

# 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 Roseville, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Roseville, Michigan

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# City of Roseville, Michigan

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Roseville, 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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Roseville, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007 on our consideration of the City of Roseville, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. 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*

December 13, 2007

# City of Roseville, Michigan

## Management's Discussion and Analysis

### Using This Annual Report

The annual report consists of a series of narratives and financial statements. This narrative is intended to serve as an introduction to the City of Roseville's (the "City") basic financial statements. The basic financial statements consist of three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplemental information, as well as continuing disclosure information related to bonded debt issued by the City of Roseville.

The format of the annual report was modified in 2003 to comply with the reporting requirements of Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are designed to present a long-term view of the City's finances. The fund financial statements, which follow the above-mentioned statements, illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund financial statements report the City's operations in more detail than the government-wide financial statements.

### **Government-wide Financial Statements**

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the City's assets and liabilities. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenues and expenses, regardless of when cash is actually received or paid.

The government-wide financial statements of the City are divided into two categories:

- **Government Activities** - Most of the City's basic services are included here such as police, fire, public works, recreation, and general administration. Property taxes, state-shared revenues, charges for services, and grants provide the majority of the funding.
- **Business-type Activities** - The City charges user fees to customers to cover costs of providing water and sewer services.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding or monitor spending. Some funds are required to be separately maintained by state law. The City Council establishes other funds to control and manage money for particular purposes.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balance for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Roseville maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects Fund, all of which are considered to be major funds. Data for the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other financial and supplemental information section of this report.

The City of Roseville adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- **Proprietary Funds** - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Roseville uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds accumulate and allocate costs internally among various functions. The City of Roseville uses Internal Service Funds to account for its self-insurance program and workers' compensation related expenditures. Because these programs predominantly benefit governmental rather than business-type functions, they have been consolidated within the governmental activities in the government-wide financial statements.
- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

# **City of Roseville, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Notes to the Financial Statements**

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplemental Information**

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. Also included in this section are the budgetary comparison statements for the General Fund, Major Special Revenue Funds, and Capital Projects Fund.

### **Other Financial and Supplemental Information**

Combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

### **The City of Roseville as a Whole**

The City's combined total net assets increased 9.3 percent from a year ago, increasing from \$97.5 million to \$106.6 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$7.8 million in total net assets or 9.4 percent, during fiscal year 2007. The increase in total net assets is primarily attributed to higher tax revenues generated from a voter approved millage increase, in addition to other factors: greater equity interest recognized in the City's joint venture investments and the reduction of current year and long-term debt obligations. The cumulative impact of these events exceeded the effects of funding retiree healthcare benefits and the establishment of the Retiree Health Care Benefits Trust, which reduced the City's cash reserves by \$3.5 million and \$1.25 million, respectively. Postemployment healthcare premiums have traditionally been paid by the City's pension fund through its available "excess earnings." During 2005, as a result of increasing healthcare costs coupled with declining interest rates, the Pension Fund was no longer able to cover this obligation. During 2007, this obligation was paid entirely by the General Fund. Business-type activities experienced an approximate \$1.3 million increase in total net assets. This increase is the result of the City's water and sewer rate restructuring implemented during fiscal year 2003, to cover the expected cost of critical repairs to the City's water and sewer infrastructure, coupled with disciplined expense control throughout fiscal year 2007. In addition, this amount also reflects contributions of water and sewer lines and other donated assets by developers of \$.05 million. Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, increased from approximately \$19.6 million at June 30, 2006 to \$24.3 million at June 30, 2007. Unrestricted net assets for business-type activities increased by approximately \$.4 million at June 30, 2007.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2007 to the prior year:

	June 30		Change	Percent
	2007	2006		
<b>Assets</b>				
Current assets	\$ 29.0	\$ 22.8	\$ 6.2	27.2
Noncurrent assets:				
Investment in joint ventures	7.5	7.2	0.3	4.2
Restricted assets	0.2	0.3	(0.1)	(33.3)
Capital assets	<u>78.5</u>	<u>78.3</u>	<u>0.2</u>	0.3
Total assets	<u>115.2</u>	<u>108.6</u>	<u>6.6</u>	6.1
<b>Liabilities</b>				
Current liabilities	5.6	5.8	(0.2)	(3.4)
Long-term liabilities	<u>18.7</u>	<u>19.7</u>	<u>(1.0)</u>	(5.1)
Total liabilities	<u>24.3</u>	<u>25.5</u>	<u>(1.2)</u>	(4.7)
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	60.3	59.1	1.2	2.0
Restricted	6.3	4.4	1.9	43.2
Unrestricted	<u>24.3</u>	<u>19.6</u>	<u>4.7</u>	24.0
Total net assets	<u>\$ 90.9</u>	<u>\$ 83.1</u>	<u>\$ 7.8</u>	9.4

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2007 from the prior year:

	Year Ended June 30		Change	Percent
	2007	2006		
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 5.0	\$ 5.1	\$ (0.1)	(2.0)
Operating grants and contributions	4.5	4.3	0.2	4.7
Capital grants and contributions	2.1	1.0	1.1	110.0
General revenue:				
Property taxes and related fees	29.5	22.2	7.3	32.9
State sources	4.9	5.2	(0.3)	(5.8)
Unrestricted investment earnings	1.4	0.8	0.6	75.0
Miscellaneous	0.1	0.1	-	-
Cable franchise fees	0.6	0.6	-	-
Total revenue	48.1	39.3	8.8	22.4
<b>Program Expenses</b>				
General government	11.6	10.5	1.1	10.5
Public safety	18.3	18.0	0.3	1.7
Public works - Highways and streets	5.9	6.0	(0.1)	(1.7)
Recreation and culture	3.4	3.7	(0.3)	(8.1)
Interest expense	1.1	0.8	0.3	37.5
Total program expenses	40.3	39.0	1.3	3.3
<b>Change in Net Assets</b>	<b>\$ 7.8</b>	<b>\$ 0.3</b>	<b>\$ 7.5</b>	2,500.0

The City's total governmental revenues increased \$8.8 million from \$39.3 in 2006 to \$48.1 million in 2007. Of this amount, property taxes accounted for approximately 61.3 percent, or \$29.5 million; state sources approximately 10.2 percent or \$4.9 million; and charges for services, which support programs costs such as building inspections, recreation programs, etc., also amounted to approximately 10.4 percent or \$5 million. In addition, the City received \$6.6 million in operating grants, capital grants, and capital contributions from federal and state sources, which accounted for approximately 13.7 percent of total governmental revenues.

# **City of Roseville, Michigan**

## **Management's Discussion and Analysis (Continued)**

Expenses increased by approximately \$1.3 million, or 3.3 percent, over the previous fiscal year. This increase is attributed to several factors including the annual 3 percent wage increases in compliance with existing labor agreements, the repayment of certain debt obligations, the \$3.5 million supplement to fund retiree healthcare benefits, the establishment of the Retiree Health Care Benefits Trust, as well as the continued demand for various governmental services by residents. The net effect of the increase was offset by the cumulative savings realized from various personnel vacancies, cost savings from renegotiated insurance contracts, and strong cost control programs, in addition to reductions in interest paid for long-term debt. The City continued to meet its actuarial required contributions for the defined benefit pension system during the fiscal year of 2006-2007. This is important for the City because future taxpayers should not be required to fund benefit payments that were earned in the current period.

During fiscal year 2006-2007, the City created a healthcare trust fund for the accumulation and investment of assets to be used for the funding of healthcare benefits for participants of the City of Roseville Employees Retirement System. The plan was established under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999. The assets of the fund are held in trust for the exclusive purpose of providing healthcare benefits to eligible retirees of the retirement system and for the payment of the administrative expenses of the trust. The board of trustees acts as the investment fiduciary to the assets of the trust and are comprised of the individuals who serve on the retirement system. For the fiscal year ended June 30, 2007, \$1.25 million was contributed to the healthcare trust by the General Fund.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2007 to the prior year:

	June 30		Change	Percent
	2007	2006		
<b>Assets</b>				
Current assets	\$ 8.7	\$ 8.0	\$ 0.7	8.8
Noncurrent assets - Capital assets	<u>8.5</u>	<u>7.6</u>	<u>0.9</u>	11.8
Total assets	17.2	15.6	1.6	10.3
<b>Liabilities</b>				
Current liabilities	1.3	1.0	0.3	30.0
Long-term liabilities	<u>0.2</u>	<u>0.2</u>	<u>-</u>	-
Total liabilities	<u>1.5</u>	<u>1.2</u>	<u>0.3</u>	25.0
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	8.5	7.6	0.9	11.8
Unrestricted	<u>7.2</u>	<u>6.8</u>	<u>0.4</u>	5.9
Total net assets	<u>\$ 15.7</u>	<u>\$ 14.4</u>	<u>\$ 1.3</u>	9.0

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the year ended June 30, 2007 from the prior year:

	Year Ended June 30		Change	Percent
	2007	2006		
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 11.2	\$ 10.9	\$ 0.3	2.8
Capital grants and contributions	0.1	0.1	-	-
Operating expenses other than depreciation	(9.9)	(9.6)	(0.3)	3.1
Depreciation	(0.4)	(0.4)	-	-
Operating income	1.0	1.0	-	-
Interest income	0.3	0.3	-	-
<b>Change in Net Assets</b>	<b>\$ 1.3</b>	<b>\$ 1.3</b>	<b>\$ -</b>	<b>-</b>

The City's business-type activities are recorded in the Water and Sewer Fund. Water and sewer operations are funded directly by user fees or charges for services. Revenues of the City's Water and Sewer Fund totaled \$11.3 million in 2007 and expenses were \$10.3 million. The City experienced an increase in net assets of \$1.3 million. For fiscal year 2007, City Council approved an 8 percent increase in the City's water and sewer rates. This rate increase was in line with the projected increases forecasted by the City of Detroit and South Macomb Sanitary District. During fiscal year 2003, city management revised the City's water and sewer rate structure to better isolate the effects of cost increases from the City of Detroit water system and the South Macomb Sanitary District. Historically, the City had not passed on to its customers the full effect of previous Detroit water and sewer rate increases. This trend became impossible to continue, especially after Detroit forecasted rate increases to average 10 percent annually for the next three to five years. The water and sewer rates reflect only the estimated cost for water units purchased or sewer treatment costs incurred by the City. No other expenses are factored into these rates. The City's local operating maintenance rate (LOM) primarily reflects the day-to-day operating costs and future capital outlay considerations of the Water and Sewer Fund, excluding the purchase of water and sewer treatment expense.

During fiscal year 2007, the water and sewer system realized a 3.2 percent decrease in the volume of water and sewage units purchased and a 5.2 percent decrease in the volume of water unit sold and sewage units treated. This overall decrease was supported by weather conditions experienced over the fiscal year. The water and sewer system also received \$.05 million in water and sewer lines and other donated assets contributed by developers.

# **City of Roseville, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **The City's Funds**

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue sharing. The City's major funds for 2007 include the General Fund, the Major and Local Streets Funds, and the Capital Projects Fund.

The General Fund receives all City revenue not designated for specific use by state statutes or City Charter, and accounts for most of the services provided to residents. The most significant of these are police and fire, which incurred expenditures of approximately \$17.8 million in 2007, before depreciation and other full-accrual accounting adjustments. The general operating millage levied by the City supports these two services. Overall, net assets in the General Fund increased by \$2.9 million primarily attributable to the November 2006 voter-approved 5 mill tax increase, which was implemented on the City's 2006 winter tax roll. The additional tax revenue lessened the financial impact of funding \$3.4 million for current retiree healthcare benefits, \$1.25 million to fund postretiree healthcare benefits, the increase in the actuarial required payment to fund the City's pension system, and the effects of long-term contractual obligations previously entered into by the City.

