

City of Rochester Hills, Michigan

**Comprehensive Annual Financial Report
with Supplemental Information
for the Year Ended December 31, 2005**

City of Rochester Hills, Michigan

Contents

Introductory Section

Letter of Transmittal	i-v
Organization Chart	vi
Certificate of Achievement	vii
List of Principal Officials	viii

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14-15
Reconciliation of Fund Balances to Statement of Net Assets	16
Statement of Revenue, Expenditures, and Changes in Fund Balances	17-18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenue, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22-23
Fiduciary Funds - Statement of Assets and Liabilities	24
Component Units:	
Statement of Net Assets	25
Statement of Activities	26-27
Notes to Financial Statements	28-51

City of Rochester Hills, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedule - General Fund	52
Budgetary Comparison Schedule - Major Special Revenue Funds	53-56
Note to Required Supplemental Information	57

Other Supplemental Information

Nonmajor Governmental Funds:

All Fund Types:

