,600	1,852	218,047
-	1,065	120,080
-	-	16,441
-	-	439,177
-	-	353,045
<u>16,805</u>	<u>13,345</u>	<u>1,828,127</u>

-	329,341	329,341
10,000	174,845	184,845
-	315,950	315,950
-	-	6,377,489
-	139,071	5,169,843
5,193,867	-	5,193,867
<u>5,203,867</u>	<u>959,207</u>	<u>17,571,335</u>
<u>\$ 5,220,672</u>	<u>\$ 972,552</u>	

24,121,073

3,882,128  
439,177

(5,853,984)  
\$ 40,159,729

**CITY OF ROCHESTER**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Downtown Development Authority</u>
<b>Revenues</b>				
Property Taxes	\$ 8,724,220	\$ -	\$ -	\$ 2,184,705
Licenses and Permits	99,845	-	-	-
Intergovernmental:				
Federal, State and Local	1,073,428	463,901	193,898	-
Charges for Services	873,425	-	-	169,173
Franchise Fees	173,515	-	-	-
Fines and Forfeitures	106,656	-	-	-
Special Assessments	-	-	34,797	236,246
Interest	446,509	76,266	40,924	109,375
Other	188,626	2,047	3,217	20,251
Total Revenues	<u>11,686,224</u>	<u>542,214</u>	<u>272,836</u>	<u>2,719,750</u>
<b>Expenditures</b>				
Current:				
General Government	1,516,849	-	-	-
Public Safety	3,575,929	-	-	-
Community Development	45,407	-	-	1,244,870
Public Works	1,718,460	233,424	341,021	-
Recreation and Cultural	1,143,188	-	-	-
Other	-	-	-	-
Debt Service:				
Principal	-	-	-	51,165
Interest and Other Charges	-	-	-	43,704
Capital Outlay	-	738,568	899,040	686,646
Total Expenditures	<u>7,999,833</u>	<u>971,992</u>	<u>1,240,061</u>	<u>2,026,385</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,686,391</u>	<u>(429,778)</u>	<u>(967,225)</u>	<u>693,365</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	380,500	1,067,000	-
Transfers Out	(2,391,500)	(89,725)	-	(538,370)
Total Other Financing Sources (Uses)	<u>(2,391,500)</u>	<u>290,775</u>	<u>1,067,000</u>	<u>(538,370)</u>
Net Change in Fund Balances	1,294,891	(139,003)	99,775	154,995
Fund Balances - Beginning	<u>5,082,598</u>	<u>1,981,897</u>	<u>711,996</u>	<u>2,221,112</u>
Fund Balances - Ending	<u>\$ 6,377,489</u>	<u>\$ 1,842,894</u>	<u>\$ 811,771</u>	<u>\$ 2,376,107</u>

	<b>Capital Projects General</b>	<b>Other Governmental</b>	<b>Total Governmental</b>
\$	-	\$ 430,307	\$ 11,339,232
	-	-	99,845
	-	-	1,731,227
	-	55,395	1,097,993
	-	-	173,515
	-	-	106,656
	-	-	271,043
	208,343	37,739	919,156
	8,814	14,718	237,673
	<u>217,157</u>	<u>538,159</u>	<u>15,976,340</u>
	167,014	-	1,683,863
	-	8,210	3,584,139
	-	-	1,290,277
	-	-	2,292,905
	-	148,946	1,292,134
	-	28	28
	-	805,000	856,165
	-	239,870	283,574
	614,721	359,004	3,297,979
	<u>781,735</u>	<u>1,561,058</u>	<u>14,581,064</u>
	<u>(564,578)</u>	<u>(1,022,899)</u>	<u>1,395,276</u>
	831,500	740,595	3,019,595
	-	-	(3,019,595)
	<u>831,500</u>	<u>740,595</u>	<u>-</u>
	266,922	(282,304)	1,395,276
	<u>4,936,945</u>	<u>1,241,511</u>	<u>16,176,059</u>
\$	<u><u>5,203,867</u></u>	<u><u>959,207</u></u>	<u><u>17,571,335</u></u>

**CITY OF ROCHESTER**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2008**

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

Net change in fund balances - total governmental funds	\$ 1,395,276
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	2,052,889
Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue(loss) of certain activities of internal service funds is reported with governmental activities.	154,726
Revenue reported in the statement of activities that does not provide current financial resources and is reported as deferred revenue in the governmental funds.	(213,232)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	852,180
Change in net assets in governmental activities	\$ 4,241,839

