

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 		Printed Name		License Number

City of Rochester Hills, Michigan

**Comprehensive Annual Financial Report
with Supplemental Information
for the Year Ended December 31, 2007**

COMPREHENSIVE **A**NNUAL **F**INANCIAL **R**EPORT

**OF THE CITY OF ROCHESTER HILLS
OAKLAND COUNTY, MICHIGAN**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

ELECTED **O**FFICIALS

MAYOR

BRYAN BARNETT

COUNCIL PRESIDENT

GREG HOOPER

COUNCIL VICE-PRESIDENT

MARTIN BRENNAN

COUNCIL MEMBERS

ERIK AMBROZAITIS

VERN PIXLEY

JAMES ROSEN

MICHAEL WEBBER

RAVI YALAMANCHI

PREPARED BY: ACCOUNTING DIVISION

City of Rochester Hills, Michigan

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Introductory Section

April 11, 2008

To the City Council Members
and Residents
City of Rochester Hills, Michigan

We are pleased to submit the Comprehensive Annual Financial Report of the City of Rochester Hills (the "City") for the year ended December 31, 2007, in accordance with state law and the City Charter. This report was prepared by the Accounting Division and consists of management representation disclosing the City's financial condition to the elected officials, the residents, and other interested parties. Responsibility for the accuracy, completeness, and fairness of the financial data, including all disclosures, rests with the administration and management of the City of Rochester Hills. To the best of our knowledge and belief, the contents of this Comprehensive Annual Financial Report (CAFR) and the information presented are accurate in all material aspects, and are presented in a manner that fairly presents the financial position of the City.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussions and analysis (MD&A). This letter of transmittal is intended to be read in conjunction and complement the MD&A.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section of the CAFR includes this transmittal letter, the City's organizational chart, a list of City administration, and the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended December 31, 2006 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report, management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information, including individual fund statements and schedules for the City's nonmajor and fiduciary funds.

Statistical Section - The statistical section includes selected financial, tax, and demographic information that covers a period of 10 years.

Profile of Government - The City of Rochester Hills was incorporated in 1984 and operates under the mayoral-council form of government. The mayor and seven members of the City Council are elected to four-year staggered terms. Four of the council members are elected as district representatives and three members are elected as at-large representatives.

The approximate population of the City is over 69,000 and comprises an area of 32.2 square miles. The City employs approximately 240 full-time employees and 59 contracted law enforcement officers. The City provides a full range of municipal services for the public's health, safety, welfare, and quality of life. City services include general administration, fire protection, contracted police protection, planning and zoning, engineering, building and code enforcement, cemetery operations and maintenance, park operations and maintenance, street construction and maintenance, storm drain improvements, and pedestrian pathway maintenance.

Water and sewer operations, maintenance, and capital improvements are provided from user charges that ensure adequate coverage of operating expenses, capital replacements, and payments on outstanding debt.

Local Economy - The City of Rochester Hills is a desirable community and continues to attract new residents and businesses. The economic condition of the City is fiscally sound and stable. The City has one of the lowest tax rates compared to other communities in Oakland County. The future, however, is filled with economic uncertainty, challenges, and new opportunities.

Revenue projections continue to be challenging due to the reduction in the State of Michigan's state-shared revenue program. The City's state revenue sharing increased by \$20,269, or less than 1 percent, from the prior year with a total decline since 2001 of over \$1.2 million, or 21.9 percent. Due to the decrease in state-shared revenue, the City continues to be challenged in maintaining current levels of operating expenses.

The local economic base of the City of Rochester Hills possesses a diversified property tax base where residential housing comprises 75 percent of the tax base, commercial 14 percent, industrial 6 percent, and personal property (business equipment, furniture, and machinery) 5 percent. No one taxpayer exceeds 1 percent of the tax roll and the top 10 payers combined account for less than 6 percent of the total. The following table illustrates the specific diversity of the City's tax base:

Single-family homes	18,529 homes
Condominiums	3,834 units
Low-income/senior citizen (11 buildings)	1,415 units
Rental apartments (16 complexes)	4,590 units
Mobile home parks (2 locations)	1,392 sites
Shopping centers	42 centers
Hotel/Motels (2 buildings)	236 rooms
Office space	103 buildings
Commercial	348 buildings
Light industrial	388 buildings

The principal source of revenue to fund the City's operations is property tax. The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's current tax base, including the LDFA district, which will be the basis for property tax revenue for the fiscal year 2007 budget:

<u>By Class</u>	<u>Taxable Value</u>	<u>Percent</u>
Real property	\$3,521,848,730	94%
Personal property	<u>205,537,880</u>	<u>6%</u>
Total	<u>\$3,727,386,610</u>	<u>100%</u>

<u>By Use</u>		
Residential	\$2,801,498,910	75%
Commercial	510,999,610	14%
Industrial	209,350,210	6%
Personal property	<u>205,537,880</u>	<u>5%</u>
Total	<u>\$3,727,386,610</u>	<u>100%</u>

Major Initiatives

Local Roads - Local road funding continues to be a concern for the City. Due to the lack of funds and a local road program, the City Council and administration will continue to work to develop a long-term road funding policy that will address future local road needs. In 2007, road improvements consisted of concrete slab replacements and the rehabilitation of subdivision roads.

Special Police - The City will be looking to ensure a stable revenue stream to provide efficient, effective, and ethical policing services to maintain a safe community. In 2007, the General Fund made a substantial transfer of \$2.7 million for police services.

Capital Improvement Plan - In accordance with State of Michigan Planning Act 285, the Rochester Hills Planning Commission adopts a Capital Improvement Plan (CIP). The CIP is an exceptional tool that benefits our community and is meant to consider the immediate and future needs and goals of the City of Rochester Hills. The plan incorporates external infrastructure projects to address drainage, major and local roads, parks, pathways, water and sewer infrastructure, and city-owned facilities. The plan also includes internal infrastructure projects necessary to continue government operations that deliver services to our residents, professional services needed for future planning, and projects that involve acquisition of new equipment.

The City of Rochester Hills Planning Commission adopted the 2008-2013 Capital Improvement Plan. Currently, the commission is reviewing the 2009-2014 plan for the 2009 budget process. Significant capital projects include:

- Drain extensions
- Pedestrian pathway rehabilitation and construction
- Major road construction
- Water and sewer extensions
- Park improvements and development

Long-term Financial Planning - The City will continue to improve and build upon its long-term process. In 1995, the City developed a five-year financial model that continues to be a valuable tool for the City. As part of the budgeting process, the fiscal division updates the long-range forecasts of revenue and expenditures. The forecasts serve as the framework for budgetary decision-making by clarifying financial parameters and available options. The model provides historical data, current financial capacity given existing City programs, and future financial capacity, given our long-range plans and objectives.

The City has adopted the following financial policies to guide the process for long-term financial planning and decision-making:

Debt Policy - Subject to applicable provisions of state statutes and the City Charter, the City Council, by ordinance or proper resolution, may authorize the borrowing of money for any purpose. The City's general obligation bonded debt issuances are subject to a legal limitation based on 10 percent of taxable value of real and personal property. In addition, under current state statutes, the City's special assessment bond debt issuances are subject to a legal limitation based on 12 percent of taxable value of real and personal property.

Investment Policy - Funds of the City will be invested in accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended. The City has an investment policy that identifies the following objectives, procedures, and policies: safety of capital, liquidity, return on investment, protection of purchasing power, and maintaining the public's trust.

The City has a cash management system designed to invest temporarily idle funds in obligations of the U.S. government, certificates of deposits from banks and savings and loan associations, commercial paper, bankers' acceptances, and municipal investment pooled trusts, consistent with Public Act 20 as permitted by state law and the City's investment policy. All cash and investments are maintained in the City's name and insured when possible, and delivery versus payment is the preferred safekeeping technique. Collateralized cash and investments are of primary importance to the City. Under current state banking law, bank deposits are not permitted to be collateralized. The City exercises caution when making bank deposits above FDIC insurance levels.

Risk Management - The City is self-insured for comprehensive general liability, motor vehicle damage, comprehensive property and crime damage, and public official liability through the Michigan Municipal Risk Management Authority (MMRMA). The City participates in the MMRMA Stop Loss Program that limits the City's cumulative self-insurance payments, including damages, indemnification, and allocated loss adjustment expenses within a July 1 through June 30 policy year. The City's current stop loss point is \$413,000. The City is self-insured for the first \$150,000 and has a maximum limit of coverage of \$15,000,000 per occurrence.

The City participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims. The City is proactive in various risk control techniques to help control losses. These techniques include employee accident prevention training, defensive driving programs, and safety training programs.

Pension and Postemployment Benefits - The City provides pension benefits for substantially all full-time employees, members of the City Council, and paid on-call firefighters, through a defined contribution plan. Under a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings on contributions. The City makes monthly contributions to the plan and the plan is fully funded.

The City has established a retiree health benefit program, which is comprised of a health savings plan and a supplemental benefit. Full-time employees who have completed their probation period are eligible for the health benefit plan. The City contributes to the health savings plan on a monthly basis and the plan is fully funded. The expenditures for the postemployment health care costs for employees participating in the supplemental benefit plan are paid as the costs are incurred.

Awards - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rochester Hills for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2006. This was the 19th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements - The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated staff of the accounting division. Also, the cooperation and assistance of every department in the City have been invaluable. We thank all of them for their efforts.

We also express our sincere appreciation to the accounting firm of Plante & Moran, PLLC, which made a substantial contribution and assisted with the interpretation, guidance, review, and preparation of this document. Appreciation is also acknowledged to the City Council members for their ongoing interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

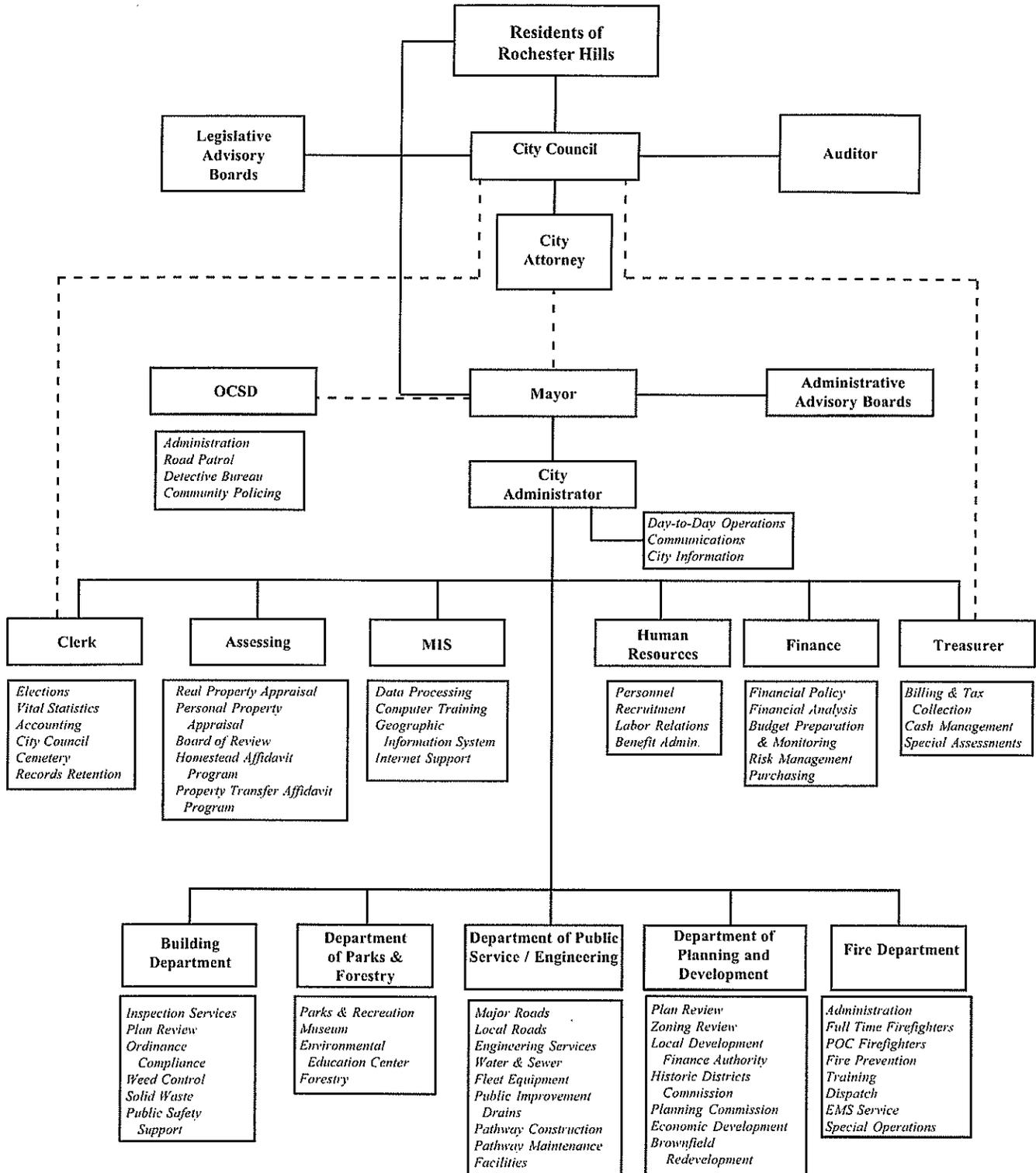


Pamela Lee
City Accountant



Jane Leslie
City Clerk

Functional City-Wide Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester Hills
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

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



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

**CITY OF ROCHESTER HILLS
OAKLAND COUNTY, MICHIGAN**

CITY ADMINISTRATION

ED ANZEK

DIRECTOR OF PLANNING

SCOTT COPE

DIRECTOR OF BUILDING

RONALD CROWELL

FIRE CHIEF

KURT DAWSON

DIRECTOR OF ASSESSING/CITY TREASURER

BOB GRACE

DIRECTOR OF MANAGEMENT INFORMATION SERVICES

MICHAEL HARTNER

DIRECTOR OF PARKS & FORESTRY

JULIE JENUWINE

FINANCE DIRECTOR

PAMELA M. LEE

DIRECTOR OF HUMAN RESOURCES

PAMELA S. LEE

CITY ACCOUNTANT

JANE LESLIE

CITY CLERK

ROGER ROUSSE

DIRECTOR OF PUBLIC SERVICES



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills, Michigan (the "City") as of and for the year ended December 31, 2007, 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 Hills, Michigan'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 addition, all portions of the audit were conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for Rochester-Avon Recreation Authority (R.A.R.A.).

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills, Michigan as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester Hills, Michigan's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2008 on our consideration of the City of Rochester Hills, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

April 11, 2008

City of Rochester Hills, Michigan

Management's Discussion and Analysis

The City of Rochester Hills, Michigan's (the "City") management's discussion and analysis (MD&A) is a narrative overview of the City's financial activities and performance for the fiscal year ended December 31, 2007. Please read it in conjunction with the City's financial statements and notes to the financial statements.

Government-wide Statements

The MD&A is followed by the City's basic financial statements, which are comprised of two sections. The first two statements, entitled government-wide statement of net assets followed by the government-wide statement of activities, are financial statements that represent the City as a whole and provide a long-term perspective regarding the City's overall financial status. The statement of net assets includes all of the City's assets and liabilities as described in Notes 5 and 7, respectively, to the financial statements. The difference between the City's assets and liabilities is "net assets," which is a way to measure the financial health of the City as it fluctuates from one year to the next. The statement of activities reports all of the current year's earned revenue and accrued expenses, regardless of when cash is received or paid and represents the change in net assets from one year to the next.

The City's activities are separated into three categories: governmental and business-type activities, which represent the City's total financial performance, followed by the component unit financial information.

- The governmental activities column reports the City's basic services, including general administration, fire, police, department of public works, and parks and recreation.
- Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's water and sewer system is the only business-type activity reported.
- The City has six discretely presented component units included in this report as follows: Local Development Finance Authority, Economic Development Corporation, Automation Alley SmartZone Authority, Brownfield Redevelopment Authority, Rochester-Avon Recreation Authority, and the Older Persons' Commission. Although legally separate, these component units are important because the City is financially accountable. Further information regarding the purpose of each component unit is found in Note I to the financial statements.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The City's fund financial statements are similar to the historical presentation; however, this section individually discloses only those funds designated as the City's "major" funds. All nonmajor funds are aggregated into one column. These statements provide a higher level of detail than the government-wide statements and continue to illustrate how the services provided by the City were financed in the short term as well as what remains for future spending. The City has three types of funds that are used to keep track of specific sources of funding and spending for particular purposes as follows:

- **Governmental Funds** - The majority of the City's basic services included in the governmental funds not only focus on how cash and other financial assets that can readily be converted to cash flow in and out, but also what year-end balances are available to finance future City programs. Because this information does not include the additional long-term focus of the government-wide statements, reconciliation statements are provided to explain the differences between the two methods of reporting. Pages 17 and 20 illustrate this concept.
- **Proprietary Funds** - Services for which the City charges customers fees are reported in this fund type. This fund type provides both the short- and long-term financial information comparable to the business-type activity in the government-wide statements.

The City uses two types of proprietary funds. The Water and Sewer Fund is an Enterprise Fund, which typically charges residents usage fees and accounts for the cost of operations. The other proprietary fund type is Internal Service Funds, of which the City has four, which are used to report activities that provide services to other City funds and activities, typically covered by charges to other City departments. Individual financial statements are presented for each fund in the section entitled "other supplemental information." The activity of the Internal Service Funds is eliminated in the government-wide statements to avoid duplicate reporting of revenues and expenses.

- **Fiduciary Funds** - The City is responsible for ensuring the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. Fiduciary activities are excluded from the City's government-wide statements because these assets are not available to finance City operations.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

Statement of Net Assets - The City's combined net assets increased 4.9 percent, or \$15.1 million, from \$310.4 million in 2006 to \$325.5 million in 2007. Of this increase, \$12.6 million, or 83.4 percent, is attributed to governmental activities. The primary increase is attributed to the governmental activities' unrestricted net assets of \$26.8 million, which increased by \$6.2 million, or 30.1 percent. Business-type net assets increased by \$2.6 million between 2006 and 2007 to \$128.2 million. The primary increase is attributed to the investment in capital assets, which represents the construction of a new facility.

The City's assets totaled \$418.6 million, up by \$11.1 million, an increase of 2.7 percent from 2006. This relates primarily to an increase in unrestricted net assets, an increase in capital assets in the business-type activity and donated right of way and infrastructure in the governmental activities in 2007.

The City's total liabilities decreased \$4.0 million, or 4.1 percent, to \$93.1 million in 2007. This relates primarily to the reduction of bonded debt obligations in the governmental activities of \$4.7 million.

In condensed format, the table below shows the comparison of net assets (in millions) as of December 31, 2007 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 125.6	\$ 120.0	\$ 18.2	\$ 24.0	\$ 143.8	\$ 144.0
Long-term receivables	0.5	0.6	1.3	1.2	1.8	1.8
Restricted assets	0.2	0.2	1.3	1.9	1.5	2.1
Capital assets	<u>156.5</u>	<u>154.2</u>	<u>115.0</u>	<u>105.4</u>	<u>271.5</u>	<u>259.6</u>
Total assets	282.8	275.0	135.8	132.5	418.6	407.5
Liabilities						
Current liabilities	40.2	38.1	3.8	3.2	44.0	41.3
Long-term liabilities	<u>45.3</u>	<u>52.1</u>	<u>3.8</u>	<u>3.7</u>	<u>49.1</u>	<u>55.8</u>
Total liabilities	<u>85.5</u>	<u>90.2</u>	<u>7.6</u>	<u>6.9</u>	<u>93.1</u>	<u>97.1</u>
Net Assets						
Invested in capital assets -						
Net of related debt	120.9	114.3	112.8	103.7	233.7	218.0
Restricted	49.6	49.9	-	-	49.6	49.9
Unrestricted	<u>26.8</u>	<u>20.6</u>	<u>15.4</u>	<u>21.9</u>	<u>42.2</u>	<u>42.5</u>
Total net assets	<u>\$ 197.3</u>	<u>\$ 184.8</u>	<u>\$ 128.2</u>	<u>\$ 125.6</u>	<u>\$ 325.5</u>	<u>\$ 310.4</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

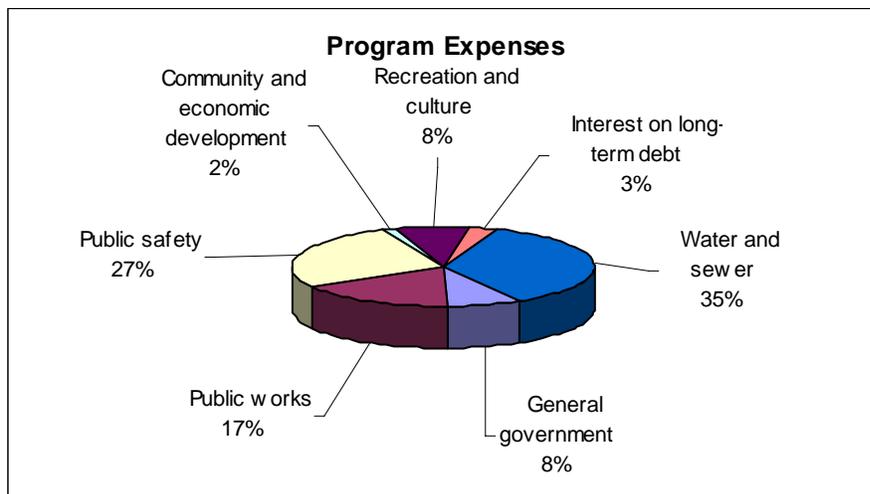
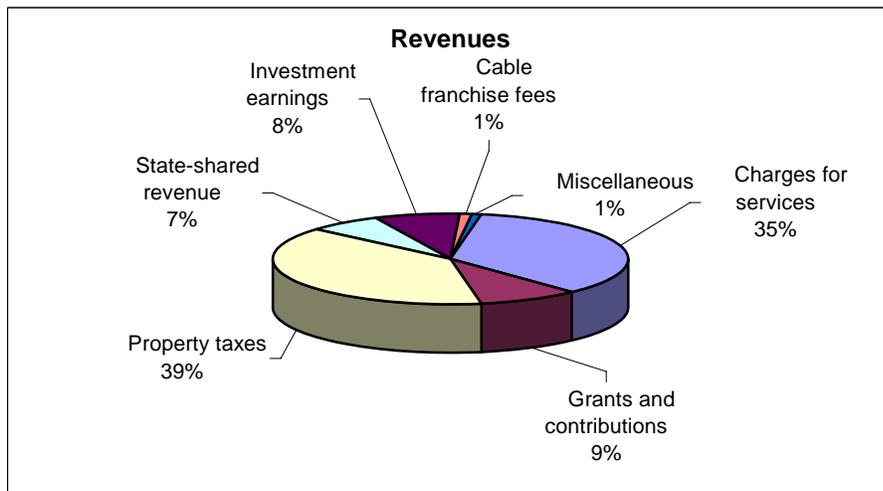
Changes in Net Assets - The City's total net assets increased by \$15.1 million during the fiscal year ended December 31, 2007. The table below shows the comparison of changes in net assets (in millions) to the prior year:

	Governmental		Business-type		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 4.5	\$ 4.8	\$ 24.4	\$ 21.3	\$ 28.9	\$ 26.1
Operating grants and contributions	4.7	4.7	-	-	4.7	4.7
Capital grants and contributions	1.6	2.5	1.2	3.8	2.8	6.3
General revenue:						
Property taxes	31.9	30.0	-	-	31.9	30.0
State-shared revenue	5.4	5.3	-	-	5.4	5.3
Investment earnings	5.6	4.9	0.9	0.9	6.5	5.8
Cable franchise fees	0.9	1.0	-	-	0.9	1.0
Miscellaneous	0.6	0.7	-	0.1	0.6	0.8
Total revenue	55.2	53.9	26.5	26.1	81.7	80.0
Program Expenses						
General government	5.2	6.3	-	-	5.2	6.3
Public works	11.5	10.1	-	-	11.5	10.1
Public safety	17.7	16.7	-	-	17.7	16.7
Community and economic development	1.2	1.2	-	-	1.2	1.2
Recreation and culture	5.1	4.7	-	-	5.1	4.7
Interest on long-term debt	2.0	2.2	-	-	2.0	2.2
Water and sewer	-	-	24.0	22.7	24.0	22.7
Total program expenses	42.7	41.2	24.0	22.7	66.7	63.9
Change in Net Assets Before Extraordinary Item	12.5	12.7	2.5	3.4	15.0	16.1
Extraordinary Item - Consent judgment	-	(2.4)	-	-	-	(2.4)
Change in Net Assets	12.5	10.3	2.5	3.4	15.0	13.7
Net Assets - Beginning of year	184.8	174.5	125.6	122.2	310.4	296.7
Net Assets - End of year	<u>\$ 197.3</u>	<u>\$ 184.8</u>	<u>\$ 128.1</u>	<u>\$ 125.6</u>	<u>\$ 325.4</u>	<u>\$ 310.4</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

The City's governmental activity revenue exceeded annual expenses by \$12.5 million, resulting in an increase in net assets as of December 31, 2007 to \$197.3 million. Business-type activity revenue exceeded annual expenses by \$2.6 million, resulting in an increase in net assets to \$128.2 million. The following graphs illustrate the primary sources of revenue and expenses for the total primary government of the City of Rochester Hills for the year ended December 31, 2007:



City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Of the City's total revenue generated for fiscal year 2007, property tax comprises the largest segment, \$31.9 million. Property tax revenue increased over the prior year by \$1.9 million, or 6.3 percent. This increase relates primarily to a 3.4 percent increase in taxable value, while the overall millage rate increased slightly. Of the grants and contributions revenue, \$4.3 million is associated with the State of Michigan Act 51 revenues for the major and local road systems, while much of the remaining revenue is associated with the governmental activity related to road systems and right-of-way donated by developers in the amount of \$1.2 million. State-shared revenue and investment earnings are the primary segments of the governmental activity, for which the City received \$5.4 million in state-shared revenue and \$5.6 million in investments earnings.