The Major and Local Streets Funds are the two funds used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in these funds. Net assets in the Major and Local Streets Funds increased by approximately \$109,000 and \$435,000, respectively. These increases are the result of closely monitored expenditures for capital improvements to the City's local road system in addition to year-end transfers to support future road projects.

The Capital Projects Fund includes the City's portion of the Lake St. Clair Clean Water Initiative projects being administered on behalf of the City by Macomb County. The City maintains certain intangible rights to a county drain asset equal to the City's share of the debt associated with the Clean Water Initiative project. Debt proceeds, special assessment collections, and operating transfers from other funds primarily support the activities within this fund. Net assets in the Capital Projects Fund increased approximately \$1,265,000 attributable to operating transfers to support capital improvements to City buildings slated for the fiscal year of 2007-2008. During the current fiscal year, no new debt was issued associated with the Clean Water Initiative project.

# **City of Roseville, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended once for fiscal year 2007. The total General Fund revenue budget increased by approximately \$7.7 million primarily attributed to the 5 mill tax increase approved by residents in November 2006. In addition to increased tax revenue, the City also benefited from increased federal grant revenues, proceeds received from refinancing debt previously issued, and higher than expected interest earned on investments despite recording lower revenues related to charges from services than anticipated. In total, the General Fund expenditure budget increased by approximately \$5 million. Despite savings from personnel vacancies, renegotiated insurance premiums, and various department operational efficiencies, the City incurred higher expenditures related to fuel costs and federal grant related expenditures, in addition to the \$.2 million repayment of a settlement with Consumer Energy Company regarding revised personal property tax tables used for utilities. At year end, actual General Fund revenues and expenditures were consistent with budgeted amounts.

### **Capital Assets and Long-term Debt Administration**

For the year ended June 30, 2007, the City had approximately \$87 million invested in a wide range of net capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. Included in the City's infrastructure assets are certain intangible rights to a county drain asset equal to the City's share of the debt associated with the Clean Water Initiative project. The total value of the City's infrastructure assets, net of depreciation contained in this report, increased to \$33.4 from \$32.4 million for fiscal years 2007 and 2006, respectively.

Debt reported in the financial statements typically relates to the purchase or construction of the above-mentioned capital assets and is reported as a liability on the statement of net assets. Debt service during fiscal year 2007 consisted of \$1.1 million in principal and \$.9 million in interest on all outstanding bonds and debt obligations, which included a \$.2 million settlement with Consumer Energy Company for personal property taxes collected in excess of the approved amounts under the revised tax tables for utilities. In addition, during fiscal year 2007, the City also issued \$4.9 million in general obligation bonds with an average interest rate of 3.954 percent. The proceeds from these bonds were used to advance refund \$4.65 million of outstanding Building Authority Limited Tax General Obligation Bonds, Series 1999. The advance refunding reduced total debt service payments over the next 13 years by \$.3 million, which represents an economic gain of \$.3 million. See the notes to the financial statements section of the report for additional information.

# City of Roseville, Michigan

## Management's Discussion and Analysis (Continued)

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

In November, 2007, Standard & Poor's Rating Services revised its rating outlook on the City's Building Authority existing bonds to stable from negative. Standard & Poor's also affirmed its 'A+' long-term rate and 'A+' underlying rating (SPUR) on bonds supported by the City of Roseville. The 'A+' rating reflects the City's access to substantial local and regional employment opportunities, ability to maintain adequate reserves, and capacity to balance its moderate debt burden with limited additional capital needs. The improved rating is in support of the City's turnaround plan, which relies on expenditure control to cure structural imbalance, attrition of City personnel, in addition to the voter approved 5.0 mills increase in the City's operating levy. The City is considered nearly developed and as such does not foresee a great deal of growth in the tax base from new construction. Accordingly, tax base growth over the past four years has averaged 3.0 percent, which equates to an average \$68,368 per capita. The City's revenue raising flexibility is limited as a result of levying at the Headlee limit. Despite the effects of the November 2006 operating levy increase and marginal increase in property values each year, the City cannot fully compensate for the effects of declining state-shared revenue payments experienced in recent years. In 2000, the City received \$6.3 million in revenue-sharing payments from the State of Michigan. State-shared revenue payments in 2007 were approximately \$4.8 million, which represents nearly 12 percent of the General Fund budget. For fiscal year 2008, the City has conservatively budgeted \$4.8 million due to the State's continued structural deficit problems. The effects of declining state-shared revenues are further intensified once inflationary increases are factored into the equation. For example, if the City had received state-shared revenue payments, adjusted for the effects of inflation, the City would have realized an additional \$10.3 million in state funding since 2000.

Expenses, on the other hand, continue to rise faster than inflation in many areas, many of which are contractual in nature and beyond the immediate control of City management. Although City departments continue to make concerted efforts to keep departmental expenditures at a minimum, it is the City's contractual obligations which most adversely influence the City's bottom line. Contractual obligations such as negotiated wage increases, pension contributions, and healthcare benefits are increasing at rates in excess of inflation. While our pension system is fully funded, we continue to experience dramatic increases in pension fund contribution requirements. During fiscal year 2007, the City became self-insured for workers' compensation claims to further protect the City's financial and human resources in the most cost-effective manner possible. The City anticipates overall expenses to increase on average between 5 percent and 10 percent annually. We further expect medical cost increases of 8 percent per year, after consideration of plan restructuring and other related insurance savings. New labor contracts are currently being negotiated with wage freezes and mandatory healthcare savings provisions.

# **City of Roseville, Michigan**

## **Management's Discussion and Analysis (Continued)**

For fiscal year 2008 and beyond, management has developed a five-year capital improvement plan and a five-year financial forecast that will be updated annually and reflected as part of the City's annual operating budget. The City continues to investigate potential new revenue opportunities and will continue to monitor and adjust expenditures to the revenue base in order to ensure that the City maintains adequate fund balance reserves. The City does not have a formal fund balance policy, but does target to maintain at least 10 percent of operating expenditures in the General Fund. Without question, the most adverse impact to fiscal year 2008 continues to be the estimated \$4.9 million funding for current and future retiree healthcare benefits. Despite increased designations by the City over the past three years to fund future retiree medical costs, the City remains severely underfunded with regard to GASB Statement No. 45. The new pronouncement requires 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 goes into effect on June 30, 2009.

### **Contacting the City's Financial Management**

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the city manager at the City of Roseville, 29777 Gratiot Avenue, Roseville, MI 48066.

# City of Roseville, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 24,629,778	\$ 5,838,820	\$ 30,468,598
Receivables:			
Property taxes receivable - Net of allowance	450,774	-	450,774
Special assessments receivable	245,376	-	245,376
Receivables from sales to customers on account	-	2,342,790	2,342,790
Accrued interest receivable	55,486	4,958	60,444
Other receivables	1,046,510	47,017	1,093,527
Due from other governmental units	2,068,530	-	2,068,530
Internal balances	(228,930)	228,930	-
Inventory	384,528	157,972	542,500
Prepaid expenses and other assets	366,569	64,639	431,208
Restricted assets (Note 1)	215,694	-	215,694
Investment in joint ventures (Note 12)	7,456,468	-	7,456,468
Capital assets:			
Assets not subject to depreciation (Note 5)	31,339,447	-	31,339,447
Assets subject to depreciation (Note 5)	47,154,917	8,485,741	55,640,658
Total assets	115,185,147	17,170,867	132,356,014
<b>Liabilities</b>			
Accounts payable	1,760,495	1,081,457	2,841,952
Due to other governmental units	-	28,190	28,190
Refundable deposits, bonds, etc.	244,158	42,425	286,583
Accrued liabilities and other	1,175,119	75,460	1,250,579
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 7)	1,364,351	107,485	1,471,836
Current portion of long-term debt (Note 7)	1,069,042	-	1,069,042
Due in more than one year:			
Compensated absences - Net of current portion (Note 7)	1,585,998	176,641	1,762,639
Long-term debt - Net of current portion (Note 7)	17,092,185	-	17,092,185
Total liabilities	24,291,348	1,511,658	25,803,006
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	60,548,831	8,485,741	69,034,572
Restricted for:			
Sanitation	2,339,798	-	2,339,798
Street and highway	1,698,077	-	1,698,077
Debt service	1,295,767	-	1,295,767
Law and drug enforcement	1,002,841	-	1,002,841
Unrestricted	24,008,485	7,173,468	31,181,953
Total net assets	<b>\$ 90,893,799</b>	<b>\$ 15,659,209</b>	<b>\$ 106,553,008</b>

# City of Roseville, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 11,768,931	\$ 2,402,912	\$ 590,271	\$ -
Public safety	18,017,566	2,253,238	792,888	785,327
Public works	6,277,272	86,168	3,109,842	1,320,924
Recreation and culture	3,385,705	274,887	11,794	-
Interest on long-term debt	914,312	-	-	-
Total governmental activities	40,363,786	5,017,205	4,504,795	2,106,251
Business-type activities - Water and sewer	10,289,226	11,217,255	-	45,900
Total primary government	<b>\$ 50,653,012</b>	<b>\$ 16,234,460</b>	<b>\$ 4,504,795</b>	<b>\$ 2,152,151</b>
General revenues:				
Property taxes				
State-shared revenue				
Unrestricted investment income				
Cable franchise fees				
Miscellaneous				
Total general revenues				
<b>Sale of Fixed Assets</b>				
<b>Transfers</b>				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2007**

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (8,775,748)	\$ -	\$ (8,775,748)
(14,186,113)	-	(14,186,113)
(1,760,338)	-	(1,760,338)
(3,099,024)	-	(3,099,024)
(914,312)	-	(914,312)
(28,735,535)	-	(28,735,535)
-	973,929	973,929
(28,735,535)	973,929	(27,761,606)
29,501,617	-	29,501,617
4,935,618	-	4,935,618
1,443,437	310,454	1,753,891
584,865	-	584,865
52,456	-	52,456
36,517,993	310,454	36,828,447
23,149	-	23,149
(17,636)	17,636	-
7,787,971	1,302,019	9,089,990
83,105,828	14,357,190	97,463,018
<b>\$ 90,893,799</b>	<b>\$ 15,659,209</b>	<b>\$ 106,553,008</b>

# City of Roseville, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents (Note 3)	\$ 11,863,087	\$ 1,606,445	\$ 1,272,856	\$ 3,509,167	\$ 2,158,906	\$ 20,410,461
Receivables:						
Property taxes receivable	447,864	-	-	-	11,910	459,774
Special assessments receivable	-	-	-	245,376	-	245,376
Accrued interest receivable	44,117	-	-	11,369	-	55,486
Other receivables	707,136	-	1,377	5,343	137,516	851,372
Due from other governmental units	1,545,795	405,528	117,207	-	-	2,068,530
Due from other funds (Note 6)	1,439,750	14,130	20,210	1,351,625	91,274	2,916,989
Prepaid expenses and other assets	308,666	-	-	-	19,110	327,776
Restricted assets (Note 1)	-	-	-	215,694	-	215,694
<b>Total assets</b>	<b>\$ 16,356,415</b>	<b>\$ 2,026,103</b>	<b>\$ 1,411,650</b>	<b>\$ 5,338,574</b>	<b>\$ 2,418,716</b>	<b>\$ 27,551,458</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 502,130	\$ 149,360	\$ 42,287	\$ 53,606	\$ 43,821	\$ 791,204
Due to other funds (Note 6)	1,404,268	784,345	763,684	143,252	54,265	3,149,814
Refundable deposits, bonds, etc.	243,408	-	-	750	-	244,158
Accrued liabilities and other	964,545	-	-	-	21,606	986,151
Deferred revenue (Note 4)	767,925	-	1,212	155,229	126,080	1,050,446
<b>Total liabilities</b>	<b>3,882,276</b>	<b>933,705</b>	<b>807,183</b>	<b>352,837</b>	<b>245,772</b>	<b>6,221,773</b>
<b>Fund Balances</b>						
Reserved for:						
Sanitation	2,339,798	-	-	-	-	2,339,798
Drug law enforcement	-	-	-	-	899,450	899,450
Prepaid expenses	258,666	-	-	-	-	258,666
Unreserved, reported in:						
General Fund:						
Designated:						
Capital improvements	10,000	-	-	-	-	10,000
Compensated absences	1,307,519	-	-	-	-	1,307,519
Working capital	1,545,795	-	-	-	-	1,545,795
Undesignated	7,012,361	-	-	-	-	7,012,361
Debt Service Funds	-	-	-	-	1,273,078	1,273,078
Special Revenue Funds	-	1,092,398	604,467	-	416	1,697,281
Capital Projects Fund	-	-	-	4,985,737	-	4,985,737
<b>Total fund balances</b>	<b>12,474,139</b>	<b>1,092,398</b>	<b>604,467</b>	<b>4,985,737</b>	<b>2,172,944</b>	<b>21,329,685</b>
<b>Total liabilities and fund balances</b>	<b>\$ 16,356,415</b>	<b>\$ 2,026,103</b>	<b>\$ 1,411,650</b>	<b>\$ 5,338,574</b>	<b>\$ 2,418,716</b>	<b>\$ 27,551,458</b>