**CITY OF ROCHESTER**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	
<b><u>ASSETS</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,396,748	\$ 127,071	\$ 1,523,819	\$ 1,886,248
Accounts Receivable	648,332	-	648,332	3,763
Due from Other Funds	85,714	-	85,714	-
Inventory	47,550	500	48,050	9,389
Total Current Assets	<u>2,178,344</u>	<u>127,571</u>	<u>2,305,915</u>	<u>1,899,400</u>
Restricted Assets - Cash	<u>11,252,678</u>	<u>-</u>	<u>11,252,678</u>	<u>-</u>
Capital Assets	16,220,428	571,327	16,791,755	3,852,924
Less: Accumulated Depreciation	(4,953,486)	(228,378)	(5,181,864)	(1,839,435)
Net Capital Assets	<u>11,266,942</u>	<u>342,949</u>	<u>11,609,891</u>	<u>2,013,489</u>
Total Assets	<u>\$ 24,697,964</u>	<u>\$ 470,520</u>	<u>\$ 25,168,484</u>	<u>\$ 3,912,889</u>
<b><u>LIABILITIES AND EQUITY</u></b>				
Current Liabilities (Payable from Current Assets):				
Accounts Payable	\$ 577,264	\$ 1,139	\$ 578,403	\$ 28,536
Accrued Liabilities	6,784	116	6,900	2,225
Due to Other Funds	267,729	-	267,729	-
Deposits	41,300	-	41,300	-
Total Current Liabilities (Payable from Current Assets)	<u>893,077</u>	<u>1,255</u>	<u>894,332</u>	<u>30,761</u>
Current Liabilities (Payable from Restricted Assets)	<u>84,640</u>	<u>-</u>	<u>84,640</u>	<u>-</u>
Equity:				
Invested in Capital Assets, Net of Related Debt Restricted for Replacement	11,266,942	342,949	11,609,891	2,013,489
Restricted for Improvements	55,608	-	55,608	-
Unrestricted	10,995,095	-	10,995,095	-
Total Equity	<u>1,402,602</u>	<u>126,316</u>	<u>1,528,918</u>	<u>1,868,639</u>
Total Liabilities and Equity	<u>\$ 24,697,964</u>	<u>\$ 470,520</u>	<u>\$ 25,168,484</u>	<u>\$ 3,912,889</u>

**CITY OF ROCHESTER**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**Proprietary Funds**  
**For the Year Ended June 30, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	
<b><u>Operating Revenues:</u></b>				
Water Sales	\$ 1,518,987	\$ -	\$ 1,518,987	\$ -
Sewage Disposal Fees	1,534,608	-	1,534,608	-
Charges for Services	37,853	98,699	136,552	846,066
Miscellaneous	5,192	179	5,371	33,403
Total Operating Revenues	<u>3,096,640</u>	<u>98,878</u>	<u>3,195,518</u>	<u>879,469</u>
<b><u>Operating Expenses:</u></b>				
Water Distribution	1,265,288	-	1,265,288	-
Sewage Collection and Disposal	1,284,051	-	1,284,051	-
Administrative	364,821	114,900	479,721	169,388
Operation and Maintenance	16,910	68,495	85,405	427,214
Depreciation	311,700	-	311,700	201,754
Total Operating Expenses	<u>3,242,770</u>	<u>183,395</u>	<u>3,426,165</u>	<u>798,356</u>
Operating Income (Loss)	<u>(146,130)</u>	<u>(84,517)</u>	<u>(230,647)</u>	<u>81,113</u>
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Interest Earned	<u>471,773</u>	<u>8,646</u>	<u>480,419</u>	<u>73,613</u>
Income (Loss) before Contributions	325,643	(75,871)	249,772	154,726
Capital Contributions	<u>34,100</u>	<u>-</u>	<u>34,100</u>	<u>-</u>
Net Income	359,743	(75,871)	283,872	154,726
Fund Equity, Beginning	<u>23,360,504</u>	<u>545,136</u>	<u>23,905,640</u>	<u>3,727,402</u>
Fund Equity, Ending	<u>\$ 23,720,247</u>	<u>\$ 469,265</u>	<u>\$ 24,189,512</u>	<u>\$ 3,882,128</u>

**CITY OF ROCHESTER**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer System</u>	<u>Automobile Parking System</u>	<u>Total</u>	<u>Activities Internal Service Fund</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers and users	\$ 3,365,350	\$ 103,056	\$ 3,468,406	\$ 979,851
Payments to suppliers	(2,336,233)	(158,034)	(2,494,267)	(467,365)
Payments to employees	(237,809)	(24,697)	(262,506)	(101,146)
Net Cash Provided (Used) by Operating Activities	<u>791,308</u>	<u>(79,675)</u>	<u>711,633</u>	<u>411,340</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>				
Refundable Deposits	<u>3,200</u>	<u>-</u>	<u>3,200</u>	<u>-</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Capital Contributions	34,100	-	34,100	-
Acquisition and Construction of Capital Assets	(922,535)	-	(922,535)	(126,115)
Principal Paid on Capital Debt	-	-	-	-
Interest Paid on Capital Debt	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(888,435)</u>	<u>-</u>	<u>(888,435)</u>	<u>(126,115)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest Earned	<u>471,773</u>	<u>8,646</u>	<u>480,419</u>	<u>73,613</u>
Net Increase (Decrease) in Cash and Cash Equivalents	377,846	(71,029)	306,817	358,838
Cash and Cash Equivalents, Beginning	<u>12,271,580</u>	<u>198,100</u>	<u>12,469,680</u>	<u>1,527,410</u>
Cash and Cash Equivalents, Ending	<u>\$ 12,649,426</u>	<u>\$ 127,071</u>	<u>\$ 12,776,497</u>	<u>\$ 1,886,248</u>
<b><u>Balance Sheet Classifications:</u></b>				
Cash and Cash Equivalents	\$ 1,396,748	\$ 127,071	\$ 1,523,819	\$ 1,886,248
Restricted Assets - Cash and Cash Equivalents	11,252,678	-	11,252,678	-
Total	<u>\$ 12,649,426</u>	<u>\$ 127,071</u>	<u>\$ 12,776,497</u>	<u>\$ 1,886,248</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>				
Operating Income (Loss)	\$ (146,130)	\$ (84,517)	\$ (230,647)	\$ 81,113
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense	311,700	-	311,700	201,754
(Increase) Decrease in Receivables	86,695	4,178	90,873	100,382
(Increase) Decrease in Due from Other Funds	(85,714)	-	(85,714)	-
(Increase) Decrease in Prepaid Expenses	88,622	-	88,622	12,519
Increase (Decrease) in Accounts Payable	261,622	548	262,170	13,347
Increase (Decrease) in Accrued Liabilities	6,784	116	6,900	2,225
Increase (Decrease) in Due to Other Funds	267,729	-	267,729	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 791,308</u>	<u>\$ (79,675)</u>	<u>\$ 711,633</u>	<u>\$ 411,340</u>