The majority of governmental expense is associated with the public safety function, which is \$17.7 million, or 41.4 percent of the total governmental activity. Public safety includes building, ordinance enforcement, fire, and police services. General government expenses total \$5.2 million, or 12.2 percent. Public works expenses totaled \$11.5 million, or 26.9 percent.

Business-type Activities - The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water purchased from the City of Detroit to residents. Of the City's charges for service revenue, the majority is generated from charges passed on to residents, which is \$24.4 million. The charges for services are offset by water and sewer expenses of \$23.9 million, or 35.9 percent of the City's total expenses, and after capital contributions, the business activity has a net change in assets of \$2.6 million.

Financial Analysis of the City's Funds - An analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information on the most significant funds, not the City as a whole. In addition to state legislative requirements to maintain separate funds for Act 51 major and local road money, the City creates funds to administer certain dedicated dollars and demonstrate accountability to the citizens for special tax millages voted by citizens and earmarked bond proceeds. The City's major funds for fiscal year 2007 include the General Fund, the Major Road Fund, the Local Road Fund, the Fire Fund, and the Special Police Protection Fund.

The General Fund's fund balance increased from \$13.5 million to \$13.8 million or a total increase of \$0.3 million. This is primarily due to an increase in property taxes, a decrease in building construction activity, and an increase in general government expenditures. The Local Road Fund's fund balance decreased from \$2.9 million to \$1.5 million. This decrease is primarily due to capital road improvements of \$3.0 million in 2007. The Capital Improvement Fund's fund balance increased from \$2.8 million in 2006 to \$3.6 million in 2007 or \$0.8 million. The increase is a result of a transfer from the General Fund for future capital outlay.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights - The mayor and City administration continuously monitor budget performance and the City Council amends the budget to reflect current projections throughout the year. Overall, the General Fund departments were below budget. Revenues fell short by \$391,687 relative to the original budget, yet revenue exceeded actual expenditures by \$306,339. In other words, \$306,339 was contributed to the General Fund fund balance. Revenues declined mostly due to the prior year look-back for the Interfund-Administrative charge along with a decrease in license and permits - building and charges for service - planning and zoning fees. Interest income exceeded the original budget by \$533,519 due to elevated interest rates, length of investments, and larger balances. The City received less state-shared revenue than projected from the original budget by \$17,494 and overall declined from prior year by \$79,831.

General Fund expenditures were \$717,096 below the original budget, mostly due to personnel vacancies, Interfund - MIS look-back, and the Interfund - Facilities look-back. Personnel costs were approximately 8.7 percent or \$1,004,791 below the original budget. Operating supplies were approximately 19.7 percent, or \$94,136 below the original budget, and other services were 17.4 percent or \$856,868 below the original budget.

Capital Asset and Debt Administration - The City of Rochester Hills has \$271.5 million invested in a broad range of capital assets including land, building, technology equipment, fire equipment, water and sewer lines, and infrastructure for its governmental and business-type activities as of December 31, 2007. This reflects an increase in net capital assets of \$1.19 million during the year. Refer to Note 5 - Capital assets and Note 7 - Long-term debt for detail.

(in millions)	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 19.5	\$ 18.7	\$ 5.0	\$ 5.0	\$ 24.5	\$ 23.7
Right-of-way	43.6	42.8	-	-	43.6	42.8
Construction in progress	-	-	-	1.6	-	1.6
Infrastructure	62.8	61.0	95.1	96.3	157.9	157.3
Building and land improvements	25.1	25.8	12.2	0.5	37.3	26.3
Vehicles	2.8	3.1	-	-	2.8	3.1
Furniture and equipment	2.7	2.9	2.7	2.0	5.4	4.9
Total	\$ 156.5	\$ 154.3	\$ 115.0	\$ 105.4	\$ 271.5	\$ 259.7

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

The City of Rochester Hills' debt rating is excellent. The City maintains an AA+ by Standard and Poor's. The City's bond indebtedness and contractual obligations totaled \$47.3 million at December 31, 2007.

City of Rochester Hills Outstanding Debt (in millions of dollars)

	Governmental Activities	
	2007	2006
Governmental activities:		
General obligation bonds	\$ 26.2	\$ 28.5
County contractual obligations	15.0	16.9
Special assessment bonds	2.6	3.1
Total governmental activities	<u>\$ 43.8</u>	<u>\$ 48.5</u>
Business-type activities - General obligation bonds	<u>\$ 3.5</u>	<u>\$ 3.7</u>

Economic Factors and New Year's Budget and Rates - The City's tax base is expected to continue to grow during 2008 by approximately \$125 million, or 3.5 percent. The City's total millage rate remains the same for fiscal year 2008. There was an increase in the General Fund's millage from 3.7220 mills in 2007 to 3.8226 mills in 2008, an increase of .1006 mills. The total Debt Funds millages decrease from 1.1860 mills in 2007 to 1.0854 mills in 2008, a total decrease of .1006 mills. The City's total millage rate is the fourth lowest among the thirty (30) cities in Oakland County. Taxes account for 48 percent of budgeted governmental-type revenues and 52 percent of the budgeted General Fund revenues for the 2008 fiscal year. General Fund tax revenue is estimated at \$13.9 million.

The City's Local Road Fund's fund balance continues to be depleted. The City Council and administration are striving to develop a long-term road fund policy that will address future local street needs. A planned transfer from the General Fund of approximately \$5.0 million will support local street rehabilitation and repaving projects for 2008 fiscal year. The Major Road Fund anticipates depleting an estimated \$2.4 million of fund balance for fiscal year 2008 that will be utilized for reconstruction, rehabilitation, and improvements to the major road system. The Special Police Fund's fund balance is \$200,000 and in 2008 a transfer from the General Fund of \$3.2 million is planned to support police services.

Capital projects for governmental-type funds for fiscal year 2008 include pathway and park improvements, and the purchase of fire apparatus and vehicles.

The Water and Sewer Fund anticipates several water and sewer main extension and replacement projects and continues the implementation of a radio read system that is approximately 80 percent complete.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management - This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the City of Rochester Hills, Accounting Division, 1000 Rochester Hills Drive, Rochester Hills, MI 48309.

City of Rochester Hills, Michigan

Statement of Net Assets December 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 43,305,498	\$ 6,127,032	\$ 49,432,530	\$ 2,894,565
Investments (Note 3)	59,959,339	6,370,346	66,329,685	988,432
Receivables - Net:				
Property tax	18,613,839	-	18,613,839	-
Customers	463,015	5,603,440	6,066,455	136,265
Accrued interest	1,030,509	28,995	1,059,504	6,461
Due from other governmental units	1,911,510	-	1,911,510	1,281,278
Internal balances	(2,886)	2,886	-	-
Inventories	60,151	36,560	96,711	37,109
Long-term receivables	474,580	1,332,042	1,806,622	-
Other assets	295,309	-	295,309	83,936
Restricted assets (Note 8)	197,356	1,313,596	1,510,952	-
Nondepreciable capital assets (Note 5)	63,133,294	4,958,172	68,091,466	2,790,244
Depreciable capital assets - Net (Note 5)	93,446,662	110,048,767	203,495,429	13,443,816
Total assets	282,888,176	135,821,836	418,710,012	21,662,106
Liabilities				
Accounts payable	3,155,621	3,420,845	6,576,466	557,840
Retainage payable	30,533	262,247	292,780	-
Accrued and other liabilities	1,609,288	94,969	1,704,257	45,602
Deposits and escrows	2,584,467	64,669	2,649,136	-
Unearned revenue (Note 4)	32,843,281	-	32,843,281	1,597,993
Noncurrent liabilities (Note 7):				
Due within one year - Debt	4,869,707	150,000	5,019,707	-
Due in more than one year - Debt	38,938,228	3,400,000	42,338,228	-
Due within one year - Other noncurrent liabilities	997,196	222,627	1,219,823	28,118
Due in more than one year - Other noncurrent liabilities	508,588	58,345	566,933	8,865
Total liabilities	85,536,909	7,673,702	93,210,611	2,238,418
Net Assets				
Invested in capital assets - Net of related debt	120,942,021	112,770,535	233,712,556	16,234,060
Restricted:				
Streets and highways	20,273,726	-	20,273,726	-
Dedicated millages	9,511,576	-	9,511,576	-
Debt service	5,983,256	-	5,983,256	-
Capital projects	11,107,553	-	11,107,553	-
Cemetery	1,097,072	-	1,097,072	-
Tree preservation	1,557,407	-	1,557,407	-
Unrestricted	26,878,656	15,377,599	42,256,255	3,189,628
Total net assets	\$ 197,351,267	\$ 128,148,134	\$ 325,499,401	\$ 19,423,688

City of Rochester Hills, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,190,888	\$ 191,352	\$ -	\$ 23,000
Public works	11,521,381	220,996	4,452,148	1,639,224
Public safety	17,721,910	3,387,525	68,798	-
Community and economic development	1,193,025	84,036	167,418	-
Recreation and culture	5,098,671	663,262	71,374	-
Interest on long-term debt	2,020,901	-	-	-
Total governmental activities	42,746,776	4,547,171	4,759,738	1,662,224
Business-type activities:				
Sewer	9,797,879	9,833,018	-	1,024,018
Water	14,185,566	14,590,533	-	135,050
Total business-type activities	23,983,445	24,423,551	-	1,159,068
Total primary government	\$ 66,730,221	\$ 28,970,722	\$ 4,759,738	\$ 2,821,292
Component units:				
Local Development Finance Authority	\$ 476,602	\$ -	\$ -	\$ -
Automation Alley SmartZone Authority	212,713	-	-	-
Rochester-Avon Recreation Authority	1,982,479	1,374,338	-	-
Older Persons' Commission	4,389,542	1,208,163	992,753	-
Total component units	\$ 7,061,336	\$ 2,582,501	\$ 992,753	\$ -
General revenues:				
Property taxes				
Intergovernmental revenue				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Miscellaneous				
Gain on sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,976,536)	\$ -	\$ (4,976,536)	\$ -
(5,209,013)	-	(5,209,013)	-
(14,265,587)	-	(14,265,587)	-
(941,571)	-	(941,571)	-
(4,364,035)	-	(4,364,035)	-
(2,020,901)	-	(2,020,901)	-
(31,777,643)	-	(31,777,643)	-
-	1,059,157	1,059,157	-
-	540,017	540,017	-
-	1,599,174	1,599,174	-
(31,777,643)	1,599,174	(30,178,469)	-
-	-	-	(476,602)
-	-	-	(212,713)
-	-	-	(608,141)
-	-	-	(2,188,626)
-	-	-	(3,486,082)
31,851,346	-	31,851,346	1,110,660
-	-	-	2,611,811
5,362,252	-	5,362,252	-
5,578,240	918,369	6,496,609	225,848
944,073	-	944,073	-
571,400	34,323	605,723	34,063
63,947	-	63,947	-
44,371,258	952,692	45,323,950	3,982,382
12,593,615	2,551,866	15,145,481	496,300
184,757,652	125,596,268	310,353,920	18,927,388
\$ 197,351,267	\$ 128,148,134	\$ 325,499,401	\$ 19,423,688

City of Rochester Hills, Michigan

	General Fund	Major Road Fund	Local Road Fund	Fire Fund
Assets				
Cash and cash equivalents	\$ 10,364,132	\$ 5,235,157	\$ 1,338,127	\$ 3,468,472
Investments	11,541,347	14,134,535	-	1,222,824
Receivables:				
Property tax	7,970,324	-	-	3,754,359
State of Michigan	-	714,484	178,374	-
Oakland County	84,147	-	-	-
Accounts	313,877	-	19,482	22,314
Interest and other	375,457	121,742	-	19,881
Due from other funds	32,915	-	-	2,787
Inventories	-	-	60,151	-
Long-term receivables	-	-	137,651	-
Restricted assets - Assets held at County	-	-	-	-
Total assets	<u>\$ 30,682,199</u>	<u>\$ 20,205,918</u>	<u>\$ 1,733,785</u>	<u>\$ 8,490,637</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 169,979	\$ 1,406,567	\$ 44,941	\$ 33,770
Retainages payable	-	14,783	7,500	-
Accrued wages	163,973	14,529	31,826	219,964
Deposits and escrows	2,173,757	500	1,750	-
Due to other funds	-	-	-	-
Deferred revenue	14,028,419	-	140,115	6,588,177
Other liabilities	260,284	1,083	2,383	6,028
Total liabilities	16,796,412	1,437,462	228,515	6,847,939
Fund Balances				
Reserved for:				
Budget stabilization	1,000,000	-	-	-
Public improvement	-	-	60,151	-
Pathways	-	-	-	-
Unreserved, designated for supplement health	2,000,000	-	-	400,000
Unreserved, designated for road projects	-	11,690,000	-	-
Unreserved, designated for subsequent year's budget reported in:				
Special Revenue Funds	-	2,436,990	-	-
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Unreserved/Undesignated, reported in:				
General Fund	10,885,787	-	-	-
Special Revenue Funds	-	4,641,466	1,445,119	1,242,698
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Total fund balances	<u>13,885,787</u>	<u>18,768,456</u>	<u>1,505,270</u>	<u>1,642,698</u>
Total liabilities and fund balances	<u>\$ 30,682,199</u>	<u>\$ 20,205,918</u>	<u>\$ 1,733,785</u>	<u>\$ 8,490,637</u>

**Governmental Funds
Balance Sheet
December 31, 2007**

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,346,530	\$ 13,833,807	\$ 36,586,225
903,747	20,560,781	48,363,234
2,520,218	4,368,938	18,613,839
-	-	892,858
-	-	84,147
102,326	5,017	463,016
4,118	308,455	829,653
-	-	35,702
-	-	60,151
-	336,929	474,580
-	197,356	197,356
<u>\$ 5,876,939</u>	<u>\$ 39,611,283</u>	<u>\$ 106,600,761</u>

\$ 1,197,401	\$ 45,416	\$ 2,898,074
-	7,500	29,783
3,169	11,220	444,681
-	408,460	2,584,467
2,787	32,915	35,702
4,473,339	8,087,810	33,317,860
240	836	270,854
5,676,936	8,594,157	39,581,421
-	-	1,000,000
-	-	60,151
-	2,074,939	2,074,939
-	-	2,400,000
-	-	11,690,000
-	1,317,860	3,754,850
-	1,006,810	1,006,810
-	1,312,144	1,312,144
-	-	10,885,787
200,003	9,005,494	16,534,780
-	4,976,446	4,976,446
-	11,323,433	11,323,433
200,003	31,017,126	67,019,340
<u>\$ 5,876,939</u>	<u>\$ 39,611,283</u>	<u>\$ 106,600,761</u>

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of Fund Balances to Statement of Net Assets December 31, 2007

Total Fund Balances for Governmental Funds	\$ 67,019,340
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 are not reported in the funds	113,021,923
Special assessment receivables are expected to be collected over several years and are not available to pay current year expenditures	474,580
Certain other receivables are expected to be collected over several years and are not available to pay for current year expenditures	934,505
Accrued interest in governmental activities are not reported in the funds	(517,791)
Amortization of bond issuance costs are not reported in the funds	70,761
Compensated absences in governmental activities are not reported in the funds	(1,216,149)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(40,377,935)
Tax tribunal claims	(110,043)
Internal Service Funds are included as part of governmental activities	<u>58,052,076</u>
Net Assets of Government Activities	<u>\$ 197,351,267</u>

City of Rochester Hills, Michigan

	General Fund	Major Road Fund	Local Road Fund	Fire Fund
Revenue				
Property taxes	\$ 13,281,875	\$ -	\$ -	\$ 6,399,690
Licenses and permits	1,816,225	-	7,680	9,425
Intergovernmental:				
State grants	5,298,510	3,082,171	1,183,456	7,972
Federal grants	139,993	250,033	-	-
Other governmental revenues	-	-	40,000	-
Charges for services	4,185,969	212,945	30,346	1,263,003
Fines and forfeitures	114,763	-	-	6,758
Investment earnings	1,353,519	984,191	155,766	222,059
Special assessments	-	-	26,034	-
Refunds and other revenue	88,549	187,013	943	27,433
	<u>26,279,403</u>	<u>4,716,353</u>	<u>1,444,225</u>	<u>7,936,340</u>
Expenditures				
Current:				
General government	8,799,097	-	-	-
Public works	800,675	-	-	-
Public safety	3,164,125	-	-	6,816,715
Community and economic development	1,182,824	-	-	-
Streets	-	1,547,189	2,885,979	-
Recreation and culture	3,172,044	-	-	-
Capital outlay	-	3,147,244	3,046,082	-
Debt service	-	-	-	-
	<u>17,118,765</u>	<u>4,694,433</u>	<u>5,932,061</u>	<u>6,816,715</u>
Excess of Revenue Over (Under) Expenditures	9,160,638	21,920	(4,487,836)	1,119,625
Other Financing Sources (Uses)				
Transfers in	-	353,749	3,429,300	-
Transfers out	(8,854,299)	(30,300)	(375,080)	(704,440)
	<u>(8,854,299)</u>	<u>323,449</u>	<u>3,054,220</u>	<u>(704,440)</u>
Net Change in Fund Balances	306,339	345,369	(1,433,616)	415,185
Fund Balances - Beginning of year	<u>13,579,448</u>	<u>18,423,087</u>	<u>2,938,886</u>	<u>1,227,513</u>
Fund Balances - End of year	<u>\$ 13,885,787</u>	<u>\$ 18,768,456</u>	<u>\$ 1,505,270</u>	<u>\$ 1,642,698</u>

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2007**

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,295,632	\$ 7,874,149	\$ 31,851,346
-	-	1,833,330
30,826	30,000	9,632,935
-	27,425	417,451
238,750	-	278,750
189,493	170,274	6,052,030
299,620	-	421,141
166,756	1,781,698	4,663,989
-	64,299	90,333
-	58,324	362,262
<u>5,221,077</u>	<u>10,006,169</u>	<u>55,603,567</u>
-	-	8,799,097
-	1,019,131	1,819,806
7,745,887	-	17,726,727
-	-	1,182,824
-	-	4,433,168
-	1,892,482	5,064,526
-	1,886,812	8,080,138
-	6,383,974	6,383,974
<u>7,745,887</u>	<u>11,182,399</u>	<u>53,490,260</u>
(2,524,810)	(1,176,230)	2,113,307
2,663,470	3,658,730	10,105,249
<u>(346,290)</u>	<u>(1,204,100)</u>	<u>(11,514,509)</u>
<u>2,317,180</u>	<u>2,454,630</u>	<u>(1,409,260)</u>
(207,630)	1,278,400	704,047
<u>407,633</u>	<u>29,738,726</u>	<u>66,315,293</u>
<u>\$ 200,003</u>	<u>\$ 31,017,126</u>	<u>\$ 67,019,340</u>

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 704,047

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

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 4,002,382

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (90,331)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds 66,546

Accrued interest payable is recorded when due in governmental funds; in addition, bond issuance costs are amortized during the life of the bond 26,850

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 4,496,018

The change in accumulated employee sick and vacation pay, as well as estimated general liability and tax tribunal claims, are recorded when earned in the statement of activities 2,251,487