# City of Roseville, Michigan

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2007

<b>Fund Balance Reported in Governmental Funds</b>	\$ 21,329,685
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	78,494,364
Investments in joint ventures are not financial resources and are not reported in the funds	7,456,468
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(18,161,227)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(2,950,349)
Bond premium/discount is not due and payable in the current period and it is not reported in the funds.	28,793
Allowance for doubtful accounts is not reported in the funds for taxes receivable to be collected over several years	(9,000)
Inventory is not available to pay for current period expenditures	384,528
Accrued interest is not due and payable in the current period and is not reported in the funds	(188,968)
Deferred revenue balances are expected to be collected over several years and are not available to pay for current year expenditures	1,050,446
Internal Service Funds are included as part of governmental activities	3,459,059
<b>Net Assets of Governmental Activities</b>	<b>\$ 90,893,799</b>

# City of Roseville, Michigan

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
<b>Revenue</b>						
Property taxes	\$ 29,034,609	\$ -	\$ -	\$ -	\$ 239,106	\$ 29,273,715
Licenses and permits	414,129	-	-	-	-	414,129
Federal grants	788,124	-	-	-	590,271	1,378,395
State-shared revenue and grants	4,935,618	2,394,400	713,792	-	192,363	8,236,173
Other charges for services	298,776	-	-	-	-	298,776
Other fines and forfeitures	2,504,108	-	-	-	-	2,504,108
Investment income	1,022,753	31,700	12,683	173,682	81,236	1,322,054
Rental income	-	-	-	18,550	-	18,550
Other revenue	2,356,763	-	-	392,418	458,488	3,207,669
<b>Total revenue</b>	<b>41,354,880</b>	<b>2,426,100</b>	<b>726,475</b>	<b>584,650</b>	<b>1,561,464</b>	<b>46,653,569</b>
<b>Expenditures - Current</b>						
General government	11,665,484	200,121	70,000	68,856	131,083	12,135,544
Public safety	17,780,831	-	-	-	256,096	18,036,927
Public works	2,138,077	1,630,949	1,741,531	557,809	345,382	6,413,748
Recreation and culture	2,674,221	-	-	20,323	169,821	2,864,365
Debt service:						
Principal (Note 7)	-	-	-	-	1,114,255	1,114,255
Interest on long-term debt	-	-	-	-	914,312	914,312
<b>Total expenditures</b>	<b>34,258,613</b>	<b>1,831,070</b>	<b>1,811,531</b>	<b>646,988</b>	<b>2,930,949</b>	<b>41,479,151</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>7,096,267</b>	<b>595,030</b>	<b>(1,085,056)</b>	<b>(62,338)</b>	<b>(1,369,485)</b>	<b>5,174,418</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from issuance of debt (Note 7)	4,955,897	-	-	-	-	4,955,897
Underwriting fees, insurance, and other issuance costs	(106,369)	-	-	-	-	(106,369)
Sale of fixed assets	37,491	-	-	32,500	-	69,991
Transfers in (Note 6)	-	14,130	1,520,211	1,350,000	1,849,573	4,733,914
Transfers out (Note 6)	(4,196,505)	(500,000)	-	(55,045)	-	(4,751,550)
Payments to refunded bond escrow agent	(4,849,528)	-	-	-	-	(4,849,528)
<b>Total other financing sources (uses)</b>	<b>(4,159,014)</b>	<b>(485,870)</b>	<b>1,520,211</b>	<b>1,327,455</b>	<b>1,849,573</b>	<b>52,355</b>
<b>Net Change in Fund Balances</b>	<b>2,937,253</b>	<b>109,160</b>	<b>435,155</b>	<b>1,265,117</b>	<b>480,088</b>	<b>5,226,773</b>
<b>Fund Balances - Beginning of year</b>	<b>9,536,886</b>	<b>983,238</b>	<b>169,312</b>	<b>3,720,620</b>	<b>1,692,856</b>	<b>16,102,912</b>
<b>Fund Balances - End of year</b>	<b>\$ 12,474,139</b>	<b>\$ 1,092,398</b>	<b>\$ 604,467</b>	<b>\$ 4,985,737</b>	<b>\$ 2,172,944</b>	<b>\$ 21,329,685</b>

# City of Roseville, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	5,226,773
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay		1,830,729
Depreciation expense		(2,601,327)
Net book value of assets disposed of		(46,842)
Value of contributed assets		969,796
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets		(245,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		1,114,255
In the statement of activities, accrued interest on debt is recorded as it accrues, but not in the governmental funds, where it is recorded when payable		22,218
Purchase of inventory is an expenditure in the governmental funds, but not in the statement of activities, where it increases inventory asset balance		31,575
Joint venture revenue		271,060
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		32,177
Decreases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities		135,009
In the statement of activities, bond premium/discount on debt is recorded as it accrues, but not in the governmental funds where it is recorded when payable		28,793
Change in liability related to the personal property tax multiplier		225,453
Internal Service Funds are included as part of governmental activities		793,302
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>7,787,971</u></b>

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

# City of Roseville, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Funds - Self Insurance
<b>Assets</b>		
Current assets:		
Cash and investments (Note 3)	\$ 5,838,820	\$ 4,219,317
Receivables:		
Receivables from sales to customers on account	2,342,790	-
Accrued interest receivable	4,958	-
Other receivables	47,017	195,138
Due from other funds (Note 6)	229,012	3,895
Inventory	157,972	-
Prepaid expenses and other assets	64,639	10,000
Total current assets	8,685,208	4,428,350
Noncurrent assets - Capital assets	8,485,741	-
Total assets	17,170,949	4,428,350
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,081,457	-
Due to other governmental units	28,190	-
Due to other funds (Note 6)	82	-
Cash bonds and deposits	42,425	-
Accrued liabilities and other	75,460	-
Provision for current portion of compensated absences (Note 7)	107,485	-
Provision for claims (Note 8)	-	969,291
Total current liabilities	1,335,099	969,291
Noncurrent liabilities - Provision for compensated absences - Net of current portion (Note 7)	176,641	-
Total liabilities	1,511,740	969,291
<b>Net Assets</b>		
Invested in capital assets	8,485,741	-
Unrestricted	7,173,468	3,459,059
Total net assets	\$ 15,659,209	\$ 3,459,059

# City of Roseville, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Funds - Self Insurance
<b>Operating Revenue</b>		
Sale of water	\$ 1,851,863	\$ -
Sewage disposal charges	4,398,356	-
Sale of electricity	4,478,596	-
Interest and penalty charges	258,584	-
Charges to other funds	-	7,937,446
Other miscellaneous revenues	229,856	-
Total operating revenue	11,217,255	7,937,446
<b>Operating Expenses</b>		
Cost of water	1,826,182	-
Cost of sewage treatment	4,928,411	-
Billing and administrative costs	2,289,504	-
Benefit payments and other costs	812,150	7,243,410
Depreciation	432,979	-
Total operating expenses	10,289,226	7,243,410
<b>Operating Income</b>	928,029	694,036
<b>Nonoperating Revenue</b> - Investment income	310,454	99,266
<b>Income</b> - Before contributions	1,238,483	793,302
<b>Capital Contributions</b> - Water meters	45,900	-
<b>Transfers in</b>	17,636	-
<b>Change in Net Assets</b>	1,302,019	793,302
<b>Net Assets</b> - Beginning of year	14,357,190	2,665,757
<b>Net Assets</b> - End of year	\$ 15,659,209	\$ 3,459,059

# City of Roseville, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Funds - Self Insurance
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 10,936,978	\$ 9,934,621
Receipts connected with interfund service	(214,356)	-
Payments to suppliers	(7,357,375)	-
Payments to employees	(2,229,748)	-
Payments connected with interfund service	(208,114)	-
Claims paid	-	(6,898,838)
	927,385	3,035,783
<b>Net cash provided by operating activities</b>	927,385	3,035,783
<b>Cash Flows from Capital and Related Financing Activities -</b>		
Purchase of capital assets	(1,312,810)	-
<b>Cash Flows from Investment Activities -</b> Interest received on investments	307,479	99,266
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(77,946)	3,135,049
<b>Cash and Cash Equivalents -</b> Beginning of year	5,916,766	1,084,268
<b>Cash and Cash Equivalents -</b> End of year	<b>\$ 5,838,820</b>	<b>\$ 4,219,317</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents -</b>		
Cash and investments	<b>\$ 5,838,820</b>	<b>\$ 4,219,317</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 928,022	\$ 694,036
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	432,979	-
Collections transferred in	17,636	-
Changes in assets and liabilities:		
Due from other funds	(214,356)	2,071,105
Inventories	(13,257)	-
Receivables	(242,612)	(63,930)
Accounts payable and other liabilities	79,157	344,572
Accrued and other liabilities	4,455	-
Other assets	(64,639)	(10,000)
	<b>\$ 927,385</b>	<b>\$ 3,035,783</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2007, the Enterprise Fund had \$45,900 of capital contributions in the form of meters and water and sewer lines constructed by developers.

# City of Roseville, Michigan

## Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2007

	Pension and Other Employee Benefit Trust Funds	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,250,000	\$ 319,751
Investments:		
U.S. government securities	29,773,422	-
Stocks	84,292,637	-
Bonds	14,398,833	-
Mutual fund	6,259,999	-
Cash and investments held as collateral for securities lending	13,009,487	-
Accrued interest receivable	445,316	-
	<u>149,429,694</u>	<u>\$ 319,751</u>
<b>Liabilities</b>		
Accounts payable	108,404	\$ 102,112
Due to other governmental units	-	5,733
Accrued liabilities and other	-	211,906
Obligations under securities lending agreements	13,009,487	-
	<u>13,117,891</u>	<u>\$ 319,751</u>
<b>Net Assets</b> - Held in trust for employee benefits	<u><b>\$ 136,311,803</b></u>	

# City of Roseville, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefit Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 3,860,595
Net increase in fair value of investments	12,751,992
Investment-related expenses	(628,583)
Net investment income	15,984,004
Contributions:	
Employer	5,188,255
Employee	1,286,688
Total contributions	6,474,943
Legal settlement proceeds	289,358
Total additions	22,748,305
<b>Deductions</b>	
Benefit payments	7,926,883
Refunds of contributions	895,217
Hospitalization expenses	1,002,722
Administrative expenses	198,199
Total deductions	10,023,021
<b>Net Increase in Net Assets Held in Trust</b>	12,725,284
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	123,586,519
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 136,311,803</b>

### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of the City of Roseville (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.

#### **Reporting Entity**

The City of Roseville is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Roseville, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### **Blended Component Units**

The City of Roseville Building Authority is governed by a 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 buildings.