**CITY OF ROCHESTER**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2008**

	Pension Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 128,323	\$ 323,033
 <b>LIABILITIES</b>		
Due to Other	-	323,033
 <b>NET ASSETS</b> Held in Trust For Employees'		
Retirement Benefits	\$ 128,323	\$ -

**CITY OF ROCHESTER**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2008**

	<b>Pension Trust Fund</b>
<b>Additions</b>	
Contributions - Employer	\$ 7,739
<b>Investment Income</b>	
Interest	4,534
<b>Total Additions</b>	12,273
 <b>Deductions</b>	
Employee Benefits	-
Change in Net Assets	12,273
Net Assets - Beginning	116,050
Net Assets - Ending	\$ 128,323



CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

Governmental Funds

The City reports the following major governmental funds:

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

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

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

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

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

In addition, the City reports on the following fund types:

Proprietary Funds

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

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

Additionally, the City reports the following fund types:

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

Fiduciary Funds

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

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

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

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

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

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

*Estimates*

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

2. Receivables and Payables

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

2. Receivables and Payables – Continued

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

3. Inventory

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

4. Capital Assets

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

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

5. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2008 is \$325,534.

6. Long Term Obligations

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

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

7. Fund Equity

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$5,853,984 difference are as follows:

General Obligation Bonds	\$ 4,620,000
Land Contracts Payable	908,450
Compensated Absences Payable	<u>325,534</u>
	<u>\$ 5,853,984</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 2,052,889 difference are as follows:

Capital Outlay	\$ 3,297,979
Depreciation Expense	<u>(1,245,090)</u>
	<u>\$ 2,052,889</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$852,180 difference are as follows:

Principal Repayments:	
Bonds and Land Contracts	\$ 856,165
Increase in Compensated Absences	<u>(3,985)</u>
	<u>\$ 852,180</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

1. On or before the first Monday in April, the City Manager submits to the Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an activity basis within the General Fund and on a total fund basis in other governmental funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than the second Monday in May, the budget is legally enacted through adoption of a resolution in accordance with the Michigan Uniform Accounting and Budgeting Act.
4. The City Manager is authorized by the Council to transfer budgeted amounts within appropriations. However, any revisions that alter the total appropriation must be approved by the City Council.
5. Appropriations for the fiscal year lapse every June 30. Council may re-appropriate any amount at its discretion.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2008 several budget amendments were made and are reflected in the financial statements.

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – Continued

B. Compliance with P.A. 621 of 1978

Excess of Expenditures Over Appropriations in Budgetary Funds

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

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Civic Center	\$83,340	\$84,080	\$ 740
General Services	363,000	372,792	9,792
Fire	403,380	409,692	6,312
Planning Commission	44,575	44,874	299
Public Works	936,410	955,164	18,754
Major Street Fund:			
Routine Maintenance	87,300	88,898	1,598
Winter Maintenance	53,500	84,031	30,531
Local Street Fund:			
Winter Maintenance	56,450	114,338	57,888

C. Public Act 245 of 1999 Compliance

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

The cumulative amounts as of June 30, 2008 are as follows:

Cumulative Balance at June 30, 2007	\$ (208,832)
Fees Collected in Fiscal Year 2008	71,006
Expenditures in Fiscal Year 2008	<u>(248,720)</u>
Revenues Over (Under) Expenditures	<u>\$ (386,546)</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Custodial Credit Risk. In the event of a bank failure, the City's deposits may not be recovered. The City's does not have an investment policy for custodial credit risk. As of June 30, 2008, the City's book balance of its deposits was \$33,417,758; the total book balance was \$33,418,283, due to \$525 in cash on hand. The bank balance was \$33,048,305 which was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 1,189,486
Government Sponsored Entities	7,564,379
Uninsured and Uncollateralized	<u>22,660,394</u>
Total	<u>\$ 33,048,305</u>

A reconciliation of cash is as follows:

Statement of Net Assets	
Cash and Cash Equivalents	\$ 21,714,249
Restricted Cash	11,252,678
Fiduciary Funds:	
Trust & Agency Funds	<u>451,356</u>
Total	<u>\$ 33,418,283</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

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

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Certificates of Deposit	\$ 7,100,000	114 days
Federal Home Loan Banks	3,566,546	1.69 years
Federal Farm Credit Banks	2,039,447	1.81 years
Treasury Notes	1,634,046	1.01 years
FNMA	1,008,565	.54 years
FHLMC	949,821	1.59 years
Bank Investment Pools	16,482,134	Demand
Savings and Checking Accounts	<u>267,746</u>	Demand
	<u>\$ 33,048,305</u>	