Internal Service Funds are also included as governmental activities 1,136,615

Change in Net Assets of Governmental Activities **\$ 12,593,614**

City of Rochester Hills, Michigan

Proprietary Funds Statement of Net Assets December 31, 2007

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,127,032	\$ 6,719,274
Investments	6,370,346	11,596,105
Receivables:		
Accounts	5,603,440	-
Accrued interest	28,995	216,737
Due from other funds	2,886	-
Inventories	36,560	-
Prepaid costs and other assets	-	208,665
	<hr/>	<hr/>
Total current assets	18,169,259	18,740,781
Noncurrent assets:		
Restricted assets - Assets held at the County	1,313,596	-
Capital assets - Net	115,006,939	43,558,033
Long-term receivable	1,332,042	-
	<hr/>	<hr/>
Total assets	135,821,836	62,298,814
Liabilities		
Current liabilities:		
Accounts payable	3,420,845	257,548
Retainages payable	262,247	750
Accrued wages	53,234	38,592
Accrued vacation	192,195	125,254
Accrued annual leave	88,777	54,338
Deposits and escrows	64,669	-
Accrued and other liabilities	41,735	277,841
Due to other funds	-	2,886
Current portion of long-term debt	150,000	-
Payable related to capital lease obligations:		
Current portion of capital lease obligations	-	225,000
Accrued interest	-	59,529
	<hr/>	<hr/>
Total current liabilities	4,273,702	1,041,738
Long-term Liabilities - Net of current portion	<hr/>	<hr/>
	3,400,000	3,205,000
	<hr/>	<hr/>
Total liabilities	7,673,702	4,246,738
Net Assets		
Invested in capital assets - Net of related debt	112,770,535	40,128,033
Unrestricted	15,377,599	17,924,043
	<hr/>	<hr/>
Total net assets	<u>\$ 128,148,134</u>	<u>\$ 58,052,076</u>

City of Rochester Hills, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Charges for services	\$ 24,423,551	\$ 7,025,833
Other charges for services	34,323	106,150
Total operating revenue	24,457,874	7,131,983
Operating Expenses		
Cost of water produced/purchased	8,766,059	-
Cost of sewage treatment	4,897,717	-
Salaries and wages	3,391,904	2,016,033
Professional services	2,015,900	2,133,085
Public utilities	-	597,557
Material and supplies	369,645	208,615
Repairs and maintenance	32,077	750,228
Rentals	933,051	4,864
Depreciation and amortization	3,577,092	2,531,079
Total operating expenses	23,983,445	8,241,461
Operating Income (Loss)	474,429	(1,109,478)
Nonoperating Revenue (Expenses)		
Investment income	918,369	940,901
Capital and lateral charges	609,520	-
Interest expense	-	(144,537)
Gain on disposal of capital assets	-	40,469
Total nonoperating revenue	1,527,889	836,833
Income (Loss) - Before contributions and transfers	2,002,318	(272,645)
Capital Contributions	549,548	-
Transfers from Other Funds	-	1,409,260
Change in Net Assets	2,551,866	1,136,615
Net Assets - Beginning of year	125,596,268	56,915,461
Net Assets - End of year	\$ 128,148,134	\$ 58,052,076

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

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2007

	Enterprise - Water and Sewer	Internal Service Funds
Cash Flows from Operating Activities		
Cash received from customers	\$ 23,148,360	\$ 7,027,352
Cash payments for goods and services	(16,141,533)	(3,614,689)
Cash payments to employees	(3,344,312)	(1,987,471)
Other operating revenue	33,066	106,764
Net cash provided by operating activities	3,695,581	1,531,956
Cash Flows from Noncapital Financing Activities - Transfers in from other funds		
	-	1,409,260
Cash Flows from Capital and Related Financing Activities		
Payment for capital acquisitions	(11,919,286)	(842,248)
Proceeds from sale of capital assets	-	40,469
Collection of capital and lateral charges	609,520	-
Principal payments	(150,000)	(200,000)
Interest paid	-	(146,704)
Net cash used in capital and related financing activities	(11,459,766)	(1,148,483)
Cash Flows from Investing Activities		
Purchase of investment securities	(22,069,835)	(18,934,782)
Proceeds from maturities of investment securities	29,222,102	19,237,519
Receipts of interest and dividends	1,030,040	845,769
Net cash provided by investing activities	8,182,307	1,148,506
Net Increase in Cash and Cash Equivalents	418,122	2,941,239
Cash and Cash Equivalents - January 1, 2007	5,708,910	3,778,035
Cash and Cash Equivalents - December 31, 2007	\$ 6,127,032	\$ 6,719,274

(Continued on next page)

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2007

	Enterprise - Water and Sewer	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 474,429	\$ (1,109,478)
Adjustments to reconcile operating income (loss) to net cash from operating activities - Changes in assets and liabilities:		
Depreciation expense	3,577,092	2,531,079
Increase in accounts receivable	(1,275,191)	-
Decrease in other liabilities	(1,257)	(40,135)
Increase in inventories	9,005	-
Increase in accounts payable and other accrued expenses	863,911	150,490
Decrease in accrued wages, vacation, and annual leave	47,592	-
Total adjustments	3,221,152	2,641,434
Net cash provided by operating activities	\$ 3,695,581	\$ 1,531,956

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2007, the Water and Sewer Fund received \$549,548 of lines donated by developers, and assets totaling \$741,602 were constructed by the County from amounts paid by the City in prior years. The balance of the bond proceeds held by the County on behalf of the Internal Service Funds was used in 2007 in the amount of \$1,519 to satisfy a portion of the City's capital project lease with the Oakland County Building Authority.

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Statement of Assets and Liabilities December 31, 2007

	<u>Agency Funds</u>
Assets - Cash and cash equivalents	<u>\$ 2,288,691</u>
Liabilities	
Accounts payable	\$ 37,930
Due to other governments	2,205,857
Accrued and other liabilities	<u>44,904</u>
 Total liabilities	 <u>\$ 2,288,691</u>

City of Rochester Hills, Michigan

Component Units Statement of Net Assets December 31, 2007

	Local Development Finance Authority	Economic Development Corporation	Automation Alley SmartZone Authority	Brownfield Redevelopment Authority	Rochester-Avon Recreation Authority	Older Persons' Commission	Total
Assets							
Cash and investments	\$ 2,144,445	\$ 2,838	\$ 1,647	\$ 63,781	\$ 1,068,889	\$ 601,397	\$ 3,882,997
Due from other governmental units	994,821	-	251,271	33,036	1,000	1,150	1,281,278
Receivables - Accrued interest and other	2,628	-	-	-	68,220	71,878	142,726
Inventories	-	-	-	-	37,109	-	37,109
Prepaid costs and other assets	-	-	-	-	-	83,936	83,936
Capital assets	-	-	-	-	31,586	16,202,474	16,234,060
Total assets	3,141,894	2,838	252,918	96,817	1,206,804	16,960,835	21,662,106
Liabilities							
Accounts payable	447,363	-	-	-	37,976	72,501	557,840
Accrued and other liabilities	-	-	-	-	15,416	30,186	45,602
Unearned revenue	994,821	-	251,271	33,037	175,210	143,654	1,597,993
Noncurrent liabilities:							
Due within one year	-	-	-	-	-	28,118	28,118
Due in more than one year	-	-	-	-	-	8,865	8,865
Total liabilities	1,442,184	-	251,271	33,037	228,602	283,324	2,238,418
Net Assets							
Invested in capital assets - Net of related debt	-	-	-	-	31,586	16,202,474	16,234,060
Unrestricted	1,699,710	2,838	1,647	63,780	946,616	475,037	3,189,628
Total net assets	\$ 1,699,710	\$ 2,838	\$ 1,647	\$ 63,780	\$ 978,202	\$ 16,677,511	\$ 19,423,688

City of Rochester Hills, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions
Local Development Finance Authority - Public service	\$ 476,602	\$ -	\$ -
Automation Alley SmartZone Authority - Public service	212,713	-	-
Rochester-Avon Recreation Authority - Recreation and culture	1,982,479	1,374,338	-
Older Persons' Commission - Recreation and culture	<u>4,389,542</u>	<u>1,208,163</u>	<u>992,753</u>
Total governmental activities	<u>\$ 7,061,336</u>	<u>\$ 2,582,501</u>	<u>\$ 992,753</u>

General revenues:

Property taxes
Intergovernmental revenue
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended December 31, 2007**

Net (Expense) Revenue and Changes in Net Assets							
Local Development Finance Authority	Economic Development Corporation	Automation Alley SmartZone Authority	Brownfield Redevelopment Authority	Rochester-Avon Recreation Authority	Older Persons' Commission	Total	
\$ (476,602)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (476,602)	
-	-	(212,713)	-	-	-	(212,713)	
-	-	-	-	(608,141)	-	(608,141)	
-	-	-	-	-	(2,188,626)	(2,188,626)	
(476,602)	-	(212,713)	-	(608,141)	(2,188,626)	(3,486,082)	
868,260	-	211,866	30,534	-	-	1,110,660	
-	-	-	-	789,642	1,822,169	2,611,811	
99,857	147	484	2,885	69,238	53,237	225,848	
-	-	-	-	5,179	28,884	34,063	
968,117	147	212,350	33,419	864,059	1,904,290	3,982,382	
491,515	147	(363)	33,419	255,918	(284,336)	496,300	
1,208,195	2,691	2,010	30,361	722,284	16,961,847	18,927,388	
\$ 1,699,710	\$ 2,838	\$ 1,647	\$ 63,780	\$ 978,202	\$ 16,677,511	\$ 19,423,688	

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The City of Rochester Hills, Michigan is a municipal corporation that is governed by an elected seven-member council. The City provides the following services as authorized by its charter: public safety (fire protection and contract police service), street maintenance, water and wastewater distribution, parks and recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Joint Ventures

The City is a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (23 percent), City of Rochester (22 percent), City of Rochester Hills (24 percent), and Oakland Township (31 percent), provide annual funding for its operations. During the current year, the City contributed \$29,599 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The City does not have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Blended Component Units - The Rochester Hills Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public facilities.

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units - The following component units are reported within the component unit column in the government-wide financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Local Development Finance Authority (LDFA) is governed by a 13-member board, of which seven members are appointed by the mayor and confirmed by the City Council while the other six members are appointed by the legislative bodies of other taxing authorities. The City of Rochester Hills, Michigan has the ability to impose its will upon the LDFA. The LDFA was created to provide a means for financing infrastructure improvements within a certain area of the City on behalf of the City and other entities. Its financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- b. The Economic Development Corporation (EDC) is governed by a 10-member board appointed by the mayor and confirmed by the City Council. The EDC was created to provide a means and method for encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The City of Rochester Hills, Michigan has the ability to impose its will upon the EDC. The EDC may issue industrial revenue bonds as a means of providing financing for certain enterprises. Its financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- c. The Rochester-Avon Recreation Authority (R.A.R.A.) was organized for the purpose of providing extensive and varied recreational programs for persons residing within the jurisdiction of the participating governmental organizations.

Along with the City of Rochester Hills, Michigan, which is an 88 percent member unit, the City of Rochester is also a member unit with a 12 percent interest. The governing body of R.A.R.A. consists of one City Council member and two Council-appointed persons from the City of Rochester Hills, one City Council member and one Council-appointed person from the City of Rochester, and three board-appointed persons each from the Rochester and Avondale school districts. There is a financial benefit/burden relationship between R.A.R.A. and the City of Rochester Hills. R.A.R.A.'s financial statements can be obtained from its administrative offices at 108 East Second Street, Rochester, MI.

Note 1 - Summary of Significant Accounting Policies (Continued)

- d. The Older Persons' Commission (O.P.C.) was organized in 1983 for the purpose of providing activities and services for older persons residing within the jurisdiction of the participating governmental organizations. Along with the City of Rochester Hills, Michigan, which is a 64 percent participating member, Oakland Township (23 percent) and the City of Rochester (13 percent) are also member units of the O.P.C.

The governing body of the O.P.C. consists of two City Council members and two Council-appointed older persons from the City of Rochester Hills, one City Council member, and one Council-appointed older person from the City of Rochester, and one board member and one board-appointed older person from Oakland Township. There is a financial benefit/burden relationship between O.P.C. and the City of Rochester Hills. O.P.C.'s financial statements can be obtained from its administrative offices at 650 Letica Dr., Rochester, MI.

- e. The Brownfield Redevelopment Authority (the "Brownfield Authority") was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 32.2 square mile boundary of the City. The Brownfield Redevelopment Authority is governed by a seven-member board that is appointed by the mayor and confirmed by the City Council. The Authority's financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- f. The SmartZone Authority was created to foster new economic growth and development by establishing clusters of technology companies. The program also seeks to develop relationships between these businesses and universities by providing businesses resources and accessibility to university facilities for the purpose of commercializing research. The SmartZone is governed by a 13-member board, which is appointed by the mayor and confirmed by the City Council. The City of Rochester Hills has the ability to impose its will upon the SmartZone.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the 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, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 revenue. The cable franchise fees are reported as general revenue because they are not generated from any program of the government, and are unrestricted as to use.

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 are reported as separate columns in the fund financial statements.

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, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

- a. The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b. The Major Road Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.
- c. The Local Road Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain local road systems.
- d. The Fire Fund accounts for all revenue and expenditures for citywide fire operations, including millage collection.
- e. The Special Police Protection Fund accounts for the special millage for City police protection contracted with Oakland County.

The City reports the following major proprietary fund:

The Water and Sewer Fund records maintenance and operations of water and sewer departments provided for City residents and is financed primarily through user charges.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- a. Internal Service Funds account for costs of operating and maintaining the land, buildings, machinery, equipment, and vehicle purchases of the City, as well as risk management services provided to other departments of the City on a cost reimbursement basis.
- b. The Agency Funds account for assets held by the City in a trustee capacity for tax collections of the City and other taxing jurisdictions, as well as payroll related liabilities. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. At Rochester Hills, the Agency Funds account for tax collections of the City and other taxing jurisdictions, as well as payroll related liabilities.

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Capital and lateral charges are intended to recover the cost of the infrastructure and are recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled approximately \$3,600,000,000 (of which approximately \$57,000,000 and \$700,000 is captured by the LDFA and Brownfield Authority, respectively), on which taxes are levied as follows:

<u>Function</u>	<u>Mills</u>	<u>Dollars</u>
General operating purposes	3.7220	\$ 13,202,486
Fire operating services	1.8000	6,384,867
Police protection services	1.2083	4,286,019
OPC operating and transportation	0.3294	1,168,430
R.A.R.A. operating	0.1950	691,693
Pathway maintenance	0.1858	659,060
Debt service	1.1860	4,274,555
Green space preservation	0.2972	1,054,212

These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue. In addition, there are .7823 mills that are collected by the City for library operations.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investment income from pooled investments is generally allocated to each fund using a weighted average.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

Restricted Assets - Assets have been restricted in the primary government, as they represent the assets held by Oakland County to be applied against future payment obligations of the City. See Note 8 for additional discussion.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Roads	20 years
Drainage flow rights	40 years
Water and sewer distribution systems	50 years
Buildings	50 years
Land improvements	15 years
Building improvements	10 years
Other tools and equipment	8 years
Vehicles	7 years
Office furnishings	3 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Annual Leave) - It is the City's policy to permit employees to accumulate earned but unused vacation and annual leave pay benefits. Historically, these benefits have been liquidated by the General Fund or other operating funds to which each employee is assigned. All vacation and annual leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. 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. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at January 1, 2007		\$	(1,513,660)
Building permit revenue			1,284,589
Related expenses:			
Direct expenses	\$	2,157,327	
Estimated indirect costs		<u>323,599</u>	<u>2,480,926</u>
Current year shortfall			<u>(1,196,337)</u>
Cumulative shortfall at December 31, 2007		\$	<u><u>(2,709,997)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and 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 matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 14 banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires that all financial institutions utilized by the City maintain an office within the state of Michigan and meet certain requirements and financial criteria. At year end, the City had approximately \$29,368,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units had approximately \$1,911,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

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. The City's investment policy minimizes the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rate by structuring the maturities of the portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity. This is done by investing operating funds primarily in short-term securities and investment pools and only purchasing securities with the intent to hold to maturity. At year end, the average maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Government agency securities	\$ 17,128,779	342 days
U.S. Treasury securities	8,167,748	290 days
Commercial paper	12,352,657	156 days

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities, pre-qualifying the financial institutions and intermediaries with which the City does business, and diversifying the portfolio so potential losses on individual securities will be minimized. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Government agency securities	\$ 17,128,779	AAA	Standard and Poor's
Commercial paper	12,352,657	A-1+	Standard and Poor's
Pooled investment funds	7,499,999	AAAm	Standard and Poor's
Pooled investment funds	21,586,735	AAA/VI	Fitch Ratings
Pooled investment funds	8,834,767	AAA	Standard and Poor's

Concentration of Credit Risk

The City's investment policy minimizes the risk inherent in placing a large portion of the portfolio with a single security issuer by limiting such placement to 10 percent of the total portfolio, defined as securities plus deposits and cash equivalents. At December 31, 2007, 6.18 percent of the City's investments are in Federal Home Loan Bank bonds, 4.44 percent are in Federal National Mortgage Association bonds, and 5.56 percent are in Federal Home Loan Mortgage Corporation.

Note 4 - Deferred Revenue

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

	Unavailable	Unearned
Property taxes	\$ -	\$ 32,722,359
Special assessments	474,580	-
Other	-	120,922
Total deferred revenue	\$ 474,580	\$ 32,843,281

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Capital assets not being depreciated:				
Land	\$ 18,720,053	\$ 826,934	\$ -	\$ 19,546,987
Right of way	42,773,879	812,428	-	43,586,307
Subtotal	61,493,932	1,639,362	-	63,133,294
Capital assets being depreciated:				
Roads	81,849,972	6,531,947	-	88,381,919
Drain flowage rights	30,772,175	-	-	30,772,175
Land improvements	12,488,164	588,398	-	13,076,562
Building improvements	28,931,745	279,982	-	29,211,727
Vehicles	9,312,481	331,319	270,365	9,373,435
Office furnishings	5,641,890	228,857	266,523	5,604,224
Other tools and equipment	4,798,900	705,608	122,028	5,382,480
Subtotal	173,795,327	8,666,111	658,916	181,802,522
Accumulated depreciation:				
Roads	40,642,748	3,928,862	-	44,571,610
Drain flowage rights	10,942,437	769,304	-	11,711,741
Land improvements	7,753,937	571,457	-	8,325,394
Building improvements	7,882,979	930,749	-	8,813,728
Vehicles	6,249,449	631,993	270,365	6,611,077
Office furnishings	4,415,479	696,518	266,523	4,845,474
Other tools and equipment	3,135,825	458,495	117,484	3,476,836
Subtotal	81,022,854	7,987,378	654,372	88,355,860
Net capital assets being depreciated	92,772,473	678,733	4,544	93,446,662
Net capital assets	\$ 154,266,405	\$ 2,318,095	\$ 4,544	\$ 156,579,956

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Capital assets not being depreciated:				
Land	\$ 4,958,172	\$ -	\$ -	\$ 4,958,172
Construction in progress	1,565,983	10,111,470	11,677,453	-
Subtotal	6,524,155	10,111,470	11,677,453	4,958,172
Capital assets being depreciated:				
Water and sewer distribution systems	148,513,089	1,831,823	-	150,344,912
Land improvements	196,906	1,861	-	198,767
Building improvements	1,061,112	11,683,040	-	12,744,152
Office furnishings	14,184	-	-	14,184
Other tools and equipment	6,335,329	1,184,893	494	7,519,728
Subtotal	156,120,620	14,701,617	494	170,821,743
Accumulated depreciation:				
Water and sewer distribution systems	52,225,990	2,984,037	-	55,210,027
Land improvements	185,327	2,846	-	188,173
Building improvements	517,771	27,376	-	545,147
Office furnishings	8,074	806	-	8,880
Other tools and equipment	4,259,216	562,027	494	4,820,749
Subtotal	57,196,378	3,577,092	494	60,772,976
Net capital assets being depreciated	98,924,242	11,124,525	-	110,048,767
Net capital assets	<u>\$ 105,448,397</u>	<u>\$ 21,235,995</u>	<u>\$ 11,677,453</u>	<u>\$ 115,006,939</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Rochester Hills' component units for the year was as follows:

Component Units	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Land	\$ 2,790,244	\$ -	\$ -	\$ 2,790,244
Capital assets being depreciated:				
Building	12,940,297	-	267,156	12,673,141
Building improvements	877,527	6,974	(267,156)	1,151,657
Land improvements	15,667	-	-	15,667
Furniture, equipment, and other	1,890,973	46,013	3,551	1,933,435
Vehicles	704,191	72,860	41,416	735,635
Subtotal	16,428,655	125,847	44,967	16,509,535
Less accumulated depreciation	2,454,123	645,749	34,153	3,065,719
Net capital assets being depreciated	13,974,532	(519,902)	10,814	13,443,816
Net capital assets	\$ 16,764,776	\$ (519,902)	\$ 10,814	\$ 16,234,060

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

Governmental activities:

General government	\$ 135,968
Public works	5,177,486
Public safety	657,022
Recreation and culture	552,478
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	1,464,424
Total governmental activities	<u>\$ 7,987,378</u>

Business-type activities:

Water	\$ 2,068,015
Sewer	1,509,077
Total business-type activities	<u>\$ 3,577,092</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active projects at year end. The projects include various road infrastructure and pathway improvements, computer systems, and the construction of a new Department of Public Service facility. At year end, the City's commitments are as follows:

	Total Contract Amount	Remaining Commitment
Road improvements and master thoroughfare plan	\$ 10,286,746	\$ 1,707,198
Asset and records management systems	525,457	261,082
Pedestrian pathways	231,533	25,976
Water and sewer radio read system	2,773,420	428,872
New Department of Public Service facility	<u>11,441,225</u>	<u>587,226</u>
Total	<u>\$ 25,258,381</u>	<u>\$ 3,010,354</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds	\$ 32,915
Fire Fund	Special Police Fund	2,787
Water and Sewer Fund	Building and Grounds Fund	<u>2,886</u>
	Total	<u>\$ 38,588</u>