The City of Roseville Employees' Retirement System has been blended into the City's financial statements. The system is governed by a five-member pension board that includes three individuals chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Roseville District Court Funds have also been blended into the City's financial statements. The financial activities of the funds are limited to collections of amounts that are subsequently returned or paid to third parties. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The District Court is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the District Court.

The City has excluded the Housing Commission from this report because the City is not able to impose its will on the Housing Commission. The Housing Commission's financial statements have been issued under separate cover.

**Jointly Governed Organization** - Jointly governed organizations are discussed in Note 12.

### **Note I - Nature of Business and 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.

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

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

**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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the current fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - 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.

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

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

**Capital Projects Fund** - The Capital Projects Fund accounts for the proceeds of bond issuances and all other resources used for the purpose of constructing all major capital improvement projects of the City.

The City reports the following major proprietary fund:

**Enterprise Fund** - The Enterprise Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following internal service and fiduciary activities:

**Internal Service Funds** - The Internal Service Funds accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City. These include the Self Insurance Healthcare Fund and the Self Insurance Workers' Compensation Fund. The Self Insurance Healthcare Fund is used to account for current healthcare coverage provided for City employees and their dependents and to provide a reserve for future catastrophic healthcare claims. The Self Insurance Workers' Compensation fund is used to account for workers' compensation claims and to provide a reserve for future catastrophic workers' compensation claims.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Trust and Agency Funds** - Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. These include the Employees' Pension Trust Fund, the Employees' Healthcare Trust Fund, the Miscellaneous Agency Fund, the P.A.I.R. Fund, the Tax Collection Funds, and the District Court Fund. The Employees' Pension Trust Fund and the Employee Healthcare Trust Fund are accounted for in the same manner as proprietary funds. The other Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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 Enterprise Fund.

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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

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 our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is 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.

#### **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.

### Note I - Nature of Business and Significant Accounting Policies (Continued)

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

**Property Taxes** - All trade and property tax receivables are shown net of allowance for uncollectible amounts. Properties are assessed as of December 31 of each year. The related property taxes are levied on each July 1 on the taxable valuation of the property as of the preceding December 31. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

The City tax millage rate is 21.38, which is comprised of 19.00 general operating, 2.20 refuse collection, which is recorded in the General Fund, .16 debt service, and .02 Chapter 20 drain. The General Fund, General Debt Fund, and Chapter 20 Drain Fund received \$29,034,609, \$211,283, and \$27,823, respectively, in property tax revenue in the current year.

**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** - The City's share of the unspent bond proceeds held at the County require amounts to be set aside for construction. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Roads and sidewalks	30 to 50 years
Water and sewer distribution systems	50 to 75 years
Buildings and building improvements	20 to 50 years
Other tools and equipment	3 to 15 years

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. A liability for these amounts is reported in governmental funds only as it comes due for payment. The government-wide and proprietary fund statements accrue vacation and personal pay as it is earned and sick pay is accrued as it is used or vested (whichever is earlier). As of June 30, 2007, \$29,902 represents the portion reported in the governmental funds.

**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 bond using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the debt. On the fund financial statements, governmental fund types recognize bond premium 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.

**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.

The Lake St. Clair Clean Water Initiative construction project administered by the Macomb County Drain Commission is a multi-year infrastructure project affecting several municipalities in southeast Macomb County. Allocations of project costs and related indebtedness issued by Macomb County on behalf of the participating municipalities have been made based on engineering estimates. It is at least reasonably possible that upon completion of the project, changes to the allocations could be made that could have a material effect on the capital assets and long-term debt recorded by the City.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability

**State Construction Code Act** - 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. Beginning January 1, 2000, 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 - July 1, 2006			\$ (2,356,136)
Current year permit revenue			285,631
Related expenses:			
Direct costs	\$	691,497	
Estimated indirect costs		69,150	760,647
			<u>                    </u>
Current year shortfall			<u>(475,016)</u>
Cumulative shortfall at June 30, 2007			<u>\$ (2,831,152)</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. A local unit 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 Employee Pension Trust Fund and the Retiree Healthcare Benefits Trust Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

### 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 investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$15,641,048 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.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool.
- Investments were book-entry only in the name of the City and were fully insured.
- Investments were part of a mutual fund.
- Investments were held by an agent in the City's name.

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

Investment	Fair Value	Weighted Average Maturity
City of Roseville Employees' Retirement System:		
Corporate bonds	\$ 14,527,041	1.31 years
Foreign bonds	400,915	.06 years
Municipal bonds	94,748	.02 years
U.S. government or agency bond or note	29,527,569	4.59 years

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - In compliance with state law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Government-wide - Pooled funds	\$ 15,269,490	A1	Moody's
City of Roseville Employees' Retirement System:			
Corporate bonds	2,831,010	AAA	S&P
Corporate bonds	465,518	AA to AA-	S&P
Corporate bonds	4,055,752	A+ to A- BBB+ to	S&P
Corporate bonds	4,586,124	BBB-	S&P
Corporate bonds	219,983	Not rated	
Foreign bonds	109,419	A- BBB+ to	S&P
Foreign bonds	291,496	BBB-	S&P
Municipal bonds	94,748	AAA	S&P
Collateralized mortgage obligations - Corporate	2,219,339	AAA	S&P
Collateralized mortgage obligations - Corporate	149,315	Not rated	
Pooled funds - Security lending	5,626,129	Not rated	
City of Roseville Retiree Healthcare Benefits Trust			
Pooled funds - Security lending	1,250,000	Not rated	

**Retirement Investments Securities Lending Transactions** - The pension system has entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the pension system has authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2007, the pension system has no credit risk exposure to the borrowers because the amounts the pension system owes the borrowers exceed the amount the borrowers owe the pension system.

### Note 3 - Deposits and Investments (Continued)

During the year, security loans were made at the discretion of the pension system's custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 100 percent of the market value of the loaned securities. The pension system did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the pension system if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the system for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the pension system or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders in a pool. The average duration of such investment pools as of June 30, 2007 was 133 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the pension system as of June 30, 2007 were \$13,009,487 and \$12,703,277, respectively.

### 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 also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Delinquent property taxes	\$ 395,646
Special assessments	150,711
Grant and categorical aid payments not yet available for use	173,377
Other	<u>330,711</u>
Total	<u>\$ 1,050,445</u>

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

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

<b>Governmental Activities</b>	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007	
Capital assets not being depreciated - Land	\$ 31,339,447	\$ -	\$ -	\$ 31,339,447	
Capital assets being depreciated:					
Roads and sidewalks	63,953,568	2,141,681	-	66,095,249	
Buildings and improvements	16,496,211	34,316	-	16,530,527	
Other tools and equipment	12,300,728	624,529	(189,208)	12,736,049	
Subtotal	92,750,507	2,800,526	(189,208)	95,361,825	
Accumulated depreciation:					
Roads and sidewalks	31,534,394	1,143,941	-	32,678,335	
Buildings and improvements	6,001,836	421,322	-	6,423,158	
Other tools and equipment	8,211,716	1,036,065	(142,366)	9,105,415	
Subtotal	45,747,946	2,601,328	(142,366)	48,206,908	
Net capital assets being depreciated	47,002,561	199,198	(46,842)	47,154,917	
Net capital assets	<u>\$ 78,342,008</u>	<u>\$ 199,198</u>	<u>\$ (46,842)</u>	<u>\$ 78,494,364</u>	
<b>Business-type Activities</b>	Balance July 1, 2006	Contributed Assets	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets being depreciated:					
Water and sewer distribution systems	\$ 18,589,597	\$ 45,900	\$ 1,229,602	\$ -	\$ 19,865,099
Buildings and building improvements	126,654	-	-	-	126,654
Other tools and equipment	3,128,242	-	83,208	-	3,211,450
Subtotal	21,844,493	45,900	1,312,810	-	23,203,203
Accumulated depreciation:					
Water and sewer distribution systems	11,513,797	-	296,723	-	11,810,520
Buildings and building improvements	114,696	-	1,087	-	115,783
Other tools and equipment	2,655,990	-	135,169	-	2,791,159
Subtotal	14,284,483	-	432,979	-	14,717,462
Net business-type capital assets	<u>\$ 7,560,010</u>	<u>\$ 45,900</u>	<u>\$ 879,831</u>	<u>\$ -</u>	<u>\$ 8,485,741</u>

# City of Roseville, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 191,398
Public safety	485,518
Public works	1,309,004
Recreation and culture	615,408

Total governmental activities \$ 2,601,328

Business-type activities \$ 432,979

**Construction Commitments** - The City has active construction projects at year end, including various major and local street projects administered by the Michigan Department of Transportation and the Macomb County Road Commission. The remaining commitments on these projects total \$166,810 and \$360,564, respectively.

**Contributed Assets** - This amount represents water and sewer lines donated by developers and meters that were originally purchased by system customers. The City has the responsibility of serving all meters and the asset is considered owned by the City.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 621,800
	Local Streets Fund	763,684
	Other governmental funds	<u>54,266</u>
	Total General Fund	1,439,750
Major Streets Fund	Capital Projects Fund	14,130
Local Streets Fund	Capital Projects Fund	20,210
Capital Projects Fund	General Fund	1,351,625
Other governmental funds	Capital Projects Fund	<u>91,274</u>
	Total governmental funds	<u>\$ 2,916,989</u>
Enterprise Fund - Water and Sewer	General Fund	\$ 48,830
	Major Streets Fund	162,544
	Capital Projects Fund	<u>17,638</u>
	Total Enterprise Fund - Water and Sewer	<u>\$ 229,012</u>
Internal Service Fund - Self Insurance	General Fund	\$ 3,813
	Enterprise Fund - Water and Sewer	<u>82</u>
	Total Internal Service Fund - Self Insurance	<u>\$ 3,895</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

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

#### Interfund Transfers

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

	General Fund	Major Streets Fund	Capital Projects Fund	Total
Major Streets Fund	\$ -	\$ -	\$ 14,130	\$ 14,130
Local Streets Fund	1,000,000	500,000	20,211	1,520,211
Capital Projects Fund	1,350,000	-	-	1,350,000
Other governmental funds:				
Building Authority Debt Fund	481,188	-	-	481,188
Chapter 20 Drain Fund	1,365,317	-	3,068	1,368,385
Enterprise Fund - Water and Sewer	-	-	17,636	17,636
Total	<u>\$ 4,196,505</u>	<u>\$ 500,000</u>	<u>\$ 55,045</u>	<u>\$ 4,751,550</u>

The transfers from the General Fund to the Local Streets Fund and from the Major Streets Fund to the Local Streets Fund are to help support local road projects. The transfers from the General Fund to the Capital Projects Fund are to help support capital repairs to City-owned buildings and properties. The transfers from the General Fund to the Building Authority Debt Fund and the Chapter 20 Drain Fund are for loan/debt current year obligations. The transfers from the Capital Projects Fund to the Major Streets Fund, Local Streets Fund, Chapter 20 Drain Fund, and Enterprise Fund - Water and Sewer represent special assessment allocations.

### 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.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

The City has the following long-term debt outstanding as of June 30, 2006:

Description	Amount
<b>Governmental Activities*</b>	
General obligations:	
Unlimited Tax General Obligation Library Bonds	\$ 1,535,000
Building Authority Refunding Bonds - Series 1993	150,000
Building Authority Police/Court/Fire Station Renovation Bonds - Series 1999	275,000
Building Authority Limited Tax General Obligation Refunding Bonds - Series 2006	4,895,000
Lake St. Clair Water Initiative Drainage District - Series A	1,945,965
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-01	3,701,284
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-02	2,556,938
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-03	494,819
Lake St. Clair Water Initiative Drainage District - SRF Project 5186-05	301,046
Lake St. Clair Water Initiative Drainage District - 2004 Series A	2,306,175
Subtotal	18,161,227
Additional obligations - Compensated absences	2,950,350
Total governmental activity debt	<u>\$ 21,111,577</u>
<b>Business-type Activities - Other obligations - Compensated absences</b>	<u>\$ 284,126</u>

\* The original issue amount, principal, maturing ranges, maturity date, and interest range for each issuance is located in the other financial and supplemental section.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligations	\$ 19,030,482	\$ 4,895,000	\$ (5,764,255)	\$ 18,161,227	\$ 1,069,042
Compensated absences	3,085,358	1,166,964	(1,301,972)	2,950,350	1,364,351
Tax tribunal provision	225,453	-	(225,453)	-	-
Total governmental activities	<u>\$ 22,341,293</u>	<u>\$ 6,061,964</u>	<u>\$ (7,291,680)</u>	<u>\$ 21,111,577</u>	<u>\$ 2,433,393</u>
<b>Business-type Activities -</b>					
Compensated absences	<u>\$ 272,337</u>	<u>\$ 111,319</u>	<u>\$ (99,530)</u>	<u>\$ 284,126</u>	<u>\$ 107,485</u>

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for all debt, except for compensated absences, and tax tribunal provision, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 1,069,042	\$ 660,952	\$ 1,729,994
2009	937,323	618,351	1,555,674
2010	977,416	583,755	1,561,171
2011	1,017,935	547,004	1,564,939
2012	1,056,217	507,659	1,563,876
2013-2017	5,717,330	1,908,716	7,626,046
2018-2022	4,794,031	941,061	5,735,092
2023-2027	1,724,425	381,535	2,105,960
2028-2030	867,508	67,383	934,891
Total	<u>\$ 18,161,227</u>	<u>\$ 6,216,416</u>	<u>\$ 24,377,643</u>

### Defeased Debt

During the year, the City issued \$4,895,000 in general obligation bonds with an average interest rate of 3.954 percent. The proceeds of \$4,955,897 (after bond premium of \$60,897) were used to advance refund \$4,650,000 of outstanding Building Authority Limited Tax General Obligation bonds, series 1999 with an average interest rate of 5.338 percent. The net proceeds of \$4,849,528 (after payment of \$106,369 in underwriting fees, insurance, and other issuance costs) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities debt in the statement of net assets. The advance refunding reduced total debt service payments over the next 13 years by approximately \$284,600, which represents an economic gain of approximately \$269,100. At June 30, 2007, \$4,650,000 of bonds outstanding are considered defeased.

### Note 8 - 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 property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City is partially uninsured for employee medical benefit claims and workers' compensation claims.

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Risk Management (Continued)

Under the employee medical benefit plan, the City is liable for claims up to a maximum amount of \$175,000 per employee and for the aggregate total of all employees of approximately \$8,948,342 annually. The City has purchased stop-loss insurance coverage of \$1,000,000 for aggregate claims in excess of \$8,948,342.

In the current year, the City became self-insured for workers' compensation claims. Under the worker's compensation plan, the City is liable for claims up to a maximum amount of \$400,000 on an individual level and \$694,060 in aggregate. All claims incurred prior to June 30, 2006 are covered under the City's previous workers' compensation insurance provider.

The City estimates the liability for employee medical benefit claims and workers' compensations 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. The estimates are recorded in the Self-insurance Internal Service Fund and the Workers' Compensation Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 624,719	\$ 680,303
Incurred claims, including claims incurred but not reported	7,243,410	6,858,753
Claim payments	<u>(6,898,838)</u>	<u>(6,914,337)</u>
Unpaid claims - End of year	<u>\$ 969,291</u>	<u>\$ 624,719</u>

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The City of Roseville Employees' Pension Trust Fund System is a single-employer defined benefit pension plan that is administered by the City of Roseville, Michigan; this plan covers substantially all full-time employees of the City. The system provides retirement, disability, death, and health benefits to plan members and their beneficiaries.

At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 291 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 312 current active employees. The plan does not issue a separate financial report.

### Note 9 - Defined Benefit Pension Plan (Continued)

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

**Funding Policy** - The obligation to contribute to and maintain the system for employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.5 percent and 7.0 percent of gross wages for general, supervisor, and clerical members and police and fire members, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Cost** - For the year ended June 30, 2007, the City's annual pension cost of \$3,938,255 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.0 percent per year, and (c) 0.0 percent to 3.8 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

**Reserves** - As of June 30, 2007, the plan's legally required reserves had been fully funded as follows:

Reserves for employees' contributions	\$ 21,959,883
Reserves for retired benefit payments	76,840,335

# City of Roseville, Michigan

## Notes to Financial Statements June 30, 2007

### Note 9 - Defined Benefit Pension Plan (Continued)

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended June 30		
	2005	2006	2007
Annual pension cost	\$ 3,295,300	\$ 3,885,093	\$ 3,938,255
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

	Year Ended June 30		
	2004	2005	2006
	(Dollar amounts in thousands)		
Actuarial value of assets	\$ 111,328	\$ 114,059	\$ 119,145
Actuarial accrued liability (AAL)			
(entry age)	\$ 131,171	\$ 135,778	\$ 143,792
Unfunded AAL (UAAL)	\$ 19,843	\$ 21,719	\$ 24,647
Funded ratio	84.9 %	84.0 %	82.9 %
Covered payroll	\$ 18,193	\$ 18,217	\$ 17,976
UAAL as a percentage of covered payroll	109.1 %	119.2 %	137.1 %

### Note 10 - Personal Property Tax Multiplier

During the current year, the City Council approved acceptance of a settlement with Consumers Energy Company to repay amounts collected by the City in excess of the approved amounts under the new tables that were approved in November 1999 by the State Tax Commission. The City paid out \$225,453 for the approved settlement, which reflected all penalties and interest waived. Of the total paid out, \$219,321 was paid from the General Fund, \$2,254 from the Debt Service Fund, and \$3,878 from the Chapter 20 Debt Fund.

### Note 11 - Other Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 274 retirees are eligible for postemployment health benefits. Expenditures for postemployment healthcare benefits are recognized as claims are incurred. Medicare eligible employees are secondary on the City's insurance plan and are reimbursed for Medicare premiums when paid. For the fiscal year ended June 30, 2007, the City recorded payments for postemployment health benefit premiums of \$3,470,418, paid entirely by the General Fund.

### **Note 11 - Other Postemployment Benefits (Continued)**

During fiscal year ended June 30, 2007, the City created a healthcare trust fund for the accumulation and investment of assets to be used for the funding of healthcare benefits for those retirees of the City of Roseville Employee Retirement System. The plan was established under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999. The assets of the fund are held in trust for the exclusive purpose of providing healthcare benefits to eligible retirees of the Employee Retirement System and for the payment of the administrative expenses of the trust. The board of trustees acts as the investment fiduciary to the assets of the trust and is comprised of the individuals who serve on the Employee Retirement System Board. For fiscal year ended June 30, 2007, \$1,250,000 was contributed to the healthcare trust by the General Fund.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board (GASB) has recently issued Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 43 established financial reporting standards for plans that provide postemployment benefits other than pensions (OPEBs). The new standard will require additional footnote disclosures of the plan as well as a periodic actuarial valuation. GASB No. 43 is effective for the year ending June 30, 2008.

GASB No. 45 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). This new standard 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. This new pronouncement is effective for the year ending June 30, 2009.

### **Note 12 - Joint Ventures**

The City is a member of the Southeast Macomb Sanitary District, which provides sewage disposal to participating municipalities in Macomb County, Michigan. Other members include the cities of St. Clair Shores and Eastpointe, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budgets. The City's equity interest at June 30, 2007 in the Southeast Macomb Sanitary District of \$7,195,167 is recorded within the governmental activities column of the statement of net assets. Complete financial statements for the Southeast Macomb Sanitary District can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### **Note 12 - Joint Ventures (Continued)**

The City is a member of the South Macomb Disposal Authority (the "Authority"), which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Centerline, Roseville, Eastpointe, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budgets. The City's equity interest in the Authority's operating reserve of \$261,301 is recorded within the governmental activities column of the statement of net assets. As of June 30, 2007, the Authority has reserves totaling approximately \$4,756,000 that have been designated for self-insurance activities; each participating community's equity interest in the insurance reserve is not determinable. Complete financial statements for the Southeast Macomb Sanitary District and the South Macomb Disposal Authority can be obtained from their administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

## **Required Supplemental Information**

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# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 22,059,816	\$ 29,034,609	\$ 29,034,609	\$ -
Licenses and permits	630,748	414,129	414,129	-
Federal grants	-	788,124	788,124	-
State-shared revenue and grants	5,325,000	4,935,618	4,935,618	-
Other charges for services	255,000	298,776	298,776	-
Other fines and forfeitures	2,505,389	2,504,108	2,504,108	-
Investment income	300,000	1,022,753	1,022,753	-
Other revenue	2,627,881	2,356,763	2,356,763	-
Total revenue	33,703,834	41,354,880	41,354,880	-
<b>Expenditures - Current</b>				
General government:				
Governing body	2,802,619	2,604,620	2,604,620	-
Finance/Accounting/Budget department	427,337	195,538	195,538	-
Purchasing	264,173	250,301	250,301	-
Information technology/Data processing	559,960	488,207	488,207	-
Treasurer	559,073	456,172	456,172	-
Assessing	529,306	466,371	466,371	-
Clerk	625,674	522,007	522,007	-
Buildings and grounds	1,009,873	988,687	988,687	-
Attorney	293,000	293,000	293,000	-
Personnel	147,289	117,328	117,328	-
Other	6,156,394	5,283,253	5,283,253	-
Public safety:				
Police/Sheriff (County)	11,585,394	10,696,829	10,696,829	-
Fire	5,613,086	5,717,229	5,717,229	-
Building inspections and related	952,301	691,498	691,498	-
Public safety - Other	6,000	675,275	675,275	-
Public works:				
Street construction	1,704,282	1,411,277	1,411,277	-
Rubbish disposal	2,256,830	2,192,804	2,192,804	-
Street lighting	770,000	751,655	751,655	-
Other public works activities	302,243	209,448	209,448	-
Allocated to other operations	(1,590,000)	(2,427,107)	(2,427,107)	-
Recreation and culture:				
Library	1,262,514	1,136,144	1,136,144	-
Parks and recreation	1,526,475	1,424,912	1,424,912	-
Other recreation and culture	142,662	113,165	113,165	-
Total expenditures	37,906,485	34,258,613	34,258,613	-
<b>Excess of Revenue Over (Under) Expenditures</b>	(4,202,651)	7,096,267	7,096,267	-
<b>Other Financing Sources (Uses)</b>				
Sale of fixed assets	20,000	37,491	37,491	-
Transfers out	(813,000)	(4,196,505)	(4,196,505)	-
Total other financing uses	(793,000)	(4,159,014)	(4,159,014)	-
<b>Net Change in Fund Balance</b>	(4,995,651)	2,937,253	2,937,253	-
<b>Fund Balance - Beginning of year</b>	9,536,886	9,536,886	9,536,886	-
<b>Fund Balance - End of year</b>	<u>\$ 4,541,235</u>	<u>\$ 12,474,139</u>	<u>\$ 12,474,139</u>	<u>\$ -</u>

# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue and grants	\$ 2,170,000	\$ 2,394,400	\$ 2,394,400	\$ -
Investment income	40,000	31,700	31,700	-
Total revenue	2,210,000	2,426,100	2,426,100	-
<b>Expenditures - Current</b>				
General government	200,000	200,121	200,121	-
Public works	1,477,500	1,630,949	1,630,949	-
Total expenditures	1,677,500	1,831,070	1,831,070	-
<b>Excess of Revenue Over Expenditures</b>	532,500	595,030	595,030	-
<b>Other Financing Sources (Uses)</b>				
Transfers in	14,130	14,130	14,130	-
Transfers out	(875,000)	(500,000)	(500,000)	-
Total other financing uses	(860,870)	(485,870)	(485,870)	-
<b>Net Change in Fund Balance</b>	(328,370)	109,160	109,160	-
<b>Fund Balance - Beginning of year</b>	983,238	983,238	983,238	-
<b>Fund Balance - End of year</b>	<u>\$ 654,868</u>	<u>\$ 1,092,398</u>	<u>\$ 1,092,398</u>	<u>\$ -</u>

# City of Roseville, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<b>Revenue</b>				
State-shared revenue and grants	\$ 650,000	\$ 713,792	\$ 713,792	\$ -
Investment income	500	12,683	12,683	-
Total revenue	650,500	726,475	726,475	-
<b>Expenditures - Current</b>				
General government	70,000	70,000	70,000	-
Public works - Street construction	1,457,000	1,741,531	1,741,531	-
Total expenditures	1,527,000	1,811,531	1,811,531	-
<b>Excess of Expenditures Over Revenue</b>	(876,500)	(1,085,056)	(1,085,056)	-
<b>Other Financing Sources -</b>				
Transfers in	876,500	1,520,211	1,520,211	-
<b>Net Change in Fund Balance</b>	-	435,155	435,155	-
<b>Fund Balance - Beginning of year</b>	169,312	169,312	169,312	-
<b>Fund Balance - End of year</b>	<u>\$ 169,312</u>	<u>\$ 604,467</u>	<u>\$ 604,467</u>	<u>\$ -</u>

# City of Roseville, Michigan

## Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended June 30, 2007 (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/97	\$ 86,032	\$ 92,789	\$ 6,757	92.7	\$ 13,321	50.7
6/30/98	97,090	98,592	1,502	98.5	14,176	10.6
6/30/99	106,123	103,097	(3,026)	102.9	14,481	(20.9)
6/30/00	111,153	108,780	(2,373)	102.2	14,977	(15.8)
6/30/01	115,009	114,218	(791)	100.7	15,372	(5.1)
6/30/02	112,427	117,182	4,755	95.9	16,005	29.7
6/30/03	109,779	122,849	13,070	89.4	16,818	77.7
6/30/04	111,328	131,171	19,843	84.9	18,193	109.1
6/30/05	114,059	135,778	21,719	84.0	18,217	119.2
6/30/06	119,145	143,792	24,647	82.9	17,976	137.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/02	6/30/00	\$ 2,208,341	100.0
6/30/03	6/30/01	2,449,110	100.0
6/30/04	6/30/02	2,813,719	100.0
6/30/05	6/30/03	3,295,300	100.0
6/30/06	6/30/04	3,885,093	100.0
6/30/07	6/30/05	3,938,255	100.0

\* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	28 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5
Projected salary increases	5.0%
*Includes inflation at	5.0%
Cost of living adjustments	0% to 3.8%

# City of Roseville, Michigan

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## Note to Required Supplemental Information Year Ended June 30, 2007

### Note - Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's Bulletin for Audits of Local Units of Government in Michigan, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget by activity, which is in accordance with the State's legal requirements. An activity is the level that aggregates budgetary line items by departmental responsibility. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information budgetary comparison schedules for the major governmental funds is a summarization of the activity basis budget. Copies of the activity basis budgets for all budgeted funds are available at the office of the city clerk.

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

- Prior to February 1, all departments and entities within the City submit to the city manager their proposed operating budget for the fiscal year commencing the following July 1.
- On the second Tuesday in April, the city manager submits to the City Council a proposed balanced operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the first Monday in May, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The city manager is authorized to transfer budgeted amounts within budgetary activities; however, any revisions that alter the total expenditures of any budgetary activity must be approved by the City Council.

# City of Roseville, Michigan

## Note to Required Supplemental Information Year Ended June 30, 2007

### Note - Budgetary Information (Continued)

Budgeted amounts of the revenues and expenditures are presented for the General and Special Revenue Funds. Individual amendments were not material in relation to the original appropriations that were adopted. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The final budget amendments were approved subsequent to June 30, 2007. The impact on total budgeted revenues and expenditures is as follows:

Fund	Revenues (Including Other Financing Sources) Increase	Expenditures (Including Transfers Out) Change
General Fund	\$ 7,668,537	\$ (264,367)
Major Streets Fund	216,100	(221,430)
Local Streets Fund	719,686	284,531

## **Other Supplemental Information**

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# City of Roseville, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Special Revenue Funds		Debt Service Funds			Total Nonmajor Governmental Funds
	Community Development Block Grant	Drug Law Enforcement	Building Authority	Debt Service	Chapter 20 Drain	
<b>Assets</b>						
Cash and cash equivalents	\$ 10,327	\$ 878,567	\$ 13,426	\$ 846,103	\$ 410,483	\$ 2,158,906
Receivables	1,502	124,274	-	5,763	17,887	149,426
Due from other funds	88,206	-	-	-	3,068	91,274
Prepaid expenses and other assets	19,110	-	-	-	-	19,110
<b>Total assets</b>	<b>\$ 119,145</b>	<b>\$ 1,002,841</b>	<b>\$ 13,426</b>	<b>\$ 851,866</b>	<b>\$ 431,438</b>	<b>\$ 2,418,716</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 42,858	\$ -	\$ -	\$ -	\$ 963	\$ 43,821
Due to other funds	54,265	-	-	-	-	54,265
Accrued liabilities and other	21,606	-	-	-	-	21,606
Deferred revenue	-	103,391	-	5,121	17,568	126,080
<b>Total liabilities</b>	<b>118,729</b>	<b>103,391</b>	<b>-</b>	<b>5,121</b>	<b>18,531</b>	<b>245,772</b>
<b>Fund Balances</b>						
Reserved	-	899,450	-	-	-	899,450
Unreserved, reported in:						
Debt Service Funds	-	-	13,426	846,745	412,907	1,273,078
Special Revenue Funds	416	-	-	-	-	416
<b>Total fund balances</b>	<b>416</b>	<b>899,450</b>	<b>13,426</b>	<b>846,745</b>	<b>412,907</b>	<b>2,172,944</b>
<b>Total liabilities and fund balances</b>	<b>\$ 119,145</b>	<b>\$ 1,002,841</b>	<b>\$ 13,426</b>	<b>\$ 851,866</b>	<b>\$ 431,438</b>	<b>\$ 2,418,716</b>

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Funds			Total Nonmajor Governmental Funds
	Community Development Block Grant	Drug Law Enforcement	Building Authority	Debt Service	Chapter 20 Drain	
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ 211,283	\$ 27,823	\$ 239,106
Federal grants	521,468	68,803	-	-	-	590,271
State-shared revenue and grants	-	-	192,363	-	-	192,363
Investment income	-	33,615	1,209	42,884	3,528	81,236
Other miscellaneous income	125,234	333,254	-	-	-	458,488
Total revenue	646,702	435,672	193,572	254,167	31,351	1,561,464
<b>Expenditures - Current</b>						
General government	131,083	-	-	-	-	131,083
Public safety	-	256,096	-	-	-	256,096
Public works	345,382	-	-	-	-	345,382
Recreation and culture	169,821	-	-	-	-	169,821
Debt service	-	-	673,687	230,791	1,124,089	2,028,567
Total expenditures	646,286	256,096	673,687	230,791	1,124,089	2,930,949
<b>Excess of Revenue Over (Under) Expenditures</b>	416	179,576	(480,115)	23,376	(1,092,738)	(1,369,485)
<b>Other Financing Sources -</b>						
Transfers in	-	-	481,188	-	1,368,385	1,849,573
<b>Net Change in Fund Balances</b>	416	179,576	1,073	23,376	275,647	480,088
<b>Fund Balances - Beginning of year</b>	-	719,874	12,353	823,369	137,260	1,692,856
<b>Fund Balances - End of year</b>	\$ 416	\$ 899,450	\$ 13,426	\$ 846,745	\$ 412,907	\$ 2,172,944

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2007

	Employee Benefit Fund	Workers' Compensation Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,213,599	\$ 5,718	\$ 4,219,317
Receivables - Other	150,537	44,601	195,138
Due from other funds	-	3,895	3,895
Prepaid expenses and other assets	-	10,000	10,000
Total assets	4,364,136	64,214	4,428,350
<b>Liabilities</b> - Provision for claims	933,959	35,332	969,291
<b>Net Assets</b> - Unrestricted	<b>\$ 3,430,177</b>	<b>\$ 28,882</b>	<b>\$ 3,459,059</b>

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2007

	Employee Benefit Fund	Workers' Compensation Fund	Total
<b>Operating Revenue</b> - Charges to other funds	\$ 7,747,299	\$ 190,147	\$ 7,937,446
<b>Operating Expenses</b> - Benefit payments and other costs	<u>7,081,824</u>	<u>161,586</u>	<u>7,243,410</u>
<b>Operating Income</b>	665,475	28,561	694,036
<b>Nonoperating Revenue</b> - Investment income	<u>98,945</u>	<u>321</u>	<u>99,266</u>
<b>Change in Net Assets</b>	764,420	28,882	793,302
<b>Net Assets</b> - Beginning of year	<u>2,665,757</u>	<u>-</u>	<u>2,665,757</u>
<b>Net Assets</b> - End of year	<u>\$ 3,430,177</u>	<u>\$ 28,882</u>	<u>\$ 3,459,059</u>

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2007

	Employee Benefit Fund	Workers' Compensation Fund	Total
<b>Cash Flow from Operating Activities</b>			
Receipts from customers	\$ 9,802,970	\$ 131,651	\$ 9,934,621
Claims paid	(6,772,584)	(126,254)	(6,898,838)
Net cash provided by operating activities	3,030,386	5,397	3,035,783
<b>Cash Flows from Investment Activities - Interest received on investments</b>	98,945	321	99,266
<b>Net Increase in Cash and Cash Equivalents</b>	3,129,331	5,718	3,135,049
<b>Cash and Cash Equivalents - Beginning of year</b>	1,084,268	-	1,084,268
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,213,599</b>	<b>\$ 5,718</b>	<b>\$ 4,219,317</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments</b>	<b>\$ 4,213,599</b>	<b>\$ 5,718</b>	<b>\$ 4,219,317</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 665,475	\$ 28,561	\$ 694,036
Changes in assets and liabilities:			
Due from other funds	-	(3,895)	(3,895)
Receivables	(19,329)	(44,601)	(63,930)
Accounts payable and other liabilities	309,240	35,332	344,572
Estimated claims liability	2,075,000	-	2,075,000
Other assets	-	(10,000)	(10,000)
Net cash provided by operating activities	<b>\$ 3,030,386</b>	<b>\$ 5,397</b>	<b>\$ 3,035,783</b>

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Net Assets Pension Trust and Agency Funds June 30, 2007

	Pension Trust Funds			Agency Funds					
	Employees' Pension Trust Fund	Retiree Healthcare Benefits Trust Fund	Total Pension Trust Funds	Tax Collections	MISC Agency	PAIR	Court	County and School Tax	Total Agency Funds
<b>Assets</b>									
Cash and investments	\$ -	\$ 1,250,000	\$ 1,250,000	\$ 17,885	\$ 83,462	\$ 14,490	\$ 203,914	\$ -	\$ 319,751
Investments:									
U.S. government securities	29,773,422	-	29,773,422	-	-	-	-	-	-
Stocks	84,292,637	-	84,292,637	-	-	-	-	-	-
Bonds	14,398,833	-	14,398,833	-	-	-	-	-	-
Mutual fund	6,259,999	-	6,259,999	-	-	-	-	-	-
Securities lending	13,009,487	-	13,009,487	-	-	-	-	-	-
Receivables	445,316	-	445,316	-	-	-	-	-	-
<b>Total assets</b>	<b>148,179,694</b>	<b>1,250,000</b>	<b>149,429,694</b>	<b>\$ 17,885</b>	<b>\$ 83,462</b>	<b>\$ 14,490</b>	<b>\$ 203,914</b>	<b>\$ -</b>	<b>\$ 319,751</b>
<b>Liabilities</b>									
Accounts payable	108,404	-	108,404	\$ 7,197	\$ 93,593	\$ -	\$ 1,322	\$ -	\$ 102,112
Due to other governmental units	-	-	-	10,688	(4,955)	-	-	-	5,733
Accrued liabilities and other obligations under securities lending agreements	13,009,487	-	13,009,487	-	(5,176)	14,490	202,592	-	211,906
<b>Total liabilities</b>	<b>13,117,891</b>	<b>-</b>	<b>13,117,891</b>	<b>\$ 17,885</b>	<b>\$ 83,462</b>	<b>\$ 14,490</b>	<b>\$ 203,914</b>	<b>\$ -</b>	<b>\$ 319,751</b>
<b>Net Assets - Held in trust for employee benefits</b>	<b>\$ 135,061,803</b>	<b>\$ 1,250,000</b>	<b>\$ 136,311,803</b>						

# City of Roseville, Michigan

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2007

	Employees' Pension Trust Fund	Retiree Healthcare Benefits Trust Fund	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 3,860,595	\$ -	\$ 3,860,595
Net increase in fair value of investments	12,751,992	-	12,751,992
Investment-related expenses	(628,583)	-	(628,583)
Net investment income	15,984,004	-	15,984,004
Contributions:			
Employer	3,938,255	1,250,000	5,188,255
Employee	1,286,688	-	1,286,688
Total contributions	5,224,943	1,250,000	6,474,943
Legal settlement proceeds	289,358	-	289,358
Total additions	21,498,305	1,250,000	22,748,305
<b>Deductions</b>			
Benefit payments	7,926,883	-	7,926,883
Refunds of contributions	895,217	-	895,217
Cost of private purpose operations	1,002,722	-	1,002,722
Administrative expenses	198,199	-	198,199
Total deductions	10,023,021	-	10,023,021
<b>Net Increase in Net Assets Held in Trust</b>	11,475,284	1,250,000	12,725,284
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	123,586,519	-	123,586,519
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 135,061,803</b>	<b>\$ 1,250,000</b>	<b>\$ 136,311,803</b>

# City of Roseville, Michigan

## Schedule of Indebtedness June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>General Obligation Bonds</b>					
Unlimited Tax General Obligation Library Bonds					
Date of issue - November 1, 1995					
Amount of issue - \$2,715,000					
	4.800	11/01/06	\$ 130,000	\$ -	\$ 130,000
	4.900	11/01/07	135,000	135,000	135,000
	5.000	11/01/08	140,000	140,000	140,000
	5.050	11/01/09	150,000	150,000	150,000
	5.100	11/01/10	160,000	160,000	160,000
	5.100	11/01/11	170,000	170,000	170,000
	5.100	11/01/12	180,000	180,000	180,000
	5.125	11/01/13	190,000	190,000	190,000
	5.125	11/01/14	200,000	200,000	200,000
	5.125	11/01/15	210,000	210,000	210,000
Total				1,535,000	1,665,000
<b>Building Authority Bonds</b>					
1992 Building Authority Bonds - Recreation Center					
Date of issue - August 1, 1992					
Amount of issue - \$700,000					
	6.20	05/01/07	75,000	-	75,000
Building Authority Refunding Bonds - Series 1993					
Date of issue - March 31, 1993					
Amount of issue - \$2,450,000					
	5.25	05/01/07	175,000	-	175,000
	5.25	05/01/08	150,000	150,000	150,000
Total				150,000	325,000



# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>County Drain Contract Obligations</b>					
Lake St. Clair Water Initiative Drainage District - Series A					
Date of issue - January 1, 2001					
Amount of issue - \$2,152,845					
	4.30	10/01/06	\$ 45,255	\$ -	\$ 45,255
	4.30	10/01/07	47,410	47,410	47,410
	4.30	10/01/08	49,565	49,565	49,565
	4.30	10/01/09	51,720	51,720	51,720
	4.30	10/01/10	53,875	53,875	53,875
	4.30	10/01/11	56,030	56,030	56,030
	4.30	10/01/12	59,263	59,263	59,263
	4.30	10/01/13	61,418	61,418	61,418
	4.30	10/01/14	64,650	64,650	64,650
	4.30	10/01/15	67,883	67,883	67,883
	4.30	10/01/16	71,115	71,115	71,115
	4.30	10/01/17	75,425	75,425	75,425
	4.30	10/01/18	79,735	79,735	79,735
	4.30	10/01/19	82,967	82,967	82,967
	4.30	10/01/20	87,277	87,277	87,277
	4.30	10/01/21	92,665	92,665	92,665
	4.30	10/01/22	96,975	96,975	96,975
	4.30	10/01/23	102,363	102,363	102,363
	4.30	10/01/24	108,827	108,827	108,827
	4.30	10/01/25	114,215	114,215	114,215
	4.30	10/01/26	120,680	120,680	120,680
	4.30	10/01/27	127,145	127,145	127,145
	4.30	10/01/28	133,610	133,610	133,610
	4.30	10/01/29	141,152	141,152	141,152
Total				1,945,965	1,991,220

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>County Drain Contract Obligations - Continued</b>					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-01					
Date of issue - December 20, 2000					
City's portion of issuance - \$4,417,179					
	2.50	10/01/06	\$ 185,919	\$ -	\$ 185,919
	2.50	10/01/07	190,193	190,193	190,193
	2.50	10/01/08	195,536	195,536	195,536
	2.50	10/01/09	199,809	199,809	199,809
	2.50	10/01/10	205,152	205,152	205,152
	2.50	10/01/11	210,495	210,495	210,495
	2.50	10/01/12	215,837	215,837	215,837
	2.50	10/01/13	221,179	221,179	221,179
	2.50	10/01/14	226,522	226,522	226,522
	2.50	10/01/15	232,933	232,933	232,933
	2.50	10/01/16	238,275	238,275	238,275
	2.50	10/01/17	244,686	244,686	244,686
	2.50	10/01/18	251,098	251,098	251,098
	2.50	10/01/19	257,509	257,509	257,509
	2.50	10/01/20	263,919	263,919	263,919
	2.50	10/01/21	270,331	270,331	270,331
	2.50	10/01/22	277,810	277,810	277,810
Total				3,701,284	3,887,203

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>County Drain Contract Obligations - Continued</b>					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-02					
Date of issue - December 20, 2001					
City's portion of issuance - \$3,051,757					
	2.50	10/01/06	\$ 128,742	\$ -	\$ 128,742
	2.50	10/01/07	130,981	130,981	130,981
	2.50	10/01/08	134,340	134,340	134,340
	2.50	10/01/09	137,699	137,699	137,699
	2.50	10/01/10	142,177	142,177	142,177
	2.50	10/01/11	145,535	145,535	145,535
	2.50	10/01/12	148,894	148,894	148,894
	2.50	10/01/13	153,372	153,372	153,372
	2.50	10/01/14	156,730	156,730	156,730
	2.50	10/01/15	161,208	161,208	161,208
	2.50	10/01/16	164,567	164,567	164,567
	2.50	10/01/17	169,045	169,045	169,045
	2.50	10/01/18	173,522	173,522	173,522
	2.50	10/01/19	178,000	178,000	178,000
	2.50	10/01/20	182,478	182,478	182,478
	2.50	10/01/21	186,956	186,956	186,956
	2.50	10/01/22	191,434	191,434	191,434
Total				2,556,938	2,685,680

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>County Drain Contract Obligations - Continued</b>					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-03					
Date of issue - December 20, 2001					
City's portion of issuance - \$591,096					
	2.50	10/01/06	\$ 24,629	\$ -	\$ 24,629
	2.50	10/01/07	25,748	25,748	25,748
	2.50	10/01/08	25,748	25,748	25,748
	2.50	10/01/09	26,868	26,868	26,868
	2.50	10/01/10	27,987	27,987	27,987
	2.50	10/01/11	27,987	27,987	27,987
	2.50	10/01/12	29,107	29,107	29,107
	2.50	10/01/13	29,107	29,107	29,107
	2.50	10/01/14	30,227	30,227	30,227
	2.50	10/01/15	31,346	31,346	31,346
	2.50	10/01/16	31,346	31,346	31,346
	2.50	10/01/17	32,466	32,466	32,466
	2.50	10/01/18	33,585	33,585	33,585
	2.50	10/01/19	34,705	34,705	34,705
	2.50	10/01/20	35,824	35,824	35,824
	2.50	10/01/21	35,824	35,824	35,824
	2.50	10/01/22	36,944	36,944	36,945
Total				494,819	519,449

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<b>County Drain Contract Obligations - Continued</b>					
Lake St. Clair Water Initiative Drain Drainage District - SRF Project 5186-05					
Date of issue - June 26, 2003					
City's portion of issuance - \$343,298					
	2.50	10/01/06	\$ 14,084	\$ -	\$ 14,084
	2.50	10/01/07	14,084	14,084	14,084
	2.50	10/01/08	14,084	14,084	14,084
	2.50	10/01/09	15,845	15,845	15,845
	2.50	10/01/10	15,845	15,845	15,845
	2.50	10/01/11	15,845	15,845	15,845
	2.50	10/01/12	15,845	15,845	15,845
	2.50	10/01/13	15,845	15,845	15,845
	2.50	10/01/14	17,605	17,605	17,605
	2.50	10/01/15	17,605	17,605	17,605
	2.50	10/01/16	17,605	17,605	17,605
	2.50	10/01/17	19,365	19,365	19,365
	2.50	10/01/18	19,365	19,365	19,365
	2.50	10/01/19	19,365	19,365	19,365
	2.50	10/01/20	19,365	19,365	19,365
	2.50	10/01/21	21,126	21,126	21,126
	2.50	10/01/22	21,126	21,126	21,126
	2.50	10/01/23	21,126	21,126	21,126
Total				301,046	315,130

# City of Roseville, Michigan

## Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
<p><b>County Drain Contract Obligations - Continued</b></p> <p>Lake St. Clair Water Initiative Drainage District - Series A  Date of issue - June 1, 2004  Amount of issue - \$2,425,000</p>					
	4.375	10/01/06	\$ 60,625	\$ -	\$ 60,625
	4.375	10/01/07	60,625	60,625	60,625
	4.375	10/01/08	63,050	63,050	63,050
	4.375	10/01/09	65,475	65,475	65,475
	4.375	10/01/10	67,900	67,900	67,900
	4.375	10/01/11	70,325	70,325	70,325
	4.375	10/01/12	72,750	72,750	72,750
	4.375	10/01/13	75,175	75,175	75,175
	4.375	10/01/14	77,600	77,600	77,600
	4.375	10/01/15	82,450	82,450	82,450
	4.375	10/01/16	84,875	84,875	84,875
	4.375	10/01/17	89,725	89,725	89,725
	4.500	10/01/18	92,150	92,150	92,150
	4.625	10/01/19	97,000	97,000	97,000
	4.625	10/01/20	101,850	101,850	101,850
	4.750	10/01/21	106,700	106,700	106,700
	4.750	10/01/22	113,975	113,975	113,975
	4.875	10/01/23	118,825	118,825	118,825
	5.000	10/01/24	126,100	126,100	126,100
	5.000	10/01/25	133,375	133,375	133,375
	5.000	10/01/26	140,650	140,650	140,650
	5.000	10/01/27	145,500	145,500	145,500
	5.000	10/01/28	157,625	157,625	157,625
	5.000	10/01/29	218,400	218,400	218,400
Total				2,362,100	2,422,725
Less amounts not drawndown				(55,925)	(55,925)
Net				2,306,175	2,366,800
Total County Drain Contract Obligations				<u>\$ 11,306,227</u>	<u>\$ 11,765,482</u>

# **City of Roseville, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2007**

# City of Roseville, Michigan

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## Independent Auditor's Report

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Roseville, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2007. Those basic financial statements are the responsibility of the management of City of Roseville, Michigan. 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 opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Roseville, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules 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*

December 21, 2007

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 Roseville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Roseville, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2007. 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 City of Roseville, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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 City'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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's 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, 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*

December 21, 2007

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 Roseville, Michigan

**Compliance**

We have audited the compliance of City of Roseville, Michigan 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 June 30, 2007. The major federal programs of City of Roseville, Michigan 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 City of Roseville, Michigan's management. Our responsibility is to express an opinion on City of Roseville, Michigan's 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's 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's compliance with those requirements.

In our opinion, City of Roseville, Michigan 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 June 30, 2007.

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

## **Internal Control Over Compliance**

The management of City of Roseville, Michigan 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's 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, 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*

December 21, 2007

# City of Roseville, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Urban Development - Direct Fund -				
Community Development Block Grant:				
Program Year 2006 - B-00-MC-26-00010	14.218	N/A	\$ 642,499	\$ 519,693
Program Year 2007 - B-00-MC-26-00010	14.218	N/A	578,830	<u>1,775</u>
Total Community Development Block Grant				521,468
U.S. Department of Health and Human Services - Passed through				
Centers for Disease Control and Prevention - Passed through				
Macomb County Health Department - 2007 Cities				
Readiness Initiative	93.283	N/A	28,392	28,392
U.S. Department of Transportation - Passed through the				
Michigan State Police Drive MI Safety Task Force:				
2005 Drive MI Safety Task Force	20.215	N/A	18,278	1,576
2006 Drive MI Safety Task Force	20.215	N/A	14,267	<u>14,267</u>
Total Drive MI Safety Task Force				15,843
U.S. Department of Justice:				
Direct Award - 2006 Zylon Replacement	16.592	N/A	20,703	-
Passed through Community Oriented Policing Services:				
Radio Interoperability - 2006-CK-WX-0058	16.710	MI50713	592,337	412,871
Radio Interoperability - 2006-CK-WX-0058	16.710	MI50713	296,168	<u>296,000</u>
Total Passed Through Community Oriented Policing Services				708,871
Passed through Edward Byrne Memorial Justice Assistance				
Officer Accountability Digital Camera Program -				
2006-DJ-BX-0216	16.738	N/A	11,678	-
Passed through Drug Enforcement Administration -				
Organized Crime Drug Enforcement Task Forces				
	16.unknown	17-04-0228	239,705	144,527
Passed through Macomb Co. Department of Emergency				
Management - 2006 Enforcing Underage Drinking				
Laws Program	16.727	OJJDP-05-23	4,320	<u>4,320</u>
Total U.S. Department of Justice				857,718
U.S. Department of Homeland Security - Federal Emergency				
Management Agency:				
Passed through Office for Domestic Preparedness -				
2005 Assistance to Firefighter Grant				
	97.044	EMW-2005-FG-1874-002	52,317	52,317
Passed through Macomb Co. Department of Emergency				
Management - 2005 Homeland Security Grant Program				
	97.004	N/A	30,218	<u>30,218</u>
Total U.S. Department of Homeland Security				<u>82,535</u>
Total federal awards				<u><u>\$ 1,505,956</u></u>

See Notes to Schedule of Expenditures  
of Federal Awards.

# City of Roseville, Michigan

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## Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,378,395
Amounts spent by City of Roseville, Michigan during the year ended June 30, and not reimbursed by the U.S. Department of Transportation until the year ended June 30, 2007	(6,470)
Amounts spent by City of Roseville, Michigan during the year ended June 30, and not reimbursed by the U.S. Department of Justice until the year ended June 30, 2007	(27,668)
Amounts spent by City of Roseville, Michigan not yet reimbursed by the U.S. Department of Transportation	10,097
Amounts spent by City of Roseville, Michigan not yet reimbursed by the U.S. Department of Justice	<u>151,602</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 1,505,956</u></u>

# City of Roseville, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Roseville, Michigan (the "City") 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.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

	CFDA	Current Year Cash Transferred to Subrecipient
<u>Passed through Community Oriented Policing Services</u>	<u>Number</u>	
U.S. Department of Housing and Urban Development - Community Development Block Grant - Passed through to:	14.218	
CHORES		\$ 26,693
Lighthouse		12,000
Care House		7,490
MCREST - Shelter Program		14,391
St. Vincent De Paul		7,000
HABITAT - Macomb County		18,157
Macomb Intermediate School District		2,645
Total		<u>\$ 88,376</u>
U.S. Department of Justice - Passed through Community Oriented Policing Services Radio Interoperability - 2006-CK-WX-0058 - Passed through to:	16.710	
City of East Pointe		\$ 162,698
City of Frasier		118,515
City of St. Clair Shores		253,798
City of Utica		51,187
Total		<u>\$ 586,198</u>

# **City of Roseville, Michigan**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007**

### **Note 3 - Program Income**

During the year, the Community Development Block Grant Program (CFDA No. 14.218) also recognized \$125,234 of program income consisting of loan repayments and interest. The income was expended on an additional residential rehabilitation project.

# City of Roseville, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 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 program(s):

CFDA Number	Current Year Cash Transferred to Subrecipient
14.218	Community Development Block Grant
16.710	U.S. Department of Justice - Community Orientated Policing Services

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

Auditee qualified as low-risk auditee?  Yes  No

# City of Roseville, Michigan

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## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

### Section III - Federal Program Audit Findings

Reference Number	Findings
	None



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December 13, 2007

To the Honorable Mayor and Members  
of the City Council  
City of Roseville  
29777 Gratiot Avenue  
Roseville, MI 48066

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Roseville (the "City") for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### **Financial Results**

For the year ended June 30, 2007, net assets in the General Fund increased by approximately \$2.9 million. This was in contrast to the City's 2006 fiscal year, where the City's General Fund decreased fund balance by approximately \$3.2 million. This increase in net income is primarily attributable to the November 2006 voter-approved 5 mill tax increase which was implemented for the City's fiscal year ended June 30, 2007. The additional tax revenue helped to lessen the financial impact of funding \$3.4 million for current retiree healthcare benefits, \$1.25 million to fund postretiree healthcare benefits, the increase in the actuarial required payment to fund the City's pension system, and the effects of long-term contractual obligations previously entered into by the City. However, despite the positive effects of the November 2006 operating levy increase and marginal increase in property values each year, the City continues to try and compensate for the effects of declining state-shared revenue payments experienced in recent years and healthcare benefits and pension contributions that continue to rise at rates in excess of inflation.

Due to the many factors affecting the City's well being going forward, the City's management has developed a five-year capital improvement plan and a five-year financial forecast that will be updated annually and reflected as part of the City's annual operating budget in order to continue to allow the City the ability to react prudently to the challenging municipal economic conditions without significant cuts to City services. The ongoing economic challenges that the City will continue to face are as follows:

- Due to the current statutory formula expiring in September 2007, the State temporarily extended the formula. However, it is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Roseville has approximately \$1,600,000 at risk in its General Fund budget based on current funding levels.
- Despite being proactive in beginning to fund its future expected postemployment benefits over the past three years, the City remains underfunded with regard to the preliminary projected GASB Statement No. 45's 2008 estimated \$4.9 million funding for current and future retiree healthcare benefits requirement. This cost and liability associated with funding future retiree health care over the working life of the employee will be fully disclosed in the City's financial statements for the year ending June 30, 2009.
- The pension contribution continues to increase, as a percentage of payroll. The 2007 contribution was approximately \$3,938,000, or an average of 20.765 percent of payroll for general and public safety employees combined. This amount is expected to stay at approximately this level of payroll for the year ending June 30, 2008. The continued increased costs to fund the pension system are a result of many factors including declining market returns from 2001-2004 and from changing demographics (people living longer, etc.).
- Current expenditures for employment health care paid by the General Fund on behalf of the employees' retirement system was approximately \$3,400,000 for the year ended June 30, 2007 with expected increases of 8 percent annually to this cost going forward. With limited investment income of previous years combined with the increasing interest rates currently, the City continues to analyze the impact of this cost on the General Fund and appropriately allocate costs to the applicable fund and to continue to analyze the appropriate reimbursement amount from retirees.
- Projected decreases to future property values are based on economic forecasts of the State of Michigan housing market.

## Legislative Issues

### **Revenue Sharing**

As mention above, the future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services. The service tax was estimated to raise approximately \$700 million per year. However, the service tax was repealed on December 1, 2007, the same day it was to go into effect, and was replaced by a Michigan business tax surcharge that is estimated to raise the same \$700 million in revenue per year. This tax surcharge will be effective for the year beginning January 1, 2008 for corporations. With many last minute revisions to the State's budget, it is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of the following matters will also impact revenue sharing:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The potential impact is that as counties come back into the revenue-sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities.
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure, which begins on January 1, 2008, are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not yet been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Roseville has approximately \$1,600,000 at risk in its General Fund budget based on current funding levels.

### **Personal Property Tax**

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities, which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co. v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers as detailed in the Michigan business tax section below. Even with this most recent relief provided in June 2007 through the Michigan business tax, further reductions to personal property tax remain part of the State's tax structure discussions. The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

## **New Michigan Business Tax**

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires on December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT as well as an additional approximate \$700 million to be generated by the newly added tax surcharge within the MBT. The MBT intended to simplify the old SBT; the MBT is a very lengthy and complicated new law. The new MBT consists of three taxes - a modified gross receipts tax, a business income tax, and a tax surcharge.

More personal property tax relief is also part of the new MBT. 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.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, property classifications) that are the most directly impacted by the new MBT. We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

## **Property Tax Legislation**

A series of House bills was introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on mileage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not yet been voted on in the House.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Streets Funds systems as well as a detailed resolution passed by the City. It is important to note that Major Streets Fund monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Streets Fund to the Local Streets Fund can only be done to the extent that local revenues exist in the Major Streets Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions were met.

### **Audit Standards Changes - This Year and Next**

The American Institute of Certified Public Accountants Audit Standards Board recently issued several new Statements on Auditing Standards that significantly affect the audit process. The first two changes impacted the current audit of the year ended June 30, 2007; the other changes will have a much more significant impact and will be applicable next year.

The current year's audit changes impacted audit documentation procedures, and communications of internal control deficiencies to the City Council. Under these new rules, if our firm had become aware of any internal control deficiencies that could result in more than a remote likelihood of an error in the financial statements (unless clearly inconsequential), we would have communicated those to you in writing. The purpose of this new rule is to make you aware of potential issues before they arise to the level of material weaknesses. During the current year, we became aware of no material weaknesses to report to you.

For next year's audit, eight new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. We have recently put on a seminar explaining these new rules, which was attended by your staff. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the City Council)

As you can see, auditors will spend significantly more time working with all aspects of your internal control (accounting processes, information technology, general and application controls, and traditional internal control procedures). The intent of these new rules is to help audited organizations deal with their internal control. The thought process is that internal control is critically important to any organization, and it would be better served if the annual audit focused significant work on its effectiveness. These new rules are not limited to the public sector - they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.).

These new rules will impact audited organizations in two ways: your finance staff will incur more time and effort in preparation for the audit, and the audit process will require additional time. Plante & Moran has spent the last six months creating the new audit forms and documents that will be needed to meet these new rules. The internal control and accounting process documentation documents (which will be required for the June 30, 2008 audit) have already been shared with your finance staff.

To the Honorable Mayor and Members  
of the City Council  
City of Roseville

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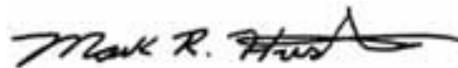
December 13, 2007

**Conclusion**

We would like to thank the financial services department staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Mark R. Hurst". The signature is written in a cursive style with a prominent flourish at the end.

Mark R. Hurst

A handwritten signature in black ink that reads "Kathryn J. Kercorian". The signature is written in a cursive style.

Kathryn J. Kercorian