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

<u>Investments</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Government Agencies	\$ 9,198,425	AAA	S&P
MBIA Gov. Investment Pool	2,225,051	AAA/V1+	Fitch
Bank Investment Pools	14,257,083	Not Rated	

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

<u>U.S. Government Agencies:</u>	
Federal Home Loan Banks	10.8%
Federal Farm Credit Banks	6.2%

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 3,656,450	\$ -	\$ -	\$ 3,656,450
Construction In Progress	340,660	-	(340,660)	-
	<u>3,997,110</u>	<u>-</u>	<u>(340,660)</u>	<u>3,656,450</u>
Capital Assets, being depreciated:				
Buildings and Improvements	3,625,072	550,000	-	4,175,072
Improvements-Non Building	902,979	64,721	-	967,700
Machinery and Equipment	1,982,235	359,004	-	2,341,239
Infrastructure	21,915,705	2,664,914	-	24,580,619
Internal Service Fund	3,759,517	126,115	(32,708)	3,852,924
	<u>32,185,508</u>	<u>3,764,754</u>	<u>(32,708)</u>	<u>35,917,554</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(1,028,439)	(95,928)	-	(1,124,367)
Improvements-Non Building	(282,066)	(25,727)	-	(307,793)
Machinery and Equipment	(991,768)	(130,120)	-	(1,121,888)
Infrastructure	(8,052,644)	(993,315)	-	(9,045,959)
Internal Service Fund	(1,670,389)	(201,754)	32,708	(1,839,435)
	<u>(12,025,306)</u>	<u>(1,446,844)</u>	<u>32,708</u>	<u>(13,439,442)</u>
Governmental Activities				
Capital Assets, net	<u>\$ 24,157,312</u>	<u>\$ 2,317,910</u>	<u>\$ (340,660)</u>	<u>\$ 26,134,562</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

B. Capital Assets – Continued

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 363,253	\$ -	\$ -	\$ 363,253
Capital Assets, being depreciated:				
Sewage Disposal System	8,458,870	318,211	-	8,777,081
Water Distribution System	6,763,382	604,324	-	7,367,706
Improvements Parking Lots	166,609	-	-	166,609
Parking Meters	59,776	-	-	59,776
Other Equipment	57,330	-	-	57,330
	<u>15,505,967</u>	<u>922,535</u>	<u>-</u>	<u>16,428,502</u>
Less: Accumulated Depreciation:				
Sewage Disposal System	(2,106,587)	(160,498)	-	(2,267,085)
Water Distribution System	(2,493,183)	(148,866)	-	(2,642,049)
Improvements Parking Lots	(166,609)	-	-	(166,609)
Parking Meters	(59,776)	-	-	(59,776)
Other Equipment	(44,009)	(2,336)	-	(46,345)
	<u>(4,870,164)</u>	<u>(311,700)</u>	<u>-</u>	<u>(5,181,864)</u>
Business-type Activities				
Capital Assets, net	<u>\$ 10,999,056</u>	<u>\$ 610,835</u>	<u>\$ -</u>	<u>\$ 11,609,891</u>

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

General Government	\$ 65,466
Public Safety	133,356
Public Works	843,755
Community Development	137,023
Recreation and Cultural	65,490
Charged though Internal Service Funds	201,754
	<u>\$ 1,446,844</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2008 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Street Fund	Water & Sewer Fund	\$ 267,729
Local Street Fund	DDA	33,301
General Fund	1994 GO Debt	4
1996 Highway Debt	1994 GO Debt	159
2001 GO Debt	1994 GO Debt	750
1994 GO Debt	1996 Highway Debt	152
Water & Sewer Fund	Local Street Fund	85,714
		<u>\$ 387,809</u>

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

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Major Street Fund	General Fund	\$ 378,000
Major Street Fund	DDA	2,500
Local Street Fund	General Fund	1,067,000
Cemetery	General Fund	100,000
1996 Highway Debt	Major Street Fund	89,725
1990 DDA Debt	DDA	20,750
1991 DDA Debt	DDA	25,750
1996 DDA Debt	DDA	489,370
Capital Projects Fund	General Fund	831,500
Fire Equipment Reserve	General Fund	15,000
		<u>\$ 3,019,595</u>

Transfers represent the following:

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

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

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

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

D. Restricted Assets and Reserves

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

The following is the detail of the business-type activities restricted assets on June 30, 2008:

Improvement and Replacement Account \$ 11,252,678

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Balance</u> <u>Within 1 Year</u>
Governmental Activities:					
1994 Unlimited Tax Bonds maturing through 10-1-2013, interest 4%-5%	\$ 1,900,000	\$ -	\$ (200,000)	\$ 1,700,000	\$ 200,000
1990 Limited Tax Bonds maturing through 10-1-2010, interest at 5%-7%	400,000	-	-	400,000	-
1991 Limited Tax Bonds maturing through 10-1-2009, interest at 5%	500,000	-	-	500,000	-
1996 Michigan Transportation Fund Bonds maturing through 10-1-2010, interest 4.9%-5.1%	325,000	-	(75,000)	250,000	75,000
1996 Unlimited Tax Bonds maturing through 10-1-2008, interest at 5.1%	900,000	-	(455,000)	445,000	445,000
2001 Unlimited Tax Bonds maturing through 4-1-2020, interest 4%-5%	1,400,000	-	(75,000)	1,325,000	75,000
Land Contracts Payable due 4-1-2025, interest at 4.5%	903,761		(33,920)	869,841	35,478
Land Contracts Payable due August 2010, interest at 7.5%	55,854	-	(17,245)	38,609	18,584
	<u>6,384,615</u>	<u>-</u>	<u>(856,165)</u>	<u>5,528,450</u>	<u>849,062</u>
Compensated Absences	321,549	3,985	-	325,534	-
	<u>\$ 6,706,164</u>	<u>\$ 3,985</u>	<u>\$ (856,165)</u>	<u>\$ 5,853,984</u>	<u>\$ 849,062</u>

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Long-Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2008:

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2008 are as follows:

Year Ended	Governmental Activities	
	Principal	Interest
2009	\$ 849,062	\$ 238,169
2010	907,133	194,535
2011	938,813	148,907
2012	415,596	117,499
2013	442,461	100,059
2014-2018	1,093,420	320,380
2019-2023	754,712	110,088
2024-2028	127,253	5,680
	\$ 5,528,450	\$ 1,235,317

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2007 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	12.4964
Voted Sewer Debt	.4000
Older Persons Comm.	.2440
Older Persons Comm. Debt	.1900
Total	13.3304 mills

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system. The plan covers all full time employees except the City Manager. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2007.

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

b. Funding Policy

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

c. Annual Pension Cost

During the fiscal year ended June 30, 2008, the City's contributions totaling \$270,158 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2007.

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost

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

<u>Three Year Trend Information</u>				
<u>Fiscal Year</u> Ended <u>June 30,</u>	<u>Valuation</u> Date <u>Dec. 31</u>	<u>Annual</u> Pension <u>Cost (APC)</u>	<u>Percentage</u> of APC <u>Contributed</u>	<u>Net</u> Pension <u>Obligation</u>
2006	2004	\$238,884	100%	-0-
2007	2005	295,035	100%	-0-
2008	2006	270,158	100%	-0-

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

2. Firefighters Defined Benefit Plan

a. Plan Description

The City of Rochester has established a defined benefit plan as of July 1, 1989 for the Rochester Volunteer Firefighters Association. The plan provides for a defined benefit of \$3.00 per month for each year of service with a maximum of thirty-five years of service. The amount was increased to \$4.00 per month effective January 2008. The plan provides for vesting of benefits after 10 years of service. All volunteer firefighters that have attained eighteen years of age and completed the required training and 1000 hours of service are eligible to participate. Entry date is July 1<sup>st</sup> following satisfaction of the above requirements. Participants may elect normal retirement on the first day of the month following attainment of age 55. The City's contribution for the year ended June 30, 2008 was \$7,739 in accordance with contribution requirements determined by an actuarial valuation of the plan as of July 1, 2006. The Rochester Volunteer Firefighters Defined Benefit Plan (the Plan) is considered part of the City of Rochester financial reporting entity and is included in the City's financial reports as a Pension Trust Fund.

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

2. Rochester Fire Department Defined Benefit Plan – Continued

b. Annual Pension Cost

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

Schedule of Employer Contributions

Fiscal Year Ended <u>June 30</u>	Valuation Date <u>July 1</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	2004	\$ 9,581	100%	-0-
2007	2005	9,676	100%	-0-
2008	2006	7,739	100%	-0-

3. City of Rochester – Defined Contribution Plan

a. Plan Description

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

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The City Manager, if not covered by MERS, is eligible to participate in the plan. Contributions made by the City for an employee vest immediately. During the year, the City's required and actual contributions amounted to \$12,102.

CITY OF ROCHESTER  
Notes to Financial Statements  
June 30, 2008

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

The City provides post retirement health care insurance coverage to all non-union employees and their spouses, the Department of Public Works union employees and the police union employees who retire from the City. They are provided with 4% of the cost of single and/or spouse coverage premiums for each year of employment. Currently 12 retirees are receiving benefits. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total premiums were \$151,637 for the year ended June 30, 2008. Additionally, the City transferred \$203,062 to MERS for irrevocable funding of future post-employment benefits.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement requires recognizing the cost of retiree health care, as well as any other post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

C. Risk Management

The City of Rochester is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Rochester and the pools to which it belongs in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF ROCHESTER  
Required Supplementary Information – (Unaudited)  
Defined Benefit Pension Plans – Trend Information  
For the Year Ended June 30, 2008

Municipal Employees Retirement System  
Schedule of Funding Progress

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

Additional information as of December 31, 2007, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 12.90%
Includes inflation at 4.5%	
Cost of living adjustments	None

Rochester Volunteer Firefighters Retirement System  
Schedule of Funding Progress

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

Additional information as of July 1, 2007, the latest actual valuation, follows:

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



**CITY OF ROCHESTER**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
General Property Taxes	\$ 8,694,400	\$ 8,731,000	\$ 8,724,220	\$ (6,780)
Licenses and Permits	104,000	106,800	99,845	(6,955)
Intergovernmental - State and Local	1,054,000	1,064,000	1,073,428	9,428
Charges for Services	830,150	869,800	873,425	3,625
Franchise Fees	110,000	173,500	173,515	15
Fines	60,000	99,000	106,656	7,656
Interest	250,000	400,000	446,509	46,509
Reimbursements	11,960	78,000	85,596	7,596
Other Revenues	55,000	60,200	103,030	42,830
Total Revenues	<u>11,169,510</u>	<u>11,582,300</u>	<u>11,686,224</u>	<u>103,924</u>
<b>Expenditures:</b>				
General Government:				
City Council	76,930	76,930	76,702	228
City Manager	425,280	397,460	386,984	10,476
Elections	22,000	26,850	26,780	70
Finance	503,190	472,220	461,744	10,476
City Clerk	107,590	105,780	104,942	838
Board of Review	2,750	2,875	2,825	50
Civic Center	77,740	83,340	84,080	(740)
Other General Services	333,400	363,000	372,792	(9,792)
Total General Government	<u>1,548,880</u>	<u>1,528,455</u>	<u>1,516,849</u>	<u>11,606</u>
Public Safety:				
Police	3,152,720	2,953,630	2,917,517	36,113
Fire	379,750	403,380	409,692	(6,312)
Protective Inspections	343,610	257,630	248,720	8,910
Total Public Safety	<u>3,876,080</u>	<u>3,614,640</u>	<u>3,575,929</u>	<u>38,711</u>
Community Development:				
Planning Commission	38,050	44,575	44,874	(299)
Zoning Board of Appeals	5,300	550	533	17
Total Community Development	<u>43,350</u>	<u>45,125</u>	<u>45,407</u>	<u>(282)</u>
Public Works:				
Department of Public Works	1,108,470	936,410	955,164	(18,754)
Sanitation	792,100	792,100	763,296	28,804
Total Public Works	<u>1,900,570</u>	<u>1,728,510</u>	<u>1,718,460</u>	<u>10,050</u>
Recreation and Cultural:				
Parks and Recreation	571,380	575,825	553,580	22,245
Library	525,000	526,140	526,140	-
Older Persons Commission	64,000	63,470	63,468	2
Total Recreation and Cultural	<u>1,160,380</u>	<u>1,165,435</u>	<u>1,143,188</u>	<u>22,247</u>
Total Expenditures	<u>8,529,260</u>	<u>8,082,165</u>	<u>7,999,833</u>	<u>82,332</u>
Excess (Deficiency) of Revenues Over Expenditures	2,640,250	3,500,135	3,686,391	186,256
Other Financing Uses:				
Operating Transfers Out	<u>(2,391,500)</u>	<u>(2,391,500)</u>	<u>(2,391,500)</u>	<u>-</u>
Change in Fund Balance	<u>\$ 248,750</u>	<u>\$ 1,108,635</u>	1,294,891	<u>\$ 186,256</u>
Fund Balance - July 1			5,082,598	
Fund Balance - June 30			<u>\$ 6,377,489</u>	

**CITY OF ROCHESTER**  
**Major Streets Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 446,300	\$ 446,300	\$ 463,901	\$ 17,601
Interest	80,000	80,000	76,266	(3,734)
Other	340	340	2,047	1,707
Total Revenues	<u>526,640</u>	<u>526,640</u>	<u>542,214</u>	<u>15,574</u>
Expenditures:				
Highways and Streets:				
General Administration	37,310	37,310	33,387	3,923
Routine Maintenance	87,300	87,300	88,898	(1,598)
Street Construction	627,000	1,127,000	738,568	388,432
Traffic Services	36,700	36,700	27,108	9,592
Winter Maintenance	53,500	53,500	84,031	(30,531)
Total Expenditures	<u>841,810</u>	<u>1,341,810</u>	<u>971,992</u>	<u>369,818</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(315,170)</u>	<u>(815,170)</u>	<u>(429,778)</u>	<u>385,392</u>
Other Financing Sources (Uses):				
Operating Transfers In	380,500	380,500	380,500	-
Operating Transfers Out	(90,330)	(90,330)	(89,725)	605
Total Other Financing Sources (Uses)	<u>290,170</u>	<u>290,170</u>	<u>290,775</u>	<u>605</u>
Net Change in Fund Balance	(25,000)	(525,000)	(139,003)	385,997
Fund Balance - July 1	<u>1,981,897</u>	<u>1,981,897</u>	<u>1,981,897</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 1,956,897</u>	<u>\$ 1,456,897</u>	<u>\$ 1,842,894</u>	<u>\$ 385,997</u>

**CITY OF ROCHESTER**  
**Local Streets Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State	\$ 185,000	\$ 185,000	\$ 193,898	\$ 8,898
Special Assessments	60,000	60,000	34,797	(25,203)
Interest	5,000	5,000	40,924	35,924
Other	500	500	3,217	2,717
Total Revenues	<u>250,500</u>	<u>250,500</u>	<u>272,836</u>	<u>22,336</u>
Expenditures:				
Highways and Streets:				
General Administration	59,750	59,750	53,985	5,765
Routine Maintenance	176,400	176,400	166,199	10,201
Street Construction	1,005,000	1,005,000	899,040	105,960
Traffic Services	19,900	19,900	6,499	13,401
Winter Maintenance	56,450	56,450	114,338	(57,888)
Total Expenditures	<u>1,317,500</u>	<u>1,317,500</u>	<u>1,240,061</u>	<u>77,439</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,067,000)</u>	<u>(1,067,000)</u>	<u>(967,225)</u>	<u>99,775</u>
Other Financing Sources (Uses):				
Operating Transfers In	<u>1,067,000</u>	<u>1,067,000</u>	<u>1,067,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,067,000</u>	<u>1,067,000</u>	<u>1,067,000</u>	<u>-</u>
Net Change in Fund Balance	-	-	99,775	99,775
Fund Balance - July 1	<u>711,996</u>	<u>711,996</u>	<u>711,996</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 711,996</u>	<u>\$ 711,996</u>	<u>\$ 811,771</u>	<u>\$ 99,775</u>