This balance results from the time lag between the dates that payments between funds are made.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred From	Funds Transferred To	Amount
General Fund	Major Road Fund	\$ 353,749
	Local Road Fund	3,429,300
	Special Police Fund	2,663,470
	Nonmajor governmental funds	2,008,490
	Building and Grounds Fund	<u>399,290</u>
	Total General Fund	8,854,299
Major Road Fund	Fleet Equipment Fund	30,300
Local Road Fund	Nonmajor government Fund	329,640
	Fleet Equipment Fund	<u>45,440</u>
	Total Local Road Fund	375,080
Fire Fund	Nonmajor governmental funds	704,440
Special Police Fund	Building and Grounds Fund	346,290
Nonmajor governmental funds	Nonmajor governmental funds	616,160
	Building and Grounds Fund	326,740
	MIS Fund	257,200
	Fleet Equipment Fund	<u>4,000</u>
	Total nonmajor governmental funds	<u>1,204,100</u>
	Total	<u>\$ 11,514,509</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund and nonmajor governmental funds to the Major and Local Road Funds, Special Police Protection Fund, additional nonmajor governmental funds, and Building and Grounds Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Local Road Fund and Special Police Fund to nonmajor governmental funds represents the movement of resources to be used to service debt; the transfer from the Fire Fund represents movement of resources to be used for the purchase of capital outlay specifically for the fire department; and the transfer from nonmajor governmental funds represents resources for pathway improvements, building additions, computer software, and vehicle replacement.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
<u>General obligation bonds:</u>					
Building Authority Bonds, Series 2002, payable through 2021 with interest at 3.12% to 4.75%	\$ 8,400,000	\$ -	\$ (300,000)	\$ 8,100,000	\$ 300,000
General Obligation Limited Tax Capital Improvement Bond, Series 2002, payable through 2017 with interest at 3.0% to 4.5%	3,975,000	-	(225,000)	3,750,000	250,000
General Obligation Unlimited Tax Bonds, OPC, Series 2001, payable through 2021 with interest at 3.5% to 5.0%	8,520,000	-	(350,000)	8,170,000	400,000
Michigan Transportation Fund Bond, MTF-2001 Series, payable through 2016 with interest at 4.25% to 4.6%	2,025,000	-	(150,000)	1,875,000	150,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
<u>General obligation bonds (Continued):</u>					
Refunding Bond, payable through 2010 with interest at 3.9% to 4.9%	\$ 3,205,000	\$ -	\$ (30,000)	\$ 3,175,000	\$ 290,000
Refunding Bond, payable through 2008 with interest at 2.0% to 3.5%	2,380,000	-	(1,300,000)	1,080,000	1,080,000
<u>County contractual obligations:</u>					
Ireland Drain, payable through 2010 with interest at 7.42%	568,947	-	(136,158)	432,789	141,021
Crake Drain Refunding, payable through 2011 with interest at 1.50% to 3.55%	721,683	-	(147,923)	573,760	138,957
Lueders Drain, payable through 2011 with interest at 4.25% to 5.0%	1,737,970	-	(331,920)	1,406,050	327,310
Lueders Drain #2, payable through 2011 with interest at 4.0% to 6.0%	600,000	-	(100,000)	500,000	125,000
McIntyre Drain, payable through 2013 with interest at 2.75% to 5.20%	582,529	-	(69,113)	513,416	74,050
Hampton Drain, payable through 2013 with interest at 2.75% to 5.2%	415,433	-	(51,394)	364,039	51,394
Bishop Drain, payable through 2013 with interest at 2.8% to 5.3%	775,000	-	(100,000)	675,000	100,000
Chester Drain Refunding, payable through 2013 with interest at 1.25% to 2.75%	1,230,000	-	(180,000)	1,050,000	175,000
Robert Huber Drain, payable through 2014 with interest at 3.3% to 2.0%	915,000	-	(115,000)	800,000	110,000
Wolf Drain, payable through 2013 with interest at 4.0% to 4.7%	2,637,391	-	(314,510)	2,322,881	336,975
Rewold Drain, payable through 2025 with interest at 3.0% to 4.3%	3,080,000	-	(115,000)	2,965,000	120,000
Capital project lease - Oakland County Building Authority, Building Authority Bonds, Series 2002A, payable through 2020 with interest at 3.0% to 4.75%	3,630,000	-	(200,000)	3,430,000	225,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
<u>Special assessment bonds:</u>					
Public Improvement City Share Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	\$ 150,000	\$ -	\$ (50,000)	\$ 100,000	\$ 50,000
Public Improvement Special Assessment Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	345,000	-	(125,000)	220,000	120,000
Public Improvement City Share Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	200,000	-	(50,000)	150,000	50,000
Public Improvement Special Assessment Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	460,000	-	(105,000)	355,000	105,000
Public Improvement City Share Bonds, 2001 Series, payable through 2016 with interest at 2.6% to 4.7%	975,000	-	(75,000)	900,000	75,000
Public Improvement Special Assessment Bonds, 2001 Series, payable through 2016 with interest at 3.0% to 4.7%	975,000	-	(75,000)	900,000	75,000
Total bond obligations	48,503,953	-	(4,696,018)	43,807,935	4,869,707
Tax tribunal	54,822	55,221	-	110,043	-
Consent judgment payable	2,443,300	-	(2,443,300)	-	-
Compensated absences - Governmental activities	1,079,558	1,191,357	(1,054,766)	1,216,149	880,734
Compensated absences - Internal Service Funds	163,697	165,580	(149,685)	179,592	116,462
Total other long-term obligations	3,741,377	1,412,158	(3,647,751)	1,505,784	997,196
Total governmental activities	\$ 52,245,330	\$ 1,412,158	\$ (8,343,769)	\$ 45,313,719	\$ 5,866,903
Business-type Activities - Oakland County Water and Sewage Disposal System Bonds, Series 2005, payable through 2025 with interest at 4.0% to 4.5%					
Compensated absences	\$ 3,700,000	\$ -	\$ (150,000)	\$ 3,550,000	\$ 150,000
	247,130	291,149	(257,307)	280,972	222,627
Total business-type activities	\$ 3,947,130	\$ 291,149	\$ (407,307)	\$ 3,830,972	\$ 372,627
Component Units - Compensated absences	\$ 34,617	\$ 35,103	\$ (32,737)	\$ 36,983	\$ 28,118

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 4,869,707	\$ 1,890,273	\$ 6,759,980	\$ 150,000	\$ 146,782	\$ 296,782
2009	5,222,417	1,693,847	6,916,264	150,000	140,781	290,781
2010	5,073,247	1,462,839	6,536,086	150,000	134,782	284,782
2011	3,569,040	1,241,901	4,810,941	150,000	128,782	278,782
2012	3,140,889	1,104,208	4,245,097	175,000	122,281	297,281
2013-2017	13,307,635	3,721,522	17,029,157	925,000	503,958	1,428,958
2018-2022	7,970,000	1,003,844	8,973,844	1,075,000	294,320	1,369,320
2023-2026	655,000	42,621	697,621	775,000	53,373	828,373
Total	\$ 43,807,935	\$ 12,161,055	\$ 55,968,990	\$ 3,550,000	\$ 1,525,059	\$ 5,075,059

Advance and Current Refundings

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2007, \$5,226,825 of bonds outstanding are considered defeased.

Future Revenues Pledged for Debt Payment

County Contractual Obligations - The above contractual obligations to the County are the result of the County issuance of bonds on the City's behalf. The City has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of drains described above. The remaining principal and interest to be paid on the bonds is \$9,664,295. During the current year, net revenue generated by property tax millages was \$2,188,970 compared to the annual debt requirements of \$2,178,461.

Contract Bond - The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the above water and sewer contract bond. Proceeds from the bonds provided financing for the extension of water and sewer mains. The bonds are payable from the net revenues of the water and sewer system. The remaining principal and interest to be paid on bonds totaled \$5,075,059. During the year, net revenues of the system were approximately \$6,679,000 compared to the annual debt requirements of \$302,781.

Note 8 - Restricted Assets

Assets held at the County represent the City's unspent portion of bond proceeds held for the improvement of the water and sewer system in the amount of \$1,313,596. The County holds these monies to apply against future water and sewer system construction for the City, as well as \$197,356 for future drain system projects. Oakland County has invested these monies and allocated interest earned as an increase to the amount due the City.

Note 9 - Risk Management

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

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

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

The City estimates the liability for general claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. These estimates are reported in the Insurance (Internal Service) Fund. Changes in the estimated liability for the past two fiscal years were as follows:

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2007

Note 9 - Risk Management (Continued)

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 239,790	\$ 279,448
Estimated claims incurred, including changes in estimates	90,480	48,143
Claims payments	<u>(54,981)</u>	<u>(87,801)</u>
Estimated liability - End of year	<u>\$ 275,289</u>	<u>\$ 239,790</u>
Estimated liability for claims reported	\$ 125,493	\$ 61,790
Estimated liability for claims incurred but not reported	<u>149,796</u>	<u>178,000</u>
Total estimated liability	<u>\$ 275,289</u>	<u>\$ 239,790</u>

Note 10 - Defined Contribution Pension Plan

The Rochester Hills Group Pension Plan, which is administered by the City, provides pension benefits for substantially all of its full-time employees, City Council members, and paid on-call firefighters through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees over 18 years of age are eligible to participate after a six-month probationary period. As established by the pension contract, the City contributes 12 percent or 14 percent of employees' gross earnings, certain employee groups have a mandatory 3 percent employee match, and any participant can match City contributions at their discretion. In accordance with these requirements, the City contributed \$2,067,443 during the current year, employees' mandatory contributions were \$358,350, and employee voluntary contributions were \$28,229. The City's contributions for each employee (plus interest allocated to the employee's account) are fully vested after five years of continuous service.

Note 11 - Other Postemployment Benefits

The City has established a retiree health benefit program, which is composed of a health savings plan and a supplemental benefit plan. All active full-time employees who have completed their six-month probationary period are eligible for the health savings plan. The supplemental benefit plan is available only to those employees with 10 years of credited service as of March 21, 2001 and unreserved designations are reflected in the General Fund, Fire Fund, and Water and Sewer Fund. The City contributes to the health savings plan on a monthly basis a minimum of 3 percent of the compensation of all eligible employees. Certain employee groups must contribute the monetary equivalent of up to 16 hours of unused annual leave time over the maximum 40-hour accrual to the health savings plan annually. Benefits paid out depend solely on amounts contributed to the plan plus investment earnings. During the year, the City contributed, from various funds, \$531,761 to the health savings plan and employee mandatory and voluntary contributions were \$54,557 and \$97,304, respectively.

Expenditures for postemployment healthcare costs for employees participating in the supplemental benefit plan are paid as the applicable costs are incurred. During the year, this amounted to \$37,904.

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree 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 December 31, 2008.

Note 12 - Sales of Delinquent Property Taxes

The City annually sells its delinquent real property taxes to the County. The County then becomes responsible for collecting the taxes and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100 percent of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the City is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount because of the statutory provision that allows the County to retain all penalties and interest. During the current year, the City received \$1.6 million from this sale. At the end of the tax reversion process (approximately three years), the County charges the City back for any uncollected taxes. Historically, this amount has not been significant.

Required Supplemental Information

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 13,161,940	\$ 13,284,050	\$ 13,281,875	\$ (2,175)
Federal sources	150,320	173,860	139,993	(33,867)
State sources	5,313,200	5,006,000	5,298,510	292,510
Fees and permits	1,772,000	1,754,000	1,816,225	62,225
Fines and forfeitures	112,000	57,300	114,763	57,463
Charges for services	5,341,630	4,119,100	4,185,969	66,869
Investment earnings	820,000	1,378,000	1,353,519	(24,481)
Other	-	66,990	86,570	19,580
Sale of assets	-	-	1,979	1,979
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	26,671,090	25,839,300	26,279,403	440,103
Expenditures				
General government:				
City Council	237,160	174,390	161,266	13,124
City administration	3,648,130	5,155,700	5,106,955	48,745
Clerk	1,422,240	1,251,050	1,227,049	24,001
Assessing	1,846,650	1,631,160	1,590,383	40,777
Human resources	687,070	631,350	608,595	22,755
Support services	152,770	147,040	104,849	42,191
Public works:				
City development	592,920	564,520	566,743	(2,223)
Cemetery	261,340	239,060	233,932	5,128
Public safety:				
Building	3,579,500	3,224,030	3,112,934	111,096
Crossing guard	59,750	51,200	51,191	9
Community and economic development:				
Planning	1,237,500	1,083,320	1,042,492	40,828
Community development block grant	150,320	173,230	140,332	32,898
Recreation and culture:				
Parks and recreation	3,252,440	3,183,420	3,160,281	23,139
Historic district commission	12,550	17,550	11,763	5,787
Transfers to other funds	9,549,820	8,854,450	8,854,299	151
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	26,690,160	26,381,470	25,973,064	408,406
Excess of Revenue Over (Under) Expenditures	(19,070)	(542,170)	306,339	848,509
Fund Balance - Beginning of year	11,920,423	13,579,448	13,579,448	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - End of year	\$ 11,901,353	\$ 13,037,278	\$ 13,885,787	\$ 848,509

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Road Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 3,216,470	\$ 3,106,270	\$ 3,082,171	\$ (24,099)
Federal grant	-	232,770	250,033	17,263
Charges for services	213,500	203,500	212,945	9,445
Investment earnings	492,880	950,000	984,191	34,191
Other	217,830	173,850	187,013	13,163
Transfer from other funds	353,900	353,900	353,749	(151)
Total revenues	4,494,580	5,020,290	5,070,102	49,812
Expenditures - Public works				
Street maintenance	2,162,190	1,752,920	1,547,189	205,731
Capital outlay	5,991,470	4,080,910	3,147,244	933,666
Transfers to other funds	-	30,300	30,300	-
Total expenditures	8,153,660	5,864,130	4,724,733	1,139,397
Excess of Revenue Over (Under) Expenditures	(3,659,080)	(843,840)	345,369	1,189,209
Fund Balance - Beginning of year	15,145,840	18,423,087	18,423,087	-
Fund Balance - End of year	<u>\$ 11,486,760</u>	<u>\$ 17,579,247</u>	<u>\$ 18,768,456</u>	<u>\$ 1,189,209</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Road Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 1,214,300	\$ 1,214,300	\$ 1,183,456	\$ (30,844)
Other governmental sources	40,000	40,000	40,000	-
Licenses and permits	10,000	5,500	7,680	2,180
Charges for services	92,700	26,700	30,346	3,646
Special assessment	17,920	25,870	26,034	164
Investment earnings	69,880	150,420	155,766	5,346
Other	10,000	290	943	653
Transfers from other funds	<u>3,429,300</u>	<u>3,429,300</u>	<u>3,429,300</u>	<u>-</u>
 Total revenues	 4,884,100	 4,892,380	 4,873,525	 (18,855)
Expenditures - Public works				
Street maintenance	3,062,050	3,294,310	2,885,979	408,331
Capital outlay	2,545,100	3,203,920	3,046,082	157,838
Transfers to other funds	<u>329,640</u>	<u>375,080</u>	<u>375,080</u>	<u>-</u>
 Total expenditures	 <u>5,936,790</u>	 <u>6,873,310</u>	 <u>6,307,141</u>	 <u>566,169</u>
 Excess of Expenditures Over Revenue	 (1,052,690)	 (1,980,930)	 (1,433,616)	 547,314
 Fund Balance - Beginning of year	 <u>1,486,461</u>	 <u>2,938,886</u>	 <u>2,938,886</u>	 <u>-</u>
 Fund Balance - End of year	 <u>\$ 433,771</u>	 <u>\$ 957,956</u>	 <u>\$ 1,505,270</u>	 <u>\$ 547,314</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,382,850	\$ 6,401,650	\$ 6,399,690	\$ (1,960)
State sources	4,500	4,500	7,972	3,472
Licenses and permits	5,000	9,800	9,425	(375)
Fines and forfeitures	8,000	6,000	6,758	758
Charges for services	976,600	1,250,220	1,263,003	12,783
Investment earnings	200,000	212,000	222,059	10,059
Other	2,000	2,000	27,246	25,246
Sale of assets	-	-	187	187
	<u>7,578,950</u>	<u>7,886,170</u>	<u>7,936,340</u>	<u>50,170</u>
Expenditures				
Public safety - Fire	7,092,320	7,181,730	6,816,715	365,015
Transfers to other funds	563,240	704,440	704,440	-
	<u>7,655,560</u>	<u>7,886,170</u>	<u>7,521,155</u>	<u>365,015</u>
Excess of Revenue Over (Under) Expenditures	(76,610)	-	415,185	415,185
Fund Balance - Beginning of year	<u>1,317,768</u>	<u>1,227,513</u>	<u>1,227,513</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,241,158</u>	<u>\$ 1,227,513</u>	<u>\$ 1,642,698</u>	<u>\$ 415,185</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Special Police Protection Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 4,284,650	\$ 4,288,200	\$ 4,295,632	\$ 7,432
State sources	28,000	30,900	30,826	(74)
Other governmental sources	239,890	238,250	238,750	500
Fines and forfeitures	360,000	294,600	299,620	5,020
Charges for services	148,520	180,220	189,493	9,273
Investment earnings	16,250	167,700	166,756	(944)
Transfers from other funds	2,827,740	2,663,470	2,663,470	-
	<u>7,905,050</u>	<u>7,863,340</u>	<u>7,884,547</u>	<u>21,207</u>
Expenditures				
Public safety - Police	7,815,870	7,788,620	7,745,887	42,733
Transfers to other funds	346,290	346,290	346,290	-
	<u>8,162,160</u>	<u>8,134,910</u>	<u>8,092,177</u>	<u>42,733</u>
Excess of Expenditures Over Revenue	(257,110)	(271,570)	(207,630)	63,940
Fund Balance - Beginning of year	<u>405,749</u>	<u>407,633</u>	<u>407,633</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 148,639</u>	<u>\$ 136,063</u>	<u>\$ 200,003</u>	<u>\$ 63,940</u>

City of Rochester Hills, Michigan

Note to Required Supplemental Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all City funds except that operating transfers and debt proceeds have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end. During the year, the budget was amended in a legally permissible manner.

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

1. On or before the first Monday in July, each department director submits to the mayor a proposed operating budget for the next fiscal year.
2. The mayor prepares a comprehensive budget, which is presented to the City Council at the first meeting in August.
3. Public hearings are conducted to obtain residents’ comments.
4. Prior to November 1, the budget is legally adopted by the City Council.
5. Supplemental appropriations to the City’s budget require the approval of the City Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City had no significant expenditure budget variances for the year.

Other Supplemental Information

City of Rochester Hills, Michigan

Other Supplemental Information Combining Balance Sheet - All Fund Types Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ 12,123,257	\$ 7,672,143	\$ 14,599,188	\$ 34,394,588
Receivables:				
Property tax	2,101,189	2,267,749	-	4,368,938
Accounts	-	5,017	-	5,017
Accrued interest	73,148	83,564	151,743	308,455
Restricted assets - Assets held at County	197,356	-	-	197,356
Long-term receivables - Special assessments	-	336,929	-	336,929
Total assets	<u>\$ 14,494,950</u>	<u>\$ 10,365,402</u>	<u>\$ 14,750,931</u>	<u>\$ 39,611,283</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 45,416	\$ -	\$ -	\$ 45,416
Retainage payable	-	-	7,500	7,500
Accrued wages	11,220	-	-	11,220
Deposits and escrows	408,460	-	-	408,460
Due to other funds	-	-	32,915	32,915
Deferred revenue	3,705,664	4,382,146	-	8,087,810
Other liabilities	836	-	-	836
Total liabilities	4,171,596	4,382,146	40,415	8,594,157
Fund Balances				
Reserved - Pathways	-	-	2,074,939	2,074,939
Unreserved, designated for subsequent year's budget	1,317,860	1,006,810	1,312,144	3,636,814
Unreserved/Undesignated	9,005,494	4,976,446	11,323,433	25,305,373
Total fund balances	10,323,354	5,983,256	14,710,516	31,017,126
Total liabilities and fund balances	<u>\$ 14,494,950</u>	<u>\$ 10,365,402</u>	<u>\$ 14,750,931</u>	<u>\$ 39,611,283</u>

City of Rochester Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - All Fund Types Nonmajor Governmental Funds Year Ended December 31, 2007

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenue				
Property taxes	\$ 3,586,604	\$ 4,287,545	\$ -	\$ 7,874,149
Intergovernmental:				
State grants	30,000	-	-	30,000
Federal grants	-	-	27,425	27,425
Charges for services	169,909	-	365	170,274
Investment earnings	589,775	448,546	743,377	1,781,698
Special assessments	-	64,299	-	64,299
Other	35,589	-	7,035	42,624
Sale of assets	-	-	15,700	15,700
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	4,411,877	4,800,390	793,902	10,006,169
Expenditures				
Public works	1,019,131	-	-	1,019,131
Parks and recreation	1,892,482	-	-	1,892,482
Capital outlay	718,521	-	1,168,291	1,886,812
Debt service:				
Principal retirement	-	4,496,018	-	4,496,018
Interest and fiscal charges	-	1,887,132	-	1,887,132
Paying agent and other	-	824	-	824
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	3,630,134	6,383,974	1,168,291	11,182,399
Excess of Revenue Over (Under)				
Expenditures	781,743	(1,583,584)	(374,389)	(1,176,230)
Other Financing Sources (Uses)				
Transfers in	386,160	997,220	2,275,350	3,658,730
Transfers out	(738,890)	-	(465,210)	(1,204,100)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(352,730)	997,220	1,810,140	2,454,630
Net Change in Fund Balances	429,013	(586,364)	1,435,751	1,278,400
Fund Balances - Beginning of year	9,894,341	6,569,620	13,274,765	29,738,726
Fund Balances - End of year	<u>\$ 10,323,354</u>	<u>\$ 5,983,256</u>	<u>\$ 14,710,516</u>	<u>\$ 31,017,126</u>

Nonmajor Special Revenue Funds

Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes or to the acquisition of furniture, equipment, land, or other relatively minor or comparatively short-lived assets.

R.A.R.A. Millage Fund - This fund accounts for the special millage for Rochester-Avon Recreation Authority (R.A.R.A.) activities.

Pathway Fund - This fund accounts for the special millage used primarily to maintain pathways.

Public Improvement Fund - This fund accounts for the special millage for drainage improvement.

Older Persons' Millage Fund - This fund accounts for the special millage for the Older Persons' Commission activities.

Stoney Creek Perpetual Care Fund - This fund accounts for monies collected from sales of cemetery lots and spaces. A portion of this money is then deposited in this fund until such time as the cemetery is full. The remaining funds will then be used for ongoing cemetery maintenance.

Tree Fund - This fund accounts for monies collected from tree deposits. The monies can only be used for maintaining and preserving wooded areas.

Green Space Preservation - This fund accounts for the special millage to permanently preserve natural green spaces and wildlife habitats, and protect woodlands, wetland, rivers, and streams.