**CITY OF ROCHESTER**  
**Downtown Development Authority Fund**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$ 2,032,920	\$ 2,032,920	\$ 2,184,705	\$ 151,785
Special Assessments	250,000	250,000	236,246	(13,754)
Charges for Services	144,200	144,200	169,173	24,973
Interest	75,000	75,000	109,375	34,375
Other	100	100	20,251	20,151
Total Revenues	<u>2,502,220</u>	<u>2,502,220</u>	<u>2,719,750</u>	<u>217,530</u>
<b>Expenditures:</b>				
Community Development:				
Downtown Development	899,190	899,190	895,345	3,845
Promotions	366,200	366,200	349,525	16,675
Debt Service:				
Principal	51,165	51,165	51,165	-
Interest	43,785	43,785	43,704	81
Capital Outlay	690,000	690,000	686,646	3,354
Total Expenditures	<u>2,050,340</u>	<u>2,050,340</u>	<u>2,026,385</u>	<u>23,955</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>451,880</u>	<u>451,880</u>	<u>693,365</u>	<u>241,485</u>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers Out	<u>(539,570)</u>	<u>(539,570)</u>	<u>(538,370)</u>	<u>1,200</u>
Total Other Financing Sources (Uses)	<u>(539,570)</u>	<u>(539,570)</u>	<u>(538,370)</u>	<u>1,200</u>
Net Change in Fund Balance	(87,690)	(87,690)	154,995	242,685
Fund Balance - July 1	<u>2,221,112</u>	<u>2,221,112</u>	<u>2,221,112</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 2,133,422</u>	<u>\$ 2,133,422</u>	<u>\$ 2,376,107</u>	<u>\$ 242,685</u>

OTHER SUPPLEMENTARY INFORMATION

**CITY OF ROCHESTER**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects Fire Equipment Reserve</u>	<u>Total Nonmajor Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 466,336	\$ 174,633	\$ 329,341	\$ 970,310
Accounts Receivable	965	-	-	965
Taxes Receivable	-	216	-	216
Due from Other Funds	-	1,061	-	1,061
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>467,301</u>	\$ <u>175,910</u>	\$ <u>329,341</u>	\$ <u>972,552</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 10,428	\$ -	\$ -	\$ 10,428
Accrued Liabilities	1,852	-	-	1,852
Due to Other Funds	-	1,065	-	1,065
Total Liabilities	<hr/> 12,280	<hr/> 1,065	<hr/> -	<hr/> 13,345
Fund Balance:				
Reserved for :				
Capital Projects	-	-	329,341	329,341
Debt Service	-	174,845	-	174,845
Cemetery	315,950	-	-	315,950
Unreserved	139,071	-	-	139,071
Total Fund Balance	<hr/> 455,021	<hr/> 174,845	<hr/> 329,341	<hr/> 959,207
Total Liabilities and Fund Balance	\$ <u>467,301</u>	\$ <u>175,910</u>	\$ <u>329,341</u>	\$ <u>972,552</u>

**CITY OF ROCHESTER**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects Fire Equipment Reserve</u>	<u>Total Nonmajor Governmental Funds</u>
<b><u>Revenues:</u></b>				
Property Taxes	\$ -	\$ 430,307	\$ -	\$ 430,307
Charges for Services	55,395	-	-	55,395
Interest	19,013	724	18,002	37,739
Other	14,718	-	-	14,718
Total Revenues	<u>89,126</u>	<u>431,031</u>	<u>18,002</u>	<u>538,159</u>
<b><u>Expenditures:</u></b>				
Public Safety	8,210	-	-	8,210
Recreation and Cultural	148,946	-	-	148,946
Other	-	28	-	28
Debt Service:				
Principal	-	805,000	-	805,000
Interest and Other Charges	-	239,870	-	239,870
Capital Outlay	-	-	359,004	359,004
Total Expenditures	<u>157,156</u>	<u>1,044,898</u>	<u>359,004</u>	<u>1,561,058</u>
Excess (Deficiency) of Revenues Over Expenditures	(68,030)	(613,867)	(341,002)	(1,022,899)
Other Financing Sources:				
Operating Transfers In	<u>100,000</u>	<u>625,595</u>	<u>15,000</u>	<u>740,595</u>
Change in Fund Balances	31,970	11,728	(326,002)	(282,304)
Fund Balances - July 1	<u>423,051</u>	<u>163,117</u>	<u>655,343</u>	<u>1,241,511</u>
Fund Balances - June 30	<u>\$ 455,021</u>	<u>\$ 174,845</u>	<u>\$ 329,341</u>	<u>\$ 959,207</u>

**CITY OF ROCHESTER**  
**Nonmajor Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2008**

	<u>Cemetery</u>	<u>Drug Law Enforcement</u>	<u>Community Development Block Grant</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash	\$ 390,297	\$ 48,211	\$ 27,828	\$ 466,336
Accounts Receivable	965	-	-	965
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>391,262</u>	\$ <u>48,211</u>	\$ <u>27,828</u>	\$ <u>467,301</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 10,428	\$ -	\$ -	\$ 10,428
Accrued Liabilities	1,852	-	-	1,852
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	12,280	-	-	12,280
Fund Balance:				
Reserved for Cemetery	315,950	-	-	315,950
Unreserved	63,032	48,211	27,828	139,071
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balance	378,982	48,211	27,828	455,021
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ <u>391,262</u>	\$ <u>48,211</u>	\$ <u>27,828</u>	\$ <u>467,301</u>

**CITY OF ROCHESTER**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	<u>Cemetery</u>	<u>Drug Law Enforcement</u>	<u>Community Development Block Grant</u>	<u>Total</u>
<b><u>Revenues:</u></b>				
Charges for Services	\$ 55,395	\$ -	\$ -	\$ 55,395
Interest Earned	17,125	1,805	83	19,013
Other	371	14,347	-	14,718
	<u>72,891</u>	<u>16,152</u>	<u>83</u>	<u>89,126</u>
Total Revenues				
<b><u>Expenditures:</u></b>				
Public Safety	-	8,210	-	8,210
Recreation and Cultural	148,946	-	-	148,946
	<u>148,946</u>	<u>8,210</u>	<u>-</u>	<u>157,156</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenditures	<u>(76,055)</u>	<u>7,942</u>	<u>83</u>	<u>(68,030)</u>
Other Financing Sources (Uses):				
Transfers In	100,000	-	-	100,000
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Net Change in Fund Balance	23,945	7,942	83	31,970
Fund Balance - July 1	<u>355,037</u>	<u>40,269</u>	<u>27,745</u>	<u>423,051</u>
Fund Balance - June 30	<u>\$ 378,982</u>	<u>\$ 48,211</u>	<u>\$ 27,828</u>	<u>\$ 455,021</u>

**CITY OF ROCHESTER**  
**Nonmajor Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2008**

	<u>1994 General Obligation Bonds</u>	<u>1996 Highway Fund Bonds</u>	<u>1990 DDA Limited Tax Bonds</u>	<u>1991 DDA Limited Tax Bonds</u>
<b><u>ASSETS</u></b>				
Cash	\$ 59,581	\$ 15,455	\$ 14,889	\$ 17,892
Taxes Receivable	128	-	-	-
Due from Other Funds	<u>152</u>	<u>159</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 59,861</u>	<u>\$ 15,614</u>	<u>\$ 14,889</u>	<u>\$ 17,892</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Due to Other Funds	\$ 913	\$ 152	\$ -	\$ -
Fund Balance:				
Reserved For Debt Service	<u>58,948</u>	<u>15,462</u>	<u>14,889</u>	<u>17,892</u>
Total Liabilities and Fund Balance	<u>\$ 59,861</u>	<u>\$ 15,614</u>	<u>\$ 14,889</u>	<u>\$ 17,892</u>

<u>1996 DDA Limited Tax Bonds</u>	<u>2001 General Obligation Bonds</u>	<u>Total</u>
\$ 11,722	\$ 55,094	\$ 174,633
-	88	216
-	750	1,061
\$ 11,722	\$ 55,932	\$ 175,910
\$ -	\$ -	\$ 1,065
11,722	55,932	174,845
\$ 11,722	\$ 55,932	\$ 175,910

**CITY OF ROCHESTER**  
**Nonmajor Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**For the Year Ended June 30, 2008**

	<b><u>1994</u></b> <b><u>General</u></b> <b><u>Obligation</u></b> <b><u>Bonds</u></b>	<b><u>1996</u></b> <b><u>Highway</u></b> <b><u>Fund</u></b> <b><u>Bonds</u></b>	<b><u>1990 DDA</u></b> <b><u>Limited Tax</u></b> <b><u>Bonds</u></b>	<b><u>1991 DDA</u></b> <b><u>Limited Tax</u></b> <b><u>Bonds</u></b>
<b><u>Revenues:</u></b>				
Property Taxes	\$ 291,745	\$ -	\$ -	\$ -
Interest Earned	288	27	45	54
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	292,033	27	45	54
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>Expenditures:</u></b>				
Principal Retirement	200,000	75,000	-	-
Interest	80,150	14,325	20,000	25,000
Paying Agent Fees	750	400	750	750
Other	19	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	280,919	89,725	20,750	25,750
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	11,114	(89,698)	(20,705)	(25,696)
Other Financing Sources:				
Transfers In	-	89,725	20,750	25,750
	<hr/>	<hr/>	<hr/>	<hr/>
Change in Fund Balances	11,114	27	45	54
Fund Balance - July 1	47,834	15,435	14,844	17,838
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - June 30	\$ 58,948	\$ 15,462	\$ 14,889	\$ 17,892
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<u>1996 DDA Limited Tax Bonds</u>	<u>2001 General Obligation Bonds</u>	<u>Total</u>
\$ -	\$ 138,562	\$ 430,307
25	285	724
<u>25</u>	<u>138,847</u>	<u>431,031</u>
455,000	75,000	805,000
34,070	63,075	236,620
300	300	3,250
-	9	28
<u>489,370</u>	<u>138,384</u>	<u>1,044,898</u>
(489,345)	463	(613,867)
<u>489,370</u>	<u>-</u>	<u>625,595</u>
25	463	11,728
<u>11,697</u>	<u>55,469</u>	<u>163,117</u>
<u>\$ 11,722</u>	<u>\$ 55,932</u>	<u>\$ 174,845</u>