City of Rochester Hills, Michigan

	R.A.R.A. Millage Fund	Pathway Fund	Public Improvement Fund	Older Persons' Millage Fund
Assets				
Cash and investments	\$ 306,703	\$ 376,245	\$ 5,887,061	\$ 518,092
Receivables:				
Property tax	406,722	387,533	-	687,048
Accrued interest	-	-	36,251	-
Restricted assets - Assets held at County	-	-	197,356	-
Total assets	\$ 713,425	\$ 763,778	\$ 6,120,668	\$ 1,205,140
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 3,523	\$ 41,893	\$ -
Accrued wages	-	3,338	7,882	-
Deposits and escrows	-	1,600	-	-
Deferred revenue	713,425	679,766	20,000	1,205,140
Other liabilities	-	249	587	-
Total liabilities	713,425	688,476	70,362	1,205,140
Fund Balances				
Unreserved, designated for subsequent year's budget	-	-	1,317,860	-
Unreserved/Undesignated	-	75,302	4,732,446	-
Total fund balances	-	75,302	6,050,306	-
Total liabilities and fund balances	\$ 713,425	\$ 763,778	\$ 6,120,668	\$ 1,205,140

**Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
December 31, 2007**

Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ 1,085,649	\$ 1,938,793	\$ 2,010,714	\$ 12,123,257
-	-	619,886	2,101,189
11,423	25,474	-	73,148
<u>-</u>	<u>-</u>	<u>-</u>	<u>197,356</u>
<u>\$ 1,097,072</u>	<u>\$ 1,964,267</u>	<u>\$ 2,630,600</u>	<u>\$ 14,494,950</u>
\$ -	\$ -	\$ -	\$ 45,416
-	-	-	11,220
-	406,860	-	408,460
-	-	1,087,333	3,705,664
<u>-</u>	<u>-</u>	<u>-</u>	<u>836</u>
-	406,860	1,087,333	4,171,596
-	-	-	1,317,860
<u>1,097,072</u>	<u>1,557,407</u>	<u>1,543,267</u>	<u>9,005,494</u>
<u>1,097,072</u>	<u>1,557,407</u>	<u>1,543,267</u>	<u>10,323,354</u>
<u>\$ 1,097,072</u>	<u>\$ 1,964,267</u>	<u>\$ 2,630,600</u>	<u>\$ 14,494,950</u>

City of Rochester Hills, Michigan

	R.A.R.A Millage		Public	Older Persons'
	Fund	Pathway Fund	Improvement Fund	Millage Fund
Revenue				
Property taxes	\$ 695,117	\$ 660,467	\$ 1,316	\$ 1,174,072
State grants	-	-	-	-
Charges for services	-	4,074	118,451	-
Investment earnings	-	16,646	313,587	-
Other	-	-	35,589	-
Total revenue	695,117	681,187	468,943	1,174,072
Expenditures				
Public works	-	231,595	765,889	-
Parks and recreation	695,117	-	-	1,174,072
Capital outlay	-	-	73,748	-
Total expenditures	695,117	231,595	839,637	1,174,072
Excess of Revenue Over (Under) Expenditures	-	449,592	(370,694)	-
Other Financing Sources (Uses)				
Transfers in	-	-	386,160	-
Transfers out	-	(616,160)	(3,590)	-
Total other financing sources (uses)	-	(616,160)	382,570	-
Net Change in Fund Balances	-	(166,568)	11,876	-
Fund Balances - Beginning of year	-	241,870	6,038,430	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 75,302</u>	<u>\$ 6,050,306</u>	<u>\$ -</u>

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Special Revenue Funds
Year Ended December 31, 2007**

Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 1,055,632	\$ 3,586,604
-	30,000	-	30,000
40,772	6,612	-	169,909
55,920	100,594	103,028	589,775
<u>-</u>	<u>-</u>	<u>-</u>	<u>35,589</u>
96,692	137,206	1,158,660	4,411,877
-	21,647	-	1,019,131
-	-	23,293	1,892,482
<u>-</u>	<u>-</u>	<u>644,773</u>	<u>718,521</u>
<u>-</u>	<u>21,647</u>	<u>668,066</u>	<u>3,630,134</u>
96,692	115,559	490,594	781,743
-	-	-	386,160
<u>(119,140)</u>	<u>-</u>	<u>-</u>	<u>(738,890)</u>
<u>(119,140)</u>	<u>-</u>	<u>-</u>	<u>(352,730)</u>
(22,448)	115,559	490,594	429,013
<u>1,119,520</u>	<u>1,441,848</u>	<u>1,052,673</u>	<u>9,894,341</u>
<u>\$ 1,097,072</u>	<u>\$ 1,557,407</u>	<u>\$ 1,543,267</u>	<u>\$ 10,323,354</u>

City of Rochester Hills, Michigan

	R.A.R.A. Millage Fund			Pathway Fund		
	Amended		Variance with	Amended		Variance with
	Budget	Actual	Budget	Budget	Actual	Budget
Revenue						
Property taxes	\$ 696,360	\$ 695,117	\$ (1,243)	\$ 658,860	\$ 660,467	\$ 1,607
State grants	-	-	-	-	-	-
Charges for services	-	-	-	2,400	4,074	1,674
Investment earnings	-	-	-	17,820	16,646	(1,174)
Transfers in	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenue	696,360	695,117	(1,243)	679,080	681,187	2,107
Expenditures						
Public works	-	-	-	254,040	231,595	22,445
Parks and recreation	696,360	695,117	1,243	-	-	-
Capital outlay	-	-	-	-	-	-
Transfers out	-	-	-	616,160	616,160	-
Total expenditures	696,360	695,117	1,243	870,200	847,755	22,445
Excess of Revenue Over (Under)						
Expenditures	-	-	-	(191,120)	(166,568)	24,552
Fund Balances - Beginning of year	-	-	-	241,870	241,870	-
Fund Balances - End of year	\$ -	\$ -	\$ -	\$ 50,750	\$ 75,302	\$ 24,552

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2007

Public Improvement Fund			Older Persons' Millage Fund		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ 1,316	\$ 1,316	\$ 1,175,040	\$ 1,174,072	\$ (968)
-	-	-	-	-	-
104,800	118,451	13,651	-	-	-
310,000	313,587	3,587	-	-	-
386,160	386,160	-	-	-	-
35,580	35,589	9	-	-	-
836,540	855,103	18,563	1,175,040	1,174,072	(968)
836,540	765,889	70,651	-	-	-
-	-	-	1,175,040	1,174,072	968
80,720	73,748	6,972	-	-	-
3,590	3,590	-	-	-	-
920,850	843,227	77,623	1,175,040	1,174,072	968
(84,310)	11,876	96,186	-	-	-
6,038,430	6,038,430	-	-	-	-
\$ 5,954,120	\$ 6,050,306	\$ 96,186	\$ -	\$ -	\$ -

(Continued on next page)

City of Rochester Hills, Michigan

	Stoney Creek Perpetual Care Fund			Tree Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State grants	-	-	-	30,000	30,000	-
Charges for services	32,000	40,772	8,772	5,000	6,612	1,612
Investment earnings	54,600	55,920	1,320	95,000	100,594	5,594
Transfers in	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenue	86,600	96,692	10,092	130,000	137,206	7,206
Expenditures						
Public works	-	-	-	35,000	21,647	13,353
Parks and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Transfers out	119,140	119,140	-	-	-	-
Total expenditures	119,140	119,140	-	35,000	21,647	13,353
Excess of Revenue Over (Under)						
Expenditures	(32,540)	(22,448)	10,092	95,000	115,559	20,559
Fund Balances - Beginning of year	1,119,520	1,119,520	-	1,441,848	1,441,848	-
Fund Balances - End of year	\$ 1,086,980	\$ 1,097,072	\$ 10,092	\$ 1,536,848	\$ 1,557,407	\$ 20,559

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2007

Green Space Preservation			Total		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,053,890	\$ 1,055,632	\$ 1,742	\$ 3,584,150	\$ 3,586,604	\$ 2,454
-	-	-	30,000	30,000	-
-	-	-	144,200	169,909	25,709
97,500	103,028	5,528	574,920	589,775	14,855
-	-	-	386,160	386,160	-
-	-	-	35,580	35,589	9
1,151,390	1,158,660	7,270	4,755,010	4,798,037	43,027
-	-	-	1,125,580	1,019,131	106,449
37,800	23,293	14,507	1,909,200	1,892,482	16,718
700,000	644,773	55,227	780,720	718,521	62,199
-	-	-	738,890	738,890	-
<u>737,800</u>	<u>668,066</u>	<u>69,734</u>	<u>4,554,390</u>	<u>4,369,024</u>	<u>185,366</u>
413,590	490,594	77,004	200,620	429,013	228,393
<u>1,052,673</u>	<u>1,052,673</u>	<u>-</u>	<u>9,894,341</u>	<u>9,894,341</u>	<u>-</u>
<u>\$ 1,466,263</u>	<u>\$ 1,543,267</u>	<u>\$ 77,004</u>	<u>\$ 10,094,961</u>	<u>\$ 10,323,354</u>	<u>\$ 228,393</u>

Nonmajor Debt Service Funds

Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Road Improvement 2001 Fund - This fund accounts for payment of debt created for improvement to roads using Act 175 bonds. Revenue is generated from tax levies and expenditures are made for principal and interest.

Drain Fund - This fund accounts for payment of debt created for drain construction and maintenance. Revenue is generated from tax levies and expenditures are made for principal and interest.

Local Road Improvement 1994, 1995, 2001, and 2002 Funds - These funds account for payment of debt created for the improvement of local roads using Act 175 bonds. Revenue is generated from special assessment collections, and funds received under Act 51 are transferred to these funds from the Local Road Special Revenue Fund for the City's share. Expenditures are made for principal and interest.

OPC Building Bond 2001 Series Fund - This fund accounts for payment of debt created from the construction of a senior citizens building. Revenue is generated from tax levies and expenditures are made for principal and interest.

Refunding General Obligation Bond Series 1998 Fund - This fund accounts for payment of debt created for the refunding of the park and museum, park and recreation, and the library building bonds' called portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

Refunding Bond Series 2002 Fund - This fund accounts for payment of debt created for refunding of Series 1993 bonds' (parks and recreation bonds and library building bond) callable portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

Municipal Building Bond Series 2002 Fund - This fund accounts for payment of debt created from the construction of the municipal building addition. Revenue is generated from tax levies and expenditures are made for principal and interest.

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund	Local Road Improvement 1995 Fund
Assets					
Cash and investments	\$ 1,035,238	\$ 637,168	\$ 1,652,375	\$ 435,381	\$ 375,373
Receivables:					
Property tax	-	-	1,172,527	-	-
Accounts	-	3,053	-	365	1,599
Accrued interest	19,475	14,385	6,678	-	-
Long-term receivables - Special assessments	-	278,242	-	21,085	37,602
	<u>-</u>	<u>278,242</u>	<u>-</u>	<u>21,085</u>	<u>37,602</u>
 Total assets	 <u>\$ 1,054,713</u>	 <u>\$ 932,848</u>	 <u>\$ 2,831,580</u>	 <u>\$ 456,831</u>	 <u>\$ 414,574</u>
 Liabilities and Fund Balances					
 Liabilities - Deferred revenue	 \$ -	 \$ 278,242	 \$ 2,091,557	 \$ 21,085	 \$ 37,601
 Fund Balances					
Unreserved, designated for subsequent year's budget	113,680	70,390	32,310	155,230	121,780
Unreserved/Undesignated	941,033	584,216	707,713	280,516	255,193
	<u>1,054,713</u>	<u>654,606</u>	<u>740,023</u>	<u>435,746</u>	<u>376,973</u>
 Total fund balances	 <u>1,054,713</u>	 <u>654,606</u>	 <u>740,023</u>	 <u>435,746</u>	 <u>376,973</u>
 Total liabilities and fund balances	 <u>\$ 1,054,713</u>	 <u>\$ 932,848</u>	 <u>\$ 2,831,580</u>	 <u>\$ 456,831</u>	 <u>\$ 414,574</u>

**Debt Service Funds
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
\$ 511,382	\$ 358,401	\$ 681,296	\$ 37,753	\$ 1,947,776	\$ 7,672,143
418,073	208,305	468,844	-	-	2,267,749
-	-	-	-	-	5,017
-	-	-	-	43,026	83,564
-	-	-	-	-	336,929
<u>\$ 929,455</u>	<u>\$ 566,706</u>	<u>\$ 1,150,140</u>	<u>\$ 37,753</u>	<u>\$ 1,990,802</u>	<u>\$ 10,365,402</u>
\$ 745,760	\$ 371,575	\$ 836,326	\$ -	\$ -	\$ 4,382,146
11,480	61,360	241,640	2,660	196,280	1,006,810
<u>172,215</u>	<u>133,771</u>	<u>72,174</u>	<u>35,093</u>	<u>1,794,522</u>	<u>4,976,446</u>
<u>183,695</u>	<u>195,131</u>	<u>313,814</u>	<u>37,753</u>	<u>1,990,802</u>	<u>5,983,256</u>
<u>\$ 929,455</u>	<u>\$ 566,706</u>	<u>\$ 1,150,140</u>	<u>\$ 37,753</u>	<u>\$ 1,990,802</u>	<u>\$ 10,365,402</u>

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund	Local Road Improvement 1995 Fund
Revenue					
Property taxes	\$ -	\$ -	\$ 2,188,970	\$ -	\$ -
Investment earnings	58,768	52,963	56,613	32,765	29,079
Special assessments	-	37,464	-	9,749	17,086
	<u>-</u>	<u>37,464</u>	<u>-</u>	<u>9,749</u>	<u>17,086</u>
Total revenue	58,768	90,427	2,245,583	42,514	46,165
Expenditures					
Principal retirement	150,000	150,000	1,661,018	175,000	155,000
Interest and fiscal charges	85,863	84,800	517,443	26,293	36,050
Miscellaneous	-	-	435	-	-
	<u>-</u>	<u>-</u>	<u>435</u>	<u>-</u>	<u>-</u>
Total expenditures	235,863	234,800	2,178,896	201,293	191,050
Excess of Revenue Over (Under)					
Expenditures	(177,095)	(144,373)	66,687	(158,779)	(144,885)
Other Financing Sources - Transfers in	79,400	98,510	-	-	39,610
	<u>79,400</u>	<u>98,510</u>	<u>-</u>	<u>-</u>	<u>39,610</u>
Net Change in Fund Balance	(97,695)	(45,863)	66,687	(158,779)	(105,275)
Fund Balances - Beginning of year	1,152,408	700,469	673,336	594,525	482,248
	<u>1,152,408</u>	<u>700,469</u>	<u>673,336</u>	<u>594,525</u>	<u>482,248</u>
Fund Balances - End of year	<u>\$ 1,054,713</u>	<u>\$ 654,606</u>	<u>\$ 740,023</u>	<u>\$ 435,746</u>	<u>\$ 376,973</u>

Debt Service Funds

**Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2007**

OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
\$ 726,889	\$ 181,147	\$ 1,190,539	\$ -	\$ -	\$ 4,287,545
19,439	15,398	70,115	1,949	111,457	448,546
-	-	-	-	-	64,299
746,328	196,545	1,260,654	1,949	111,457	4,800,390
350,000	30,000	1,300,000	300,000	225,000	4,496,018
373,150	155,445	78,725	368,975	160,388	1,887,132
141	37	211	-	-	824
<u>723,291</u>	<u>185,482</u>	<u>1,378,936</u>	<u>668,975</u>	<u>385,388</u>	<u>6,383,974</u>
23,037	11,063	(118,282)	(667,026)	(273,931)	(1,583,584)
-	-	-	667,580	112,120	997,220
23,037	11,063	(118,282)	554	(161,811)	(586,364)
<u>160,658</u>	<u>184,068</u>	<u>432,096</u>	<u>37,199</u>	<u>2,152,613</u>	<u>6,569,620</u>
<u>\$ 183,695</u>	<u>\$ 195,131</u>	<u>\$ 313,814</u>	<u>\$ 37,753</u>	<u>\$ 1,990,802</u>	<u>\$ 5,983,256</u>

City of Rochester Hills, Michigan

	Road Improvement 2001			Local Road Improvement 2001		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	57,500	58,768	1,268	51,560	52,963	1,403
Special assessments	-	-	-	37,450	37,464	14
Transfers in	79,400	79,400	-	98,510	98,510	-
Total revenue	136,900	138,168	1,268	187,520	188,937	1,417
Expenditures						
Principal retirement	150,000	150,000	-	150,000	150,000	-
Interest and fiscal charges	85,870	85,863	7	84,800	84,800	-
Miscellaneous	-	-	-	-	-	-
Total expenditures	235,870	235,863	7	234,800	234,800	-
Excess of Revenue Over (Under)						
Expenditures	(98,970)	(97,695)	1,275	(47,280)	(45,863)	1,417
Fund Balances - Beginning of year	1,152,408	1,152,408	-	700,469	700,469	-
Fund Balances - End of year	\$ 1,053,438	\$ 1,054,713	\$ 1,275	\$ 653,189	\$ 654,606	\$ 1,417

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2007

Drain Fund			Local Road Improvement 1994			Local Road Improvement 1995		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 2,189,870	\$ 2,188,970	\$ (900)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
55,000	56,613	1,613	28,940	32,765	3,825	27,210	29,079	1,869
-	-	-	9,650	9,749	99	14,800	17,086	2,286
-	-	-	-	-	-	39,610	39,610	-
2,244,870	2,245,583	713	38,590	42,514	3,924	81,620	85,775	4,155
1,661,040	1,661,018	22	175,000	175,000	-	155,000	155,000	-
519,210	517,443	1,767	26,300	26,293	7	36,050	36,050	-
760	435	325	-	-	-	-	-	-
2,181,010	2,178,896	2,114	201,300	201,293	7	191,050	191,050	-
63,860	66,687	2,827	(162,710)	(158,779)	3,931	(109,430)	(105,275)	4,155
673,336	673,336	-	594,525	594,525	-	482,248	482,248	-
\$ 737,196	\$ 740,023	\$ 2,827	\$ 431,815	\$ 435,746	\$ 3,931	\$ 372,818	\$ 376,973	\$ 4,155

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City of Rochester Hills, Michigan

	OPC Building Bond 2001 Series			Refunding General Obligation Bond Series		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ 726,540	\$ 726,889	\$ 349	\$ 181,140	\$ 181,147	\$ 7
Investment earnings	19,000	19,439	439	15,000	15,398	398
Special assessments	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Total revenue	745,540	746,328	788	196,140	196,545	405
Expenditures						
Principal retirement	350,000	350,000	-	30,000	30,000	-
Interest and fiscal charges	373,160	373,150	10	155,460	155,445	15
Miscellaneous	250	141	109	620	37	583
Total expenditures	723,410	723,291	119	186,080	185,482	598
Excess of Revenue Over (Under) Expenditures	22,130	23,037	907	10,060	11,063	1,003
Fund Balances - Beginning of year	160,658	160,658	-	184,068	184,068	-
Fund Balances - End of year	\$ 182,788	\$ 183,695	\$ 907	\$ 194,128	\$ 195,131	\$ 1,003

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2007

Refunding Bond Series 2002			Municipal Building Bond Series 2002			Local Road Improvement 2002		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,190,900	\$ 1,190,539	\$ (361)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
65,000	70,115	5,115	1,400	1,949	549	110,000	111,457	1,457
-	-	-	-	-	-	-	-	-
-	-	-	667,580	667,580	-	112,120	112,120	-
1,255,900	1,260,654	4,754	668,980	669,529	549	222,120	223,577	1,457
1,300,000	1,300,000	-	300,000	300,000	-	225,000	225,000	-
78,740	78,725	15	368,980	368,975	5	160,400	160,388	12
400	211	189	-	-	-	-	-	-
1,379,140	1,378,936	204	668,980	668,975	5	385,400	385,388	12
(123,240)	(118,282)	4,958	-	554	554	(163,280)	(161,811)	1,469
432,096	432,096	-	37,199	37,199	-	2,152,613	2,152,613	-
\$ 308,856	\$ 313,814	\$ 4,958	\$ 37,199	\$ 37,753	\$ 554	\$ 1,989,333	\$ 1,990,802	\$ 1,469

(Continued on next page)

City of Rochester Hills, Michigan

Debt Service Funds Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual Nonmajor Governmental Budgeted Funds (Continued) Year Ended December 31, 2007

	Total		Variance with
	Amended	Actual	Amended
	Budget	Budget	Budget
Revenue			
Property taxes	\$ 4,288,450	\$ 4,287,545	\$ (905)
Investment earnings	430,610	448,546	17,936
Special assessments	61,900	64,299	2,399
Transfers in	997,220	997,220	-
	5,778,180	5,797,610	19,430
Expenditures			
Principal retirement	4,496,040	4,496,018	22
Interest and fiscal charges	1,888,970	1,887,132	1,838
Miscellaneous	2,030	824	1,206
	6,387,040	6,383,974	3,066
Excess of Revenue Over (Under)			
Expenditures	(608,860)	(586,364)	22,496
Fund Balances - Beginning of year	6,569,620	6,569,620	-
Fund Balances - End of year	\$ 5,960,760	\$ 5,983,256	\$ 22,496

Nonmajor Capital Projects Funds

Capital Projects Funds account for the purchase and replacement of major equipment, improvements, and the construction of major capital projects that are not financed by proprietary funds.

Capital Improvement Fund - This fund accounts for the capital purchases and construction by the City. Revenue is transferred from other City funds, or generated from grants or bond proceeds. Expenditures incurred for the purchases or development are recorded in this fund.

Pathway Construction Fund - This fund accounts for monies received from the Pathway Fund and private development to support major rehabilitation and construction of pedestrian pathway systems.

Fire Capital Fund - This fund accounts for the purchase and replacement of major fire department capital items.

City of Rochester Hills, Michigan

Capital Projects Funds Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Capital Improvement Fund	Pathway Construction Fund	Capital Fire Fund	Total Nonmajor Capital Projects Funds
Assets				
Cash and investments	\$ 3,618,944	\$ 2,633,163	\$ 8,347,081	\$ 14,599,188
Receivables - Accrued interest	16,934	36,316	98,493	151,743
Total assets	\$ 3,635,878	\$ 2,669,479	\$ 8,445,574	\$ 14,750,931
Liabilities and Fund Balances				
Liabilities				
Retainages payable	\$ -	\$ 7,500	\$ -	\$ 7,500
Due to other funds	32,915	-	-	32,915
Total liabilities	32,915	7,500	-	40,415
Fund Balances				
Reserved - Pathways	-	2,074,939	-	2,074,939
Unreserved, designated for subsequent year's budget	-	226,974	1,085,170	1,312,144
Unreserved/Undesignated	3,602,963	360,066	7,360,404	11,323,433
Total fund balances	3,602,963	2,661,979	8,445,574	14,710,516
Total liabilities and fund balances	\$ 3,635,878	\$ 2,669,479	\$ 8,445,574	\$ 14,750,931

City of Rochester Hills, Michigan

Capital Projects Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2007

	Capital Improvement Fund	Pathway Construction Fund	Fire Capital Fund	Total Nonmajor Capital Projects Funds
Revenue				
Federal grants	\$ -	\$ -	\$ 27,425	\$ 27,425
Charge for services	-	365	-	365
Investment earnings	172,217	146,790	424,370	743,377
Other	-	-	7,035	7,035
Sale of assets	-	-	15,700	15,700
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	172,217	147,155	474,530	793,902
Expenditures - Capital outlay	<hr/> 90,463	<hr/> 571,132	<hr/> 506,696	<hr/> 1,168,291
Excess of Revenue Over (Under) Expenditures	81,754	(423,977)	(32,166)	(374,389)
Other Financing Sources (Uses)				
Transfers in	954,750	616,160	704,440	2,275,350
Transfers out	(258,210)	-	(207,000)	(465,210)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	696,540	616,160	497,440	1,810,140
Net Change in Fund Balances	778,294	192,183	465,274	1,435,751
Fund Balances - Beginning of year	<hr/> 2,824,669	<hr/> 2,469,796	<hr/> 7,980,300	<hr/> 13,274,765
Fund Balances - End of year	<hr/> \$ 3,602,963	<hr/> \$ 2,661,979	<hr/> \$ 8,445,574	<hr/> \$ 14,710,516

City of Rochester Hills, Michigan

	Capital Improvement Fund			Pathway Construction Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charge for services	-	-	-	760	365	(395)
Investment earnings	165,000	172,217	7,217	140,000	146,790	6,790
Transfers in	954,750	954,750	-	616,160	616,160	-
Other	-	-	-	-	-	-
Sale of assets	-	-	-	-	-	-
Total revenue	1,119,750	1,126,967	7,217	756,920	763,315	6,395
Expenditures						
Capital outlay	81,430	90,463	(9,033)	721,620	571,132	150,488
Transfers out	258,210	258,210	-	-	-	-
Total expenditures	339,640	348,673	(9,033)	721,620	571,132	150,488
Excess of Revenue Over (Under)						
Expenditures	780,110	778,294	(1,816)	35,300	192,183	156,883
Fund Balances - Beginning of year	2,824,669	2,824,669	-	2,469,796	2,469,796	-
Fund Balances - End of year	\$ 3,604,779	\$ 3,602,963	\$ (1,816)	\$ 2,505,096	\$ 2,661,979	\$ 156,883

Capital Projects Funds
Combining Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2007

Fire Capital Fund			Total		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ 27,425	\$ 27,425	\$ -	\$ 27,425	\$ 27,425
-	-	-	760	365	(395)
417,500	424,370	6,870	722,500	743,377	20,877
704,440	704,440	-	2,275,350	2,275,350	-
56,930	7,035	(49,895)	56,930	7,035	(49,895)
<u>15,700</u>	<u>15,700</u>	<u>-</u>	<u>15,700</u>	<u>15,700</u>	<u>-</u>
1,194,570	1,178,970	(15,600)	3,071,240	3,069,252	(1,988)
518,130	506,696	11,434	1,321,180	1,168,291	152,889
<u>207,000</u>	<u>207,000</u>	<u>-</u>	<u>465,210</u>	<u>465,210</u>	<u>-</u>
<u>725,130</u>	<u>713,696</u>	<u>11,434</u>	<u>1,786,390</u>	<u>1,633,501</u>	<u>152,889</u>
469,440	465,274	(4,166)	1,284,850	1,435,751	150,901
<u>7,980,300</u>	<u>7,980,300</u>	<u>-</u>	<u>13,274,765</u>	<u>13,274,765</u>	<u>-</u>
<u>\$ 8,449,740</u>	<u>\$ 8,445,574</u>	<u>\$ (4,166)</u>	<u>\$ 14,559,615</u>	<u>\$ 14,710,516</u>	<u>\$ 150,901</u>

Internal Service Funds

Internal Service Funds account for the financing of goods or services provided by one City department or agency to other departments or agencies primarily on a cost-reimbursement basis.

Building and Grounds Fund - This fund accounts for the costs of operating and maintaining the land and buildings of the City, excluding the water and sewer building.

Management Information Systems Fund - This fund accounts for the costs of data processing services provided to various City departments. The actual cost of materials and services is reimbursed to this fund by the user departments.

Fleet Equipment Fund - This fund accounts for the costs of acquiring and maintaining City-operated vehicles used by various City departments. The actual cost of labor and materials is reimbursed to this fund by the user departments.

Insurance Fund - This fund accounts for the City's self-insured premium payments for general liability, fleet, and property insurance. Recorded in this fund are the reserves and the estimated IBNR liability.

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Net Assets December 31, 2007

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 2,660,732	\$ 1,020,417	\$ 2,401,905	\$ 636,220	\$ 6,719,274
Investments	5,777,987	2,228,150	3,589,968	-	11,596,105
Accrued interest receivable	73,616	48,872	94,249	-	216,737
Other	-	-	-	208,665	208,665
Total current assets	8,512,335	3,297,439	6,086,122	844,885	18,740,781
Property, plant, and equipment:					
Land	17,726,940	-	-	-	17,726,940
Land improvements	3,894,437	-	-	-	3,894,437
Building	29,122,886	-	-	-	29,122,886
Furniture	1,750,200	3,448,207	-	-	5,198,407
Machinery and equipment	709,720	-	2,163,188	-	2,872,908
Vehicles	-	-	4,771,794	-	4,771,794
Total property, plant, and equipment	53,204,183	3,448,207	6,934,982	-	63,587,372
Less accumulated depreciation	(12,130,282)	(2,905,267)	(4,993,790)	-	(20,029,339)
Net property, plant, and equipment	41,073,901	542,940	1,941,192	-	43,558,033
Total assets	49,586,236	3,840,379	8,027,314	844,885	62,298,814
Liabilities					
Current liabilities:					
Accounts payable	217,077	27,233	13,238	-	257,548
Retainage payable	750	-	-	-	750
Accrued wages	9,664	12,550	16,378	-	38,592
Accrued vacation	22,678	59,847	42,729	-	125,254
Accrued annual leave	13,222	25,150	15,966	-	54,338
Due to other funds	2,886	-	-	-	2,886
Payable related to capital lease obligations:					
Current portion of capital lease obligations	225,000	-	-	-	225,000
Accrued interest	59,529	-	-	-	59,529
Other liabilities	724	936	892	275,289	277,841
Total current liabilities	551,530	125,716	89,203	275,289	1,041,738
Long-term liabilities - Obligations under capital lease - Less current portion					
	3,205,000	-	-	-	3,205,000
Total liabilities	3,756,530	125,716	89,203	275,289	4,246,738
Net Assets					
Invested in capital assets - Net of related debt	37,643,901	542,940	1,941,192	-	40,128,033
Unrestricted	8,185,805	3,171,723	5,996,919	569,596	17,924,043
Total net assets	\$ 45,829,706	\$ 3,714,663	\$ 7,938,111	\$ 569,596	\$ 58,052,076

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Operating Revenue					
Charges for services	\$ 2,564,040	\$ 1,441,650	\$ 2,441,773	\$ 578,370	\$ 7,025,833
Miscellaneous revenue	12,056	1,003	2,933	90,158	106,150
Total operating revenue	2,576,096	1,442,653	2,444,706	668,528	7,131,983
Operating Expenses					
Salaries and wages	593,974	775,704	646,355	-	2,016,033
Public utilities	597,557	-	-	-	597,557
Professional services	795,909	349,417	279,560	708,199	2,133,085
Materials and supplies	128,523	62,576	17,516	-	208,615
Repairs and maintenance	148,165	170,693	431,370	-	750,228
Rentals	1,398	-	3,466	-	4,864
Depreciation and amortization	1,572,044	391,020	568,015	-	2,531,079
Total operating expenses	3,837,570	1,749,410	1,946,282	708,199	8,241,461
Operating Income (Loss)	(1,261,474)	(306,757)	498,424	(39,671)	(1,109,478)
Nonoperating Revenues (Expense)					
Investment earnings	429,120	180,802	284,275	46,704	940,901
Interest expense	(144,537)	-	-	-	(144,537)
Gain on sale of assets	103	15	40,351	-	40,469
Total nonoperating revenues	284,686	180,817	324,626	46,704	836,833
Income (Loss) - Before transfers	(976,788)	(125,940)	823,050	7,033	(272,645)
Transfers from Other Funds	1,072,320	257,200	79,740	-	1,409,260
Net Income	95,532	131,260	902,790	7,033	1,136,615
Net Assets - Beginning of year	45,734,174	3,583,403	7,035,321	562,563	56,915,461
Net Assets - End of year	\$ 45,829,706	\$ 3,714,663	\$ 7,938,111	\$ 569,596	\$ 58,052,076

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows Year Ended December 31, 2007

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 2,565,559	\$ 1,441,650	\$ 2,441,773	\$ 578,370	\$ 7,027,352
Cash payments for goods and services	(1,583,302)	(566,367)	(747,780)	(717,240)	(3,614,689)
Cash payments to employees	(587,389)	(768,107)	(631,975)	-	(1,987,471)
Other operating revenue	12,199	1,199	3,208	90,158	106,764
Net cash provided by (used in) operating activities	407,067	108,375	1,065,226	(48,712)	1,531,956
Cash Flows from Noncapital Financing Activities -					
Transfers in from other funds	1,072,320	257,200	79,740	-	1,409,260
Net cash provided by noncapital financing activities	1,072,320	257,200	79,740	-	1,409,260
Cash Flows from Capital and Related Financing Activities					
Proceeds from sale of capital assets	103	15	40,351	-	40,469
Payment for capital acquisitions	(395,100)	(201,433)	(245,715)	-	(842,248)
Principal payments	(200,000)	-	-	-	(200,000)
Interest paid	(146,704)	-	-	-	(146,704)
Net cash used in capital and related financing activities	(741,701)	(201,418)	(205,364)	-	(1,148,483)
Cash Flows from Investing Activities					
Purchase of investment securities	(9,539,709)	(3,838,025)	(5,557,048)	-	(18,934,782)
Proceeds from maturities of investment securities	9,470,544	4,234,335	5,532,640	-	19,237,519
Receipts of interest and dividends	409,102	165,154	224,809	46,704	845,769
Net cash provided by investing activities	339,937	561,464	200,401	46,704	1,148,506
Net Increase (Decrease) in Cash and Cash Equivalents	1,077,623	725,621	1,140,003	(2,008)	2,941,239
Cash and Cash Equivalents - January 1, 2007	1,583,109	294,796	1,261,902	638,228	3,778,035
Cash and Cash Equivalents - December 31, 2007	<u>\$ 2,660,732</u>	<u>\$ 1,020,417</u>	<u>\$ 2,401,905</u>	<u>\$ 636,220</u>	<u>\$ 6,719,274</u>

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows (Continued) Year Ended December 31, 2007

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (1,261,474)	\$ (306,757)	\$ 498,424	\$ (39,671)	\$ (1,109,478)
Adjustments to reconcile operating income (loss) to net cash from operating activities - Changes in assets and liabilities:					
Depreciation expense	1,572,044	391,020	568,015	-	2,531,079
Decrease (increase) in other assets	4,405	-	-	(44,540)	(40,135)
Increase (decrease) in accounts payable and other accrued expenses	92,092	24,112	(1,213)	35,499	150,490
 Total adjustments	 <u>1,668,541</u>	 <u>415,132</u>	 <u>566,802</u>	 <u>(9,041)</u>	 <u>2,641,434</u>
 Net cash provided by (used in) operating activities	 <u>\$ 407,067</u>	 <u>\$ 108,375</u>	 <u>\$ 1,065,226</u>	 <u>\$ (48,712)</u>	 <u>\$ 1,531,956</u>

Fiduciary Funds

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or funds. Agency Funds, which are custodial in nature (assets equal liabilities), do not involve measurement of results of operations.

Agency Funds

Trust and Agency Fund - This fund accounts for advance tax payments, delinquent taxes, and licensing recorded here until received and/or disbursed.

Tax Collection Fund - This fund accounts for the collection and distribution of current City tax levies.

Payroll Fund - This fund accounts for monies aggregated for payroll and payroll-related liabilities.

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Combining Statement of Assets and Liabilities December 31, 2007

	Trust and Agency Fund	Tax Collection Fund	Payroll Fund	Total
Assets - Cash and investments	<u>\$ 26,363</u>	<u>\$ 2,222,248</u>	<u>\$ 40,080</u>	<u>\$ 2,288,691</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 37,930	\$ 37,930
Due to other governmental units	26,363	2,177,344	2,150	2,205,857
Accrued and other liabilities	-	44,904	-	44,904
Total liabilities	<u>\$ 26,363</u>	<u>\$ 2,222,248</u>	<u>\$ 40,080</u>	<u>\$ 2,288,691</u>

City of Rochester Hills, Michigan

Fiduciary Funds - Agency Funds Combining Statement of Changes in Assets and Liabilities Year Ended December 31, 2007

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
<u>Trust and Agency Fund</u>				
Assets - Cash	\$ 9,725	\$ 2,229,308	\$ 2,212,670	\$ 26,363
Liabilities				
Accounts payable	\$ -	\$ 257,523	\$ 257,523	\$ -
Due to other governmental units	9,725	2,287,475	2,270,837	26,363
Total liabilities	\$ 9,725	\$ 2,544,998	\$ 2,528,360	\$ 26,363
<u>Tax Collection Fund</u>				
Assets - Cash	\$ 6,955,591	\$ 135,081,071	\$ 139,814,414	\$ 2,222,248
Liabilities				
Accounts payable	\$ -	\$ 103,037	\$ 103,037	\$ -
Due to other governmental/component units	6,883,228	2,192,149	6,898,033	2,177,344
Other liabilities	72,363	409,962	437,421	44,904
Total liabilities	\$ 6,955,591	\$ 2,705,148	\$ 7,438,491	\$ 2,222,248
<u>Payroll Fund</u>				
Assets - Cash	\$ 109,319	\$ 19,329,489	\$ 19,398,728	\$ 40,080
Liabilities				
Accounts payable	\$ 38,849	\$ 2,267,983	\$ 2,268,902	\$ 37,930
Due to other governmental/component units	70,470	4,090,777	4,159,097	2,150
Total liabilities	\$ 109,319	\$ 6,358,760	\$ 6,427,999	\$ 40,080

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Rochester Hills, Michigan

Financial Trend Information Net Assets by Component

	2003	2004	2005	2006	2007
Governmental Activities					
Invested in capital assets - Net					
of related debt	\$ 102,143,868	\$ 104,547,003	\$ 110,689,829	\$ 114,283,971	\$ 120,942,021
Restricted	39,330,766	40,857,866	44,263,028	49,911,176	49,530,590
Unrestricted	<u>11,314,980</u>	<u>13,463,681</u>	<u>19,576,062</u>	<u>20,562,505</u>	<u>26,878,656</u>
 Total net assets	 152,789,614	 158,868,550	 174,528,919	 184,757,652	 197,351,267
Business-type Activities					
Invested in capital assets - Net					
of related debt	101,977,631	102,001,742	102,222,247	103,730,294	112,770,535
Restricted	-	1,194,588	-	-	-
Unrestricted	<u>16,011,681</u>	<u>16,670,263</u>	<u>19,971,163</u>	<u>21,865,974</u>	<u>15,377,599</u>
 Total net assets	 117,989,312	 119,866,593	 122,193,410	 125,596,268	 128,148,134
Primary Government in Total					
Invested in capital assets - Net					
of related debt	204,121,499	206,548,745	212,912,076	218,014,265	233,712,556
Restricted	39,330,766	42,052,454	44,263,028	49,911,176	49,530,590
Unrestricted	<u>27,326,661</u>	<u>30,133,944</u>	<u>39,547,225</u>	<u>42,428,479</u>	<u>42,256,255</u>
 Total net assets	 <u>\$ 270,778,926</u>	 <u>\$ 278,735,143</u>	 <u>\$ 296,722,329</u>	 <u>\$ 310,353,920</u>	 <u>\$ 325,499,401</u>

City of Rochester Hills, Michigan

Financial Trend Information Changes in Governmental Net Assets

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
General government	\$ 5,534,357	\$ 5,315,958	\$ 6,536,790	\$ 4,682,613	\$ 6,299,416	\$ 5,190,888
Public works	10,561,451	11,821,075	10,202,863	10,077,715	10,138,213	11,521,381
Public safety	13,230,077	12,454,832	15,209,176	15,572,006	16,632,031	17,721,910
Community and economic development	1,031,855	1,122,233	1,408,730	1,321,727	1,153,060	1,193,025
Recreation and culture	4,321,750	10,811,594	4,368,573	4,478,326	4,744,567	5,098,671
Interest on long-term debt	3,228,504	2,756,725	2,412,476	2,383,866	2,231,178	2,020,901
Total expenses	37,907,994	44,282,417	40,138,608	38,516,253	41,198,465	42,746,776
Program Revenues						
Charges for services:						
General government	158,577	162,091	174,428	210,223	171,991	191,352
Public works	325,160	300,572	623,368	494,101	360,254	220,996
Public safety	2,672,243	3,377,608	3,961,344	3,703,136	3,453,260	3,387,525
Community and economic development	88,594	237,043	385,776	198,384	204,898	84,036
Recreation and culture	584,878	545,082	499,698	636,928	604,141	663,262
Total charges for services	3,829,452	4,622,396	5,644,614	5,242,772	4,794,544	4,547,171
Operating grants and contributions	5,014,149	4,574,716	4,706,356	4,468,171	4,721,131	4,759,738
Capital grants and contributions	3,976,627	3,853,788	1,917,810	6,162,297	2,450,364	1,662,224
Total program revenues	12,820,228	13,050,900	12,268,780	15,873,240	11,966,039	10,969,133
Net Expense	(25,087,766)	(31,231,517)	(27,869,828)	(22,643,013)	(29,232,426)	(31,777,643)
General Revenues						
Property taxes	23,569,820	24,461,796	26,077,515	27,492,422	29,985,752	31,851,346
State-shared revenues	7,367,745	5,712,210	5,443,641	5,395,634	5,341,983	5,362,252
Unrestricted investment earnings	1,469,179	918,270	944,204	2,618,951	4,900,644	5,578,240
Cable franchise fees	569,576	551,341	660,039	647,350	968,467	944,073
Miscellaneous	480,720	602,605	823,365	1,031,921	619,505	571,400
Gain on sale of capital assets	94,061	-	-	1,118,104	87,108	63,947
Total general revenues	33,551,101	32,246,222	33,948,764	38,304,382	41,903,459	44,371,258
Extraordinary Item - Consent judgment	-	-	-	-	(2,443,300)	-
Change in Net Assets	\$ 8,463,335	\$ 1,014,705	\$ 6,078,936	\$ 15,661,369	\$ 10,227,733	\$ 12,593,615

City of Rochester Hills, Michigan

Financial Trend Information Changes in Business-type Net Assets

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Operating Revenue						
Operating revenue	\$ 15,780,106	\$ 17,724,657	\$ 17,757,308	\$ 20,491,443	\$ 21,322,242	\$ 24,423,551
Other charges for services	33,628	19,540	39,981	24,986	35,073	314,323
Total operating revenue	15,813,734	17,744,197	17,797,289	20,516,429	21,357,315	24,737,874
Operating Expenses						
Cost of water purchased	5,656,469	6,222,278	6,203,605	7,506,554	7,343,822	8,766,059
Cost of sewage treatment	4,314,377	4,782,187	4,540,926	4,771,632	5,112,044	4,897,717
Other operation and maintenance costs	4,374,080	3,623,666	2,901,235	4,386,334	3,610,284	3,350,673
Administrative costs (salaries)	2,120,370	2,408,632	2,790,508	3,290,765	3,289,221	3,391,904
Depreciation	2,844,562	2,869,706	3,253,598	3,106,866	3,354,716	3,577,092
Total operating expenses	19,309,858	19,906,469	19,689,872	23,062,151	22,710,087	23,983,445
Operating Income (Loss)	(3,496,124)	(2,162,272)	(1,892,583)	(2,545,722)	(1,352,772)	754,429
Nonoperating Revenue (Expenses)						
Unrestricted investment earnings	704,283	373,066	248,495	517,710	972,934	918,369
Interest expense	(172,125)	(34,264)	-	-	-	-
Gain (loss) on disposal of assets	(9,261)	(123,281)	(3,258)	480,792	542	-
Total nonoperating revenue	522,897	215,521	245,237	998,502	973,476	918,369
Capital Contributions	1,369,672	1,298,935	1,463,634	1,455,048	999,985	329,520
Lines Constructed by Developers	1,809,498	716,477	2,060,993	2,418,989	2,782,169	549,548
Total capital contributions	3,179,170	2,015,412	3,524,627	3,874,037	3,782,154	879,068
Change in Net Assets	\$ 205,943	\$ 68,661	\$ 1,877,281	\$ 2,326,817	\$ 3,402,858	\$ 2,551,866

City of Rochester Hills, Michigan

Financial Trend Information Fund Balances of Governmental Funds

	2002	2003	2004	2005	2006	2007
General Fund						
Reserved	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 3,443,300	\$ 1,000,000
Unreserved	9,688,876	9,577,617	9,465,241	10,964,303	10,136,148	12,885,787
Total General Fund	9,688,876	10,577,617	10,465,241	11,964,303	13,579,448	13,885,787
All Other Governmental Funds						
Reserved	351,195	566,488	177,356	44,097	60,563	2,135,090
Unreserved, reported in:						
Special Revenue Funds	24,871,827	24,082,029	26,446,516	29,027,766	32,830,897	32,379,630
Debt Service Funds	3,722,903	3,746,922	6,749,421	6,999,896	6,569,620	5,983,256
Capital Projects Funds	24,489,950	12,103,723	8,968,239	10,461,338	13,274,765	12,635,577
Total all governmental funds	\$ 63,124,751	\$ 51,076,779	\$ 52,806,773	\$ 58,497,400	\$ 66,315,293	\$ 67,019,340

City of Rochester Hills, Michigan

Financial Trend Information Changes in Fund Balances of Governmental Funds

	2002	2003	2004	2005	2006	2007
Revenue						
Property taxes	\$ 23,569,820	\$ 24,461,796	\$ 26,077,515	\$ 27,492,422	\$ 29,985,752	\$ 31,851,346
Licenses and permits	2,020,444	2,060,010	2,379,571	1,929,475	2,085,161	1,833,330
Federal grants	206,429	407,022	436,595	271,076	196,306	417,451
State-shared revenues and grants	10,382,568	10,342,521	10,008,449	9,805,835	9,720,235	9,632,935
Other governmental revenues	269,123	205,265	244,079	260,660	271,548	278,750
Charges for services	4,902,224	5,596,345	5,860,708	6,974,473	6,365,265	6,052,030
Fines and forfeitures	475,074	547,780	520,485	575,901	446,243	421,141
Interest earnings	1,812,564	1,015,918	879,770	2,226,383	4,003,059	4,663,989
Other	1,630,246	1,848,796	385,795	1,410,503	471,312	452,595
Total revenue	45,268,492	46,485,453	46,792,967	50,946,728	53,544,881	55,603,567
Expenditures						
Current:						
General government	7,863,728	6,735,682	6,941,792	7,149,633	6,747,880	8,799,097
Public works	1,509,771	1,746,720	1,701,092	2,527,976	2,298,684	1,819,806
Public safety	13,286,384	13,959,215	15,036,185	15,695,576	16,599,439	17,726,727
Community and economic development	-	1,099,351	1,401,921	1,325,230	1,144,244	1,182,824
Streets	5,287,024	4,810,972	3,907,165	2,764,324	3,294,116	4,433,168
Recreation and culture	4,060,889	4,298,932	4,033,302	4,315,311	4,691,740	5,064,526
Capital outlay	15,392,464	20,175,677	3,815,752	5,253,484	3,510,025	8,080,138
Debt service:						
Principal	3,087,550	3,857,433	4,353,516	4,498,024	4,286,060	4,496,018
Interest	2,474,909	2,545,378	2,298,669	2,087,708	2,077,158	1,887,132
Miscellaneous	130,700	78,548	40,630	103,387	1,359	824
Total expenditures	53,093,419	59,307,908	43,530,024	45,720,653	44,650,705	53,490,260
Excess of Revenue Over (Under) Expenditures	(7,824,927)	(12,822,455)	3,262,943	5,226,075	8,894,176	2,113,307
Other Financing Sources (Uses)						
Debt issuance	21,508,992	2,810,626	1,120,000	3,235,000	-	-
Debt premium or discount	-	-	8,917	-	-	-
Sale of assets	-	65,316	46,952	38,401	-	-
Transfers in	25,515,334	13,491,801	14,297,368	9,949,344	10,208,696	10,105,249
Transfers out	(24,768,756)	(14,960,815)	(15,915,610)	(12,758,196)	(11,284,976)	(11,514,509)
Payment to refund bond escrow agent	(7,313,934)	(2,741,603)	(1,090,576)	-	-	-
Total other financing sources (uses)	14,941,636	(1,334,675)	(1,532,949)	464,549	(1,076,280)	(1,409,260)
Net Change in Fund Balances	7,116,709	(14,157,130)	1,729,994	5,690,624	7,817,896	704,047
Fund Balances - Beginning of year	58,117,200	65,233,909	51,076,779	52,806,773	58,497,397	66,315,293
Fund Balances - End of year	\$65,233,909	\$51,076,779	\$52,806,773	\$58,497,397	\$66,315,293	\$67,019,340
Debt Service as a Percentage of Noncapital Expenditures	15.10%	16.56%	16.85%	16.53%	15.47%	13.86%

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

City of Rochester Hills, Michigan

Revenue Capacity Information Taxable Value and Actual Value of Taxable Property

Tax Year	Taxable Value by Property Type					Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percentage of Actual
	Real Property				Personal Property			
	Residential	Commercial	Industrial					
1998	\$ 1,703,860,342	\$ 290,536,850	\$ 161,938,560	\$ 218,228,160	\$ 2,374,563,912	8.2003	\$ 5,084,351,900	46.70%
1999	1,799,178,214	298,155,930	170,201,090	228,085,700	2,495,620,934	9.1498	5,540,792,800	45.04%
2000	1,893,354,856	311,774,100	173,950,870	227,579,800	2,606,659,626	9.1498	5,933,598,420	43.93%
2001	2,020,107,840	330,144,480	180,596,730	227,393,630	2,758,242,680	9.3681	6,357,556,220	43.39%
2002	2,149,339,990	340,664,350	204,236,040	216,081,110	2,910,321,490	9.3681	6,820,348,980	42.67%
2003	2,268,429,800	393,431,720	197,006,740	205,993,980	3,064,862,240	9.3681	7,284,097,520	42.08%
2004	2,415,192,410	409,780,590	201,887,100	203,963,970	3,230,824,070	9.3681	7,654,823,720	42.21%
2005	2,573,882,270	440,887,010	199,880,260	187,326,370	3,401,975,910	9.6681	8,024,712,900	42.39%
2006	2,720,759,290	478,220,740	202,502,370	200,536,560	3,602,018,960	9.7060	8,368,567,980	43.04%
2007	2,801,498,910	510,999,610	209,350,210	205,537,880	3,727,386,610	9.7060	8,351,078,480	44.63%

Note: Under Michigan law, the revenue base is referred to as "taxable value." This amount represents assessed value (50 percent of true cash value), limited for each property by the lower of 5 percent or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

City of Rochester Hills, Michigan

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes			
	General Operating	Special Purpose	Debt	Total Direct Taxes	Oakland County Operating	Huron/Clinton Metro Authority	County Parks	Oakland Community College
1998:								
Homestead	1.6579	5.0618	1.4806	8.2003	4.1900	0.2235	0.2429	1.6456
Nonhomestead	1.6579	5.0618	1.4806	8.2003	4.1900	0.2235	0.2429	1.6456
1999:								
Homestead	2.6602	5.1755	1.3141	9.1498	4.1900	0.2218	0.2404	1.6295
Nonhomestead	2.6602	5.1755	1.3141	9.1498	4.1900	0.2218	0.2404	1.6295
2000:								
Homestead	2.7267	5.0098	1.4133	9.1498	4.1900	0.2202	0.2376	1.6109
Nonhomestead	2.7267	5.0098	1.4133	9.1498	4.1900	0.2202	0.2376	1.6109
2001:								
Homestead	2.8277	4.9982	1.5422	9.3681	4.1900	0.2186	0.2352	1.5952
Nonhomestead	2.8277	4.9982	1.5422	9.3681	4.1900	0.2186	0.2352	1.5952
2002:								
Homestead	2.9188	5.0136	1.4357	9.3681	4.1900	0.2170	0.2453	1.6090
Nonhomestead	2.9188	5.0136	1.4357	9.3681	4.1900	0.2170	0.2453	1.6090
2003:								
Homestead	3.0850	4.9673	1.3158	9.3681	4.1900	0.2161	0.2436	1.5983
Nonhomestead	3.0850	4.9673	1.3158	9.3681	4.1900	0.2161	0.2436	1.5983
2004:								
Homestead	3.1130	4.9339	1.3212	9.3681	4.1900	0.2154	0.2422	1.5889
Nonhomestead	3.1130	4.9339	1.3212	9.3681	4.1900	0.2154	0.2422	1.5889
2005:								
Homestead	3.2169	5.1809	1.2703	9.6681	4.1900	0.2146	0.2415	1.5844
Nonhomestead	3.2169	5.1809	1.2703	9.6681	4.1900	0.2146	0.2415	1.5844
2006:								
Homestead	3.7220	4.7980	1.1860	9.7060	4.1900	0.2146	0.2415	1.5844
Nonhomestead	3.7220	4.7980	1.1860	9.7060	4.1900	0.2146	0.2415	1.5844
2007:								
Homestead	3.8226	4.7980	1.0854	9.7060	4.1900	0.2146	0.2415	1.5844
Nonhomestead	3.8226	4.7980	1.0854	9.7060	4.1900	0.2146	0.2415	1.5844

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents, as follows:

	General Operating	Special Purpose	Debt
2007	3.9132	No limit	4.9544

Revenue Capacity Information Direct and Overlapping Property Tax Rates

Overlapping Taxes											Total Direct and Overlapping Rates by District		
Rochester Community School District					Avondale School District					Rochester Community Schools			Avondale Schools
Oakland Intermediate School District	State Education Tax	Operating	Supplemental	Debt	State Education Tax	Operating	Supplemental	Sinking	Debt				
	2.1208	6.0000	-	-	5.6000	6.0000	-	2.0944	-	7.0000	28.2231	24.0773	
	2.1208	6.0000	18.0000	-	5.6000	6.0000	18.0000	-	-	7.0000	42.1037	39.9829	
	2.0998	6.0000	-	-	5.6000	6.0000	-	1.9225	-	7.0000	24.8454	24.6681	
	2.0998	6.0000	18.0000	-	5.6000	6.0000	18.0000	-	-	7.0000	42.8454	40.7456	
	2.0752	6.0000	-	-	5.6000	6.0000	-	1.8190	-	7.0000	24.8970	24.6408	
	2.0752	6.0000	17.6508	-	5.6000	6.0000	18.0000	-	-	7.0000	42.5478	40.8218	
	3.4526	6.0000	-	-	5.2250	6.0000	-	1.7298	-	7.0000	26.6019	24.8791	
	3.4526	6.0000	17.3013	-	5.2250	6.0000	18.0000	-	-	7.0000	43.9032	41.1493	
	3.4224	6.0000	-	-	5.2250	6.0000	-	1.6793	-	7.0000	26.4875	24.7444	
	3.4224	6.0000	18.0000	-	5.2250	6.0000	18.0000	-	-	7.0000	44.4875	41.0651	
	3.3991	5.0000	-	-	5.2250	5.0000	-	1.5965	0.6000	7.0000	25.3310	24.1284	
	3.3991	5.0000	18.0000	-	5.2250	5.0000	18.0000	-	0.6000	7.0000	43.3310	40.5319	
	3.3789	6.0000	-	-	5.1800	6.0000	-	1.4092	0.6000	7.0000	26.3047	24.9350	
	3.3789	6.0000	18.0000	-	5.1800	6.0000	18.0000	-	0.6000	7.0000	44.3047	41.5258	
	3.3690	6.0000	-	-	5.1800	6.0000	-	1.3203	0.5989	7.0000	26.5379	25.0881	
	3.3690	6.0000	18.0000	-	5.1800	6.0000	18.0000	-	0.5989	7.0000	44.5379	41.7678	
	3.3690	6.0000	-	-	5.1800	6.0000	-	1.2503	0.5936	7.0000	26.4915	24.9664	
	3.3690	6.0000	18.0000	-	5.1800	6.0000	18.0000	-	0.5936	7.0000	44.4915	41.7161	
	3.3690	6.0000	-	-	5.1800	6.0000	-	1.2602	0.5936	7.0000	30.4855	34.1593	
	3.3690	6.0000	18.0000	-	5.1800	6.0000	18.0000	-	0.5936	7.0000	48.4855	50.8991	

City of Rochester Hills, Michigan

Revenue Capacity Information Principal Property Taxpayers

Taxpayer	2007			1998		
	2007 Taxable Value	Percentage of Total	2007 Rank	1998 Taxable Value	Percentage of Total	1998 Rank
Meadowbrook Associates	\$ 26,000,920	0.70	1	\$ -	-	-
Detroit Edison	24,494,990	0.66	2	24,803,540	1.04	1
New Plan (Hampton Village Center)	22,478,680	0.60	3	21,762,200	0.92	2
Fanuc Robotics	16,871,070	0.45	4	15,321,630	0.66	4
Winchester Center LLC	16,416,530	0.44	5	-	-	-
Stuart Frankel	16,238,350	0.44	6	16,192,200	0.68	3
River Oaks North, LLC (Solomon Property)	15,700,550	0.42	7	-	-	-
Singh Cider Mill Village	14,644,450	0.39	8	-	-	-
Associate Estates Realty	14,378,820	0.39	9	11,460,520	0.48	9
First Industrial Realty Trust	13,720,800	0.37	10	12,130,970	0.51	8
Lectron Projects	-	-	-	14,398,840	0.61	5
Stolaruk Corporation	-	-	-	12,996,900	0.55	6
Consumers Power	-	-	-	12,351,400	0.52	7
Singh Construction	-	-	-	10,924,020	0.46	10

Source: City Assessing Department

City of Rochester Hills, Michigan

Revenue Capacity Information Property Tax Levies and Collections

Tax Year	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1998	\$ 18,188,720	\$ 17,611,336	96.8	\$ 600,789	\$ 18,212,125	100.0
1999	19,455,388	18,866,963	97.0	616,334	19,483,297	100.0
2000	22,815,043	22,150,477	97.1	631,682	22,782,159	99.9
2001	23,914,509	22,997,740	96.2	772,899	23,770,639	99.4
2002	25,845,403	24,839,899	96.1	861,185	25,701,084	99.4
2003	27,239,989	26,222,382	96.3	879,231	27,101,614	99.5
2004	28,709,347	27,626,606	96.2	969,338	28,595,943	99.6
2005	30,256,675	28,998,137	95.8	1,051,151	30,049,288	99.3
2006	32,875,767	31,774,138	96.6	1,091,374	32,865,512	100.0
2007	34,941,567	33,496,756	95.9	1,471,825	34,968,580	100.0

Debt Capacity

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

City of Rochester Hills, Michigan

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds	\$ 17,100,000	\$ 15,865,000	\$ 14,575,000	\$ 25,355,000
County contractual obligations	19,348,214	18,690,291	17,666,105	16,575,332
Special assessment bonds	4,095,000	3,675,000	3,275,000	5,375,000
Capital leases	-	-	-	-
Total	40,543,214	38,230,291	35,516,105	47,305,332
Business-type Activities - General				
obligation bonds	<u>11,808,372</u>	<u>8,977,953</u>	<u>6,893,914</u>	<u>4,684,876</u>
Total debt of the government	<u>\$ 52,351,586</u>	<u>\$ 47,208,244</u>	<u>\$ 42,410,019</u>	<u>\$ 51,990,208</u>
Total taxable value	\$ 2,374,563,912	\$ 2,495,620,934	\$ 2,606,659,626	\$ 2,758,242,680
Ratio of total debt to taxable value	2.20%	1.89%	1.63%	1.88%
Total population	68,501	70,400	68,825	68,825
Total debt per capita based on taxable value	\$ 764.25	\$ 670.57	\$ 616.20	\$ 755.40

**Debt Capacity Information
Ratios of Outstanding Debt**

2002	2003	2004	2005	2006	2007
\$ 38,140,000	\$ 35,920,000	\$ 33,425,000	\$ 30,760,000	\$ 28,505,000	\$ 26,150,000
15,427,783	14,341,553	13,058,037	14,865,013	13,263,953	11,602,935
4,925,000	4,445,000	3,940,000	3,535,000	3,105,000	2,625,000
-	5,025,000	4,850,000	4,650,000	3,630,000	3,430,000
58,492,783	59,731,553	55,273,037	53,810,013	48,503,953	43,807,935
7,500,807	-	-	3,800,000	3,700,000	3,550,000
<u>\$ 65,993,590</u>	<u>\$ 59,731,553</u>	<u>\$ 55,273,037</u>	<u>\$ 57,610,013</u>	<u>\$ 52,203,953</u>	<u>\$ 47,357,935</u>
\$ 2,910,321,490	\$ 3,064,862,240	\$ 3,230,824,070	\$ 3,401,975,910	\$ 3,602,018,960	\$ 3,727,386,610
2.27%	1.95%	1.71%	1.69%	1.45%	1.27%
68,825	68,825	68,825	68,825	69,405	69,183
\$ 958.86	\$ 867.88	\$ 803.10	\$ 837.05	\$ 752.16	\$ 684.53

City of Rochester Hills, Michigan

Debt Capacity Information Ratios of General Bonded Debt Outstanding

Fiscal Year	State Equalization Value	Population	General Bonded Debt Obligation Outstanding (1)	Bonded Debt Obligations Outstanding (2)	General Bonded Debt Obligation Outstanding	Obligation Debt to Taxable Value	General Obligation Debt per Capita
1998	\$ 2,542,175,950	68,501	\$ 14,405,000	\$ 19,348,214	\$ 33,753,214	1.33%	\$ 492.74
1999	2,770,396,400	70,400	13,485,000	18,690,291	32,175,291	1.16%	457.04
2000	2,966,779,210	68,825	12,530,000	17,666,105	30,196,105	1.02%	438.74
2001	3,178,778,110	68,825	22,990,000	16,575,332	39,565,332	1.24%	574.87
2002	3,410,174,490	68,825	35,775,000	15,427,783	51,202,783	1.50%	743.96
2003	3,642,048,760	68,825	33,620,000	19,366,553	52,986,553	1.45%	769.87
2004	3,827,411,860	68,825	31,200,000	17,908,037	49,108,037	1.28%	713.52
2005	4,012,356,450	68,825	28,635,000	19,515,013	48,150,013	1.20%	699.60
2006	4,184,283,990	69,405	26,480,000	16,893,953	43,373,953	1.04%	624.94
2007	4,175,552,010	69,183	24,275,000	15,032,935	39,307,935	0.94%	568.17

(1) General bonded debt includes all direct bonded debt with the exception of Special Assessment and Michigan Transportation Bonds.

(2) Other general bonded debt includes County contractual obligations and capital lease.

City of Rochester Hills, Michigan

Debt Capacity Information Direct and Overlapping Governmental Activities Debt

Governmental Unit	Net General Bonded Debt Outstanding	City Share as Percent of Gross	Net City Share
Direct debt - City of Rochester Hills	\$ 24,275,000	100.00	\$ 24,275,000
Overlapping debt:			
Rochester School District	233,445,000	59.13	138,036,029
Avondale School District	101,340,134	49.79	50,457,253
Oakland County at Large	111,049,336	5.76	6,396,442
Oakland Community College	8,995,000	5.79	520,811
Oakland Intermediate School District	<u>55,185,000</u>	5.77	<u>3,184,175</u>
Total overlapping debt	<u>510,014,470</u>		<u>198,594,710</u>
Total	<u>\$ 534,289,470</u>		<u>\$ 222,869,710</u>

General bonded debt includes all direct bonded debt with the exception of Special Assessment and Michigan Transportation Bonds.

City of Rochester Hills, Michigan

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Debt Limit			
State equalized valuation	\$ 2,542,175,950	\$ 2,770,396,400	\$ 2,966,779,210
Debt limit (10 percent of state equalized valuation)	<u>10.00</u>	<u>10.00</u>	<u>10.00</u>
Total debt limit	254,217,595	277,039,640	296,677,921
Debt Subject to Debt Limit			
Total debt	52,351,586	47,208,244	42,410,019
Less deduction:			
Special Assessment Bonds	4,095,000	3,675,000	3,275,000
Michigan Transportation Highway Fund Bonds	<u>2,695,000</u>	<u>2,380,000</u>	<u>2,045,000</u>
Total amount of debt subject to limit	<u>45,561,586</u>	<u>41,153,244</u>	<u>37,090,019</u>
Legal Debt Margin	<u>\$ 208,656,009</u>	<u>\$ 235,886,396</u>	<u>\$ 259,587,902</u>
Net Debt Subject to Limit as Percentage of Debt Limit	17.92%	14.85%	12.50%

Debt Capacity Information
Legal Debt Margin

2001	2002	2003	2004	2005	2006	2007
\$3,178,778,110	\$3,410,174,490	\$3,642,048,760	\$3,827,411,860	\$4,012,356,450	\$4,184,283,990	\$4,175,552,010
10.00	10.00	10.00	10.00	10.00	10.00	10.00
317,877,811	341,017,449	364,204,876	382,741,186	401,235,645	418,428,399	417,555,201
51,990,208	65,993,590	59,731,553	55,273,037	57,610,013	52,203,953	47,357,935
5,025,000	4,925,000	4,445,000	3,940,000	3,555,000	3,105,000	2,625,000
4,055,000	3,680,000	3,210,000	2,695,000	2,125,000	2,025,000	1,875,000
42,910,208	57,388,590	52,076,553	48,638,037	51,930,013	47,073,953	42,857,935
<u>\$ 274,967,603</u>	<u>\$ 283,628,859</u>	<u>\$ 312,128,323</u>	<u>\$ 334,103,149</u>	<u>\$ 349,305,632</u>	<u>\$ 371,354,446</u>	<u>\$ 374,697,266</u>
13.50%	16.83%	14.30%	12.71%	12.94%	11.25%	10.26%

City of Rochester Hills, Michigan

Water and Sewer Revenue

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenues	Debt Service		
				Principal	Interest	Coverage
1998	\$ 13,865,140	\$ 15,509,926	\$ (1,644,786)	\$ 2,729,223	\$ 751,170	\$ -
1999	12,489,318	16,232,415	(3,743,097)	2,830,419	586,386	(0.16)
2000	10,716,670	15,821,937	(5,105,267)	2,084,039	480,081	(0.09)
2001	15,075,311	16,766,992	(1,691,681)	2,209,038	313,044	(0.19)
2002	18,992,904	19,243,358	(250,454)	2,384,069	172,155	(0.69)
2003	19,759,609	19,906,469	(146,860)	2,300,807	34,264	(0.23)
2004	21,321,916	19,676,120	1,645,796	-	-	-
2005	25,388,968	23,062,151	2,326,817	-	26,630	0.01
2006	26,112,945	22,710,087	3,402,858	100,000	131,115	0.04
2007	25,985,763	23,983,445	2,002,318	150,000	152,781	0.08

**Debt Capacity Information
Pledged-revenue Coverage**

Special Assessment Bonds			
Special Assessment Collections	Debt Service		Coverage
	Principal	Interest	
\$ 620,705	\$ 665,000	\$ 350,284	0.56
503,151	670,000	301,301	0.60
360,395	650,000	260,272	0.72
619,884	625,000	221,226	0.36
405,365	700,000	277,669	0.68
297,126	650,000	244,944	0.82
213,212	505,000	209,690	0.98
164,366	405,000	184,884	1.12
103,190	430,000	165,724	1.61
90,332	480,000	145,093	1.61

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Rochester Hills, Michigan

Demographic and Economic Information Housing Profile

Fiscal Year	Population		Personal Income (in Thousands)	Per Capita Personal Income	Unemployment Rate	City Housing Profile Number of Units	
1998	68,501	(2)	(1)	(1)	2.3	27,270	(5)
1999	70,400	(3)	(1)	(1)	2.2	27,368	(5)
2000	68,825	(4)	(1)	(1)	1.6	27,969	(5)
2001	68,825	(4)	(1)	(1)	2.5	28,191	(5)
2002	68,825	(4)	(1)	(1)	3.0	28,536	(5)
2003	68,825	(4)	(1)	(1)	3.2	28,723	(5)
2004	68,825	(4)	(1)	(1)	3.2	29,485	(5)
2005	68,825	(4)	(1)	(1)	3.3	29,590	(5)
2006	69,405	(6)	(1)	(1)	3.2	29,813	(5)
2007	69,183	(7)	(1)	(1)	2.8	29,760	(5)

(1) Information not available

(2) Source: Oakland County Planning Division, Estimated Growth Population through 1996

(3) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1999

(4) Source: U.S. Bureau of the Census

(5) Source: Rochester Hills Assessing Department

(6) Source: SEMCOG Estimated Population and Households in SE Michigan 2000-2006

(7) Source: SEMCOG Monthly Population and Households Estimates Feb. 1, 2008

City of Rochester Hills, Michigan

Demographic and Economic Information Principal Employers

Rank	Principal Employers	2007 Employees	Percentage of Total	1998 Employees	Percentage of Total	1998 Rank
1	Rochester Community Schools	1,700	4.20%	(1)	(1)	(1)
1	Crittenton Hospital	1,700	4.20%	(1)	(1)	(1)
2	Fanuc Robotics America	1,200	2.96%	(1)	(1)	(1)
3	Modern Engineering	1,100	2.72%	(1)	(1)	(1)
4	Webasto Sunroofs Inc.	437	1.08%	(1)	(1)	(1)
5	International Automotive Components	340	0.84%	(1)	(1)	(1)
6	Dura Automotive	280	0.69%	(1)	(1)	(1)
7	3-Dimensional Services	275	0.68%	(1)	(1)	(1)
8	Acord	250	0.62%	(1)	(1)	(1)
9	Henry Ford Health Systems Tech	200	0.49%	(1)	(1)	(1)
9	T-Systems	200	0.49%	(1)	(1)	(1)
9	Volkswagen Audi	200	0.49%	(1)	(1)	(1)
10	Energy Conversion Devices & Texaco Ovonics	180	0.44%	(1)	(1)	(1)

Data provided by the Planning Department

(1) Information not available

City of Rochester Hills, Michigan

Demographic and Economic Information Construction Activity

<u>Fiscal Year</u>	<u>Total Building Permits</u>	<u>Total Construction Valuation</u>
1998	990	\$ 90,457,005
1999	958	81,147,080
2000	842	89,154,870
2001	759	106,582,700
2002	886	145,489,900
2003	1,058	130,369,246
2004	1,005	170,586,904
2005	780	118,058,400
2006	604	93,315,021
2007	621	89,856,530

Source: City Building Department

City of Rochester Hills, Michigan

Demographic and Economic Information Miscellaneous Demographics

Population		Labor Characteristics	
2000 U.S. Census	68,825	Occupation	Number of Employees
1990 U.S. Census	61,766	Management, professional, and related	19,201
		Service	2,935
		Sales and office	9,226
		Farming, forestry, and fishing	26
		Construction, extraction, and maintenance	1,855
		Production, transportation, and material moving	2,801
		Total	36,044
Income Characteristics		Industry	
Household Income	Number of Households		
Less than \$10,000	823	Agriculture, forestry, fishing, hunting, and mining	25
\$10,000 - \$14,999	866	Construction	1,462
\$15,000 - \$24,999	1,679	Manufacturing	9,553
\$25,000 - \$34,999	1,751	Wholesale trade	1,424
\$35,000 - \$49,999	3,053	Retail trade	4,283
\$50,000 - \$74,999	5,025	Transportation, warehousing, and utilities	581
\$75,000 - \$99,999	4,251	Information	642
\$100,000 - \$149,999	5,086	Finance, insurance, real estate, rental, and leasing	2,296
\$150,000 or more	3,829	Professional, scientific, management, administrative, and waste management services	4,698
		Educational, health, and social services	7,150
		Arts, entertainment, recreation, accomodation, and food services	1,988
		Other professional and related services	1,257
		Public administration	685
		Total	36,044
Residential Characteristics			
Single Family	75.40%		
Multi Family	19.40%		
Mobile Homes	5.20%		
Age Statistics		Educational Characteristics	
Years	2000	Years of School Completed	Persons 25 and Over
Under 5	6.50%	Less than 9th grade	2.20%
5 to 19	21.60%	9th to 12th grade, no diploma	5.10%
20 to 24	4.50%	High school graduate	18.30%
25 to 44	30.10%	Some college, no degree	20.20%
45 to 64	26.60%	Associate's degree	6.90%
Over 64	10.70%	Bachelor's degree	28.30%
		Graduate or professional degree	18.90%

Source: U.S. Census Bureau (2000 Census)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Rochester Hills, Michigan

Operating Information Full-time Equivalent Government Employees

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government:										
Mayor	13	15	15	13	13	12	12	11	10	12
Election and clerks	13	11	9	9	6	8	8	8	9	9
Accounting	7	7	8	9	9	9	10	9	9	9
Assessing	11	12	12	11	12	11	11	11	10	10
Human resources	5	5	7	6	5	5	5	5	4	5
Treasury	6	6	5	5	5	5	4	3	3	3
Planning and zoning	7	8	7	8	6	7	8	8	7	8
Parks and recreation	15	14	18	17	22	21	19	19	17	17
Management information systems	4	4	6	6	7	7	7	7	8	8
Cemetery	1	1	1	1	2	2	2	2	2	2
Public safety:										
Police services (contracted officers)	50	54	54	56	58	58	58	58	59	59
Fire, EMS, and dispatch	21	23	28	36	42	42	43	45	48	48
Building	18	20	21	21	17	18	17	20	18	18
Ordinance enforcement	4	4	4	4	7	7	7	7	7	7
Public works:										
Department of public service	72	71	66	65	74	72	69	68	64	68
Forestry	4	5	5	5	5	5	5	5	5	5
Fleet	6	6	6	6	8	8	8	7	7	7
Facilities	10	9	9	9	8	8	8	7	7	7
Total	<u>267</u>	<u>275</u>	<u>275</u>	<u>287</u>	<u>306</u>	<u>305</u>	<u>301</u>	<u>300</u>	<u>294</u>	<u>302</u>

City of Rochester Hills, Michigan

Function/Program	1998	1999	2000	2001
Election:				
Number of elections	3	2	3	1
Registered voters	50,591	49,974	48,728	47,941
New registrations	4,707	4,254	2,901	(1)
Building:				
Permits issued	4,543	4,440	3,837	3,691
Inspections	14,987	13,813	10,360	8,970
Parks and recreation:				
Park attendance (estimate)	471,256	474,749	505,341	574,724
Museum attendance (estimate)	15,384	13,942	15,924	16,746
Education center attendance (estimate)	4,129	4,897	4,864	5,741
Forestry - Tree inventory	18,698	19,097	19,136	19,387
Major roads:				
Winter material applied - Salt (in tons)	1,229	2,445	2,903	1,422
Other material applied to major roads (in tons)	789	497	565	1,178
Linear feet of ditches cleaned - Major roads	(1)	(1)	(1)	(1)
Local roads:				
Pothole repair - Solvex applied (in tons)	130	53	105	154
Other material applied to local roads (in tons)	17,582	5,717	9,985	8,237
Winter material applied (in tons)	1,264	1,832	2,498	1,536
Fire:				
Fire inspections/reviews/investigations	686	1,501	1,207	919
Emergency calls received	11,807	13,535	14,273	11,981
Nonemergency calls received - Direct line	(1)	(1)	24,686	22,063
Number of fires	189	166	157	202
Number of rescues	2,006	2,199	2,210	2,255
Number of community education programs	337	287	208	205
Number of participants in education programs	8,222	5,934	3,950	3,411
Police (contracted services) - Dispatched calls for service	31,422	32,480	31,322	31,153
Patrol investigators:				
Criminal activity - New cases	756	630	681	641
Criminal activity - Recovered property	(1)	\$ 30,534	(1)	\$ 48,451
Uniformed patrol:				
Criminal activity - New cases	660	740	806	1,015
Criminal activity - Recovered property (\$)	\$ 5,152	(1)	(1)	\$ 281,544
Crime statistics:				
Part A crimes	(1)	(1)	2,857	2,832
Part B crimes	(1)	(1)	1,030	1,253
Part C crimes (Miscellaneous)	(1)	(1)	25,769	25,281
Water and sewer:				
Water and sewer utility billings (2)	264,686	265,197	271,810	263,993
Water sales (million cubic feet)	462	440	386	436
Meter reads (3)	(1)	(1)	(1)	189,630
Meter installations	1,037	1,972	1,675	2,219
Water purchased (million cubic feet)	461	480	422	423

Source: City departments

(1) Information not available

(2) Effective January 1, 2004, billing cycle changed from monthly to bimonthly

(3) Effective 2007, information provided by Accounting Division. Previous information provided by the Department of Public Service

Operating Information
Operating Indicators by Function

2002	2003	2004	2005	2006	2007
2	2	2	3	3	2
47,148	46,817	47,932	47,289	46,929	48,304
4,847	(1)	7,039	4,237	4,886	4,607
4,124	4,880	5,456	4,674	3,894	3,465
9,164	14,152	13,646	12,163	10,784	9,078
670,088	817,624	796,260	902,626	895,671	832,950
21,817	20,655	21,621	22,153	17,163	19,354
5,217	4,350	5,284	4,431	4,560	3,412
19,453	19,325	19,906	19,362	19,283	19,434
1,961	2,537	2,376	2,770	1,118	2,572
644	198	109	112	88	85
3,345	1,014	1,214	0	888	0
58	72	142	113	60	85
4,422	4,860	2,430	2,192	3,417	1,726
1,780	2,081	1,892	1,683	648	1,373
819	651	1,305	1,281	1,792	1,671
11,832	11,917	11,215	11,052	10,634	10,319
21,280	26,172	25,708	23,811	21,556	17,402
189	162	148	134	136	96
2,294	2,618	2,752	2,819	3,014	3,452
448	444	415	353	426	485
8,193	1,105	12,399	8,624	12,324	9,512
27,443	29,176	28,377	28,535	30,041	(1)
557	492	579	683	775	(1)
\$ 13,339	\$ 34,850	\$ 81,026	\$ 51,709	\$ 20,413	(1)
835	1,005	1,050	1,008	949	(1)
\$ 163,044	\$ 230,860	\$ 162,096	\$ 90,293	\$ 51,709	(1)
2,276	2,308	2,434	2,926	3,169	(1)
1,458	1,326	1,383	1,253	1,192	(1)
22,017	24,602	23,572	23,843	23,843	(1)
260,647	240,070	132,444	136,749	138,081	138,787
437	418	429	428	434	428
181,837	180,451	173,362	175,490	176,378	194,874
3,393	3,544	2,717	1,772	1,660	2,074
424	424	405	464	434	470

City of Rochester Hills, Michigan

Function/Program	1998	1999	2000	2001	2002
General government:					
Buildings - City Hall	1	1	1	1	1
Cemetery	1	1	1	1	1
Acreage	16.8	16.8	16.8	16.8	16.8
Public safety:					
Police station	1	1	1	1	1
Fire:					
Stations	5	5	5	5	5
Fire response vehicles	4	4	4	4	4
Emergency response vehicles	3	3	3	7	7
Public works:					
Buildings	1	1	1	1	1
Streets (miles):					
Miles of major roads	35.93	35.93	35.93	35.93	36.66
Miles of local roads	198.48	199.52	201.70	201.70	204.11
Water:					
Mains (miles)	393.91	399.17	402.31	408.72	417.70
Gate valves	4,275	4,296	4,299	4,332	4,366
Hydrants	4,557	4,571	4,573	4,586	4,617
Sewer:					
Miles of sanitary sewers	298.37	299.01	299.77	303.78	306.87
Miles of storm sewers	43.84	49.60	49.82	50.78	52.75
Manholes - Sanitary	7,089	7,107	7,138	7,247	7,356
Manholes - Storm	552	765	765	781	804
Inlets and catch basins	3,974	4,129	4,141	4,231	4,427
Parks and recreation:					
Major/Community parks:					
Buildings	14	14	14	14	14
Acreage	580.7	580.7	580.7	580.7	580.7
Developed parks/playgrounds	5	5	5	5	5
Developed fields (soccer, baseball, etc.)	14	14	14	17	17
Neighborhood parks:					
Acreage	23.6	23.6	23.6	23.6	23.6
Developed parks/playgrounds	2	2	2	2	2
Developed fields (soccer, baseball, etc.)	3	3	3	3	3
Special use parks:					
Buildings	9	9	9	9	9
Acreage	308.64	308.64	308.64	308.64	308.64
Museums	1	1	1	1	1
Education centers	1	1	1	1	1
Golf courses	1	1	1	1	1
Veteran's Memorial Pointe	1	1	1	1	1
Total park acreage	912.94	912.94	912.94	912.94	912.94
Number of parks	11	11	11	11	11

Information services:

Major/local roads (miles) - Department of Public Service
 Water/sewer (miles, valves, etc.) - DPS Engineering
 Parks and recreation - Parks and recreation master plan (2006)

* 2007 clean-up and verification of data by DPS Engineering

** DPS Engineering did clean-up and reclassification of gate valves to remove duplication and other ownership.

Operating Information Capital Asset Statistics

2003	2004	2005	2006	2007
1	1	1	1	1
1	1	1	1	1
16.8	16.8	16.8	16.8	59.1
1	1	1	1	1
5	5	5	5	5
8	8	10	10	10
7	7	8	8	8
1	1	1	1	2
36.66	36.66	37.62	37.56	37.65
204.11	206.50	211.52	215.55	216.11
425.34	429.88	434.32	439.24	428.27 *
4,417	4,435	4,506	4,615	4,369 **
4,668	4,699	4,772	4,821	4,829
312.10	317.29	321.47	322.50	323.92
53.43	53.67	54.00	54.80	53.07 *
7,462	7,630	7,726	7,754	7,857
811	814	822	822	843
4,475	4,532	4,572	4,599	4,662
15	16	16	16	16
580.7	580.7	590.7	590.7	590.7
5	5	5	5	5
17	17	17	17	17
23.6	23.6	23.6	23.6	23.6
2	2	2	2	2
3	3	3	3	3
9	10	10	10	10
308.64	308.64	308.64	308.64	308.64
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
912.94	912.94	922.94	922.94	922.94
11	11	11	11	11

City of Rochester Hills, Michigan

Operating Information State-shared Revenue and Gas and Weight Tax

State-shared Revenue

Fiscal Year Ended December 31	Modified Accrual Basis of Accounting	Accrual Basis of Accounting
1998	\$ 5,270,766	N/A
1999	5,447,282	N/A
2000	5,984,275	N/A
2001	6,541,567	N/A
2002	6,259,299	\$ 6,190,712
2003	5,863,048	5,712,210
2004	5,420,684	5,443,641
2005	5,474,685	5,395,634
2006	5,375,537	5,341,983
2007	5,298,510	5,362,252

Gas and Weight Taxes

Fiscal Year Ended December 31	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
1998	\$ 2,585,346	\$ 993,366	\$ 3,578,712
1999	2,606,715	999,811	3,606,526
2000	2,724,209	1,049,759	3,773,968
2001	2,848,175	1,087,766	3,935,941
2002	2,975,980	1,116,276	4,092,256
2003	3,007,318	1,168,414	4,175,732
2004	3,254,785	1,228,947	4,483,732
2005	3,114,289	1,183,035	4,297,324
2006	3,100,240	1,185,402	4,285,642
2007	3,082,171	1,183,456	4,265,627

Source: City of Rochester Hills

City of Rochester Hills, Michigan

**Federal Awards
Supplemental Information
December 31, 2007**

City of Rochester Hills, Michigan

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Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills as of and for the year ended December 31, 2007, which collectively comprise the City of Rochester Hills' basic financial statements, and have issued our report thereon dated April 11, 2008. Those basic financial statements are the responsibility of the management of the City of Rochester Hills. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester Hills' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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.

Plante & Moran, PLLC

April 11, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills as of and for the year ended December 31, 2007, which collectively comprise the City of Rochester Hills' basic financial statements, and have issued our report thereon dated April 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. As discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 2007-01 constitutes a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rochester Hills' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, Older Persons' Commission members, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 11, 2008

Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Rochester Hills with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2007. The major federal programs of the City of Rochester Hills are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rochester Hills' management. Our responsibility is to express an opinion on the City of Rochester Hills' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rochester Hills' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Rochester Hills' compliance with those requirements.

In our opinion, the City of Rochester Hills complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

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

Internal Control Over Compliance

The management of the City of Rochester Hills is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Rochester Hills' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, Older Persons' Commission members, management, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 11, 2008

City of Rochester Hills, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
Clusters:				
Community Development Block Grant - Entitlement and Small Cities Cluster - U.S. Department of Housing and Urban Development - Passed through Oakland County Department of Community Development - Entitlement Grant:	14.218			
Program year 2005-2006 #802261-60010		-	\$ 167,024	\$ 21,216
Program year 2006-2007 #802261-60010		-	150,322	61,383
Program year 2007-2008 #802261-60010		-	148,855	<u>57,733</u>
Total Community Development Block Grant Cluster				140,332
Highway Planning and Construction Cluster - U.S. Department of Transportation - Highway Planning and Construction - Passed through Michigan Department of Transportation - Federal Award (FAUS)	20.205	STP1993(001) HJ0900	859,000	250,033
Aging Cluster - U.S. Department of Health and Human Services - Passed through the Area Agency on Aging to the Older Persons' Commission - Special Programs for the Aging - Title III, Part C:				
Nutrition Services:	93.045			
2006-2007		07-9059-03	207,379	149,953
2007-2008		08-9059-03	204,539	51,802
Program income		-		<u>131,683</u>
Total Nutrition Services				333,438
Nutrition Services Incentive Program:	93.053			
2006-2007		07-9059-03	93,307	74,097
2007-2008		08-9059-03	79,354	<u>18,980</u>
Total Nutrition Services Incentive Program				<u>93,077</u>
Total Aging Cluster				426,515
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Area Agency on Aging to the Older Persons' Commission - Medicaid Assistance Program (Medicaid) - Home Delivered Meals	93.778	-	4,436	4,436
Homeland Security Cluster - U.S. Department of Homeland Security - Passed through the Michigan Department of State Police - Homeland Security Grant Program	97.044	EMW-2006-FG-16583	56,931	<u>27,425</u>
Total federal awards				<u>\$ 848,741</u>

City of Rochester Hills, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2007

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Rochester Hills and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Rochester Hills, Michigan

Schedule of Findings and Questioned Costs Year Ended December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.045 and 93.053	Aging Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Rochester Hills, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings

Reference Number	Finding
2007-1	<p>Finding Type - Material weakness</p> <p>Criteria - Management's goal is to adequately communicate significant transactions between the operating functions and the recordkeeping functions so that recordkeeping can be complete and accurate.</p> <p>Condition - Certain expenditure transactions that are not evidenced by written documentation of work performed (invoices or progress reports) were not fully recorded in the City's accounting records at the commencement of the audit process. After discussion with management, these transactions are now appropriately recorded in the records.</p> <p>Context - The City has a formal process for identifying expenditures incurred by December 31 but not yet paid (accounts payable). This process depends on individual departments reporting their accounts payable to the accounting department. However, the process each department goes through focuses principally on invoices that are received in January and February, and does not give adequate consideration to any additional expenditures for which invoices are not received. Some governmental agencies, such as the road commission, do not provide monthly invoices or other progress reports. In such a situation, the City should estimate the amount of expenditure to recognize for the work completed through December 31, based on the best information available to it.</p> <p>Cause - The City had not yet received documentation regarding amounts owed to other governmental agencies for ongoing construction projects being administered by those agencies and an estimate of the amount owed at December 31, 2007 was not communicated to the accounting department to be recorded.</p> <p>Effect - As a result, expenditures related to the ongoing construction projects were not reported in the accounting records prior to beginning the audit process, along with the related liabilities.</p> <p>Recommendation - We recommend that City operating departments communicate with the accounting and finance departments regarding estimates of expenditures incurred as of December 31 of each year, especially in situations where no invoice or other documentation is expected to be received after year end.</p>

City of Rochester Hills, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2007-1 (Continued)	Views of Responsible Officials and Planned Corrective Actions - Management is in the process of reviewing and updating the internal procedure that will improve identifying open commitments. This procedure will include working closely with all departments to assure that all open and unbilled commitments are reflected in the financial records. All financial transactions are reflected in the financial records and are accurately recorded for the period ended December 31, 2007.

Section III - Federal Program Audit Findings

None

City of Rochester Hills

Report to the City Council

December 31, 2007



Plante & Moran, PLLC
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April 11, 2008

To the Honorable Mayor and
 Members of the City Council
 City of Rochester Hills

We have recently completed our audit of the basic financial statements of the City of Rochester Hills for the year ended December 31, 2007. In addition to our opinion on the basic financial statements, we are providing the following communications:

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Informational Comments	6
Attachment I - Summary of Recorded Possible Adjustments	7

We are grateful for the opportunity to be of service to the City of Rochester Hills. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC

Joseph C. Heffernan

Lisa C. Manetta



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Report on the Results of the Audit Process

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills
1000 Rochester Hills Drive
Rochester Hills, MI 48309

Dear Mayor and Council Members:

We have audited the financial statements of the City of Rochester Hills for the year ended December 31, 2007 and have issued our report thereon dated April 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 31, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal controls of the City of Rochester Hills. Our consideration of internal controls was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City of Rochester Hills' financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate the results of our audit related to any identified instances of internal control significant deficiencies, noncompliance with laws, regulations, contracts or grant agreements, as well as any identified fraud or abuse. We have made this communication as part of our single audit report (the federal awards supplemental information report), dated April 11, 2008.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated March 3, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Rochester Hills are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. The City did update certain procedures to facilitate timely communication to the accounting department of significant transactions that occur outside the normal course of business to allow appropriate accounting to take place.

We noted no transactions entered into by the City of Rochester Hills during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were those related to the recording of liabilities and expenditures for construction projects in progress at year end that are administered by the Road Commission for Oakland County for which the City had not yet been invoiced.

Management's estimate of the amount owed to the Road Commission for Oakland County for work performed through December 31, 2007 is based on the estimated percentage of completion for each project. We evaluated the key factors and assumptions used to develop the estimates in determining that the amounts recorded are reasonable in relation to the financial statements taken as a whole.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, there were misstatements detected as a result of audit procedures. During the process of the audit, we identified adjustments to record liabilities and expenditures for construction projects in progress that had not yet been invoiced by the Road Commission for Oakland County; these adjustments were accepted and recorded by management. In addition, the results of our audit identified that the liability for insurance claims incurred but not reported was estimated and reported at an amount \$76,393 higher than our audit tests indicated was likely to be appropriate; this amount is not material (would impact the Internal Service Fund and government-wide governmental activities), and management has concluded not to record any adjustment.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated April 11, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Rochester Hills' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Honorable Mayor and
Members of the City Council
City of Rochester Hills

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Rochester Hills' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

This information is intended solely for the use of the mayor, the City Council, and management of the City of Rochester Hills and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

April 11, 2008

Informational Comments

Property Tax Revenue

Recent conditions in the real estate market are expected to have a negative impact on taxable values, even in more affluent communities such as the City of Rochester Hills. The good news is that a given drop in market values will not result in an equivalent drop in taxable values. On the other hand, this dampened effect is diminished each year we continue with market declines. In other words, if we were to experience a theoretical 10 percent market decline three years in a row, the effect on taxable value (which would be different for each community) might be a 1 percent drop the first year, 4 percent the next year, and 7 percent in the third. For this reason, it will be important to closely monitor taxable value, since this has the capacity to severely impact future years.

On the positive side, the City of Rochester Hills continues to demonstrate a strong financial position, both in its short-term as well as its long-term measures. We are confident that the City will weather the next few years without seriously impacting its service levels to residents.

Revenue Sharing

There appears to be some positive news relative to the state legislature's funding of state-shared revenue. While we still remain cautious about this important revenue source, the current proposals call for a 4 percent increase in funding for the year beginning October 1, 2008.

Act 51 gas and weight taxes, on the other hand, are anticipated to decline in the upcoming year. This is driven principally by higher gasoline prices which are causing residents to purchase fewer gallons of fuel. While this may be good news for the environment, it impacts the funding of your major and local street funds.

We will continue to monitor both these revenues and inform you of any significant changes.

Potential Legislation Impacting Property Taxes

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the "pop-up" or increase in taxable value that occurs when a property sells or a "super cap" on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Lastly, more personal property tax relief is also part of the new Michigan business tax. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills.

Client: **City of Rochester Hills**
 Opinion Unit **Governmental Activities**
 Y/E: **12/31/2007**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
	None					
Estimate Adjustments:						
B1	To adjust estimate of IBNR to estimate based on calculation per Q-6		\$ (76,393)			\$ (76,393)
Implied Adjustments:						
	None					
		\$ -	-	\$ -	\$ -	-
	Combined effect	<u>\$ -</u>	<u>\$ (76,393)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (76,393)</u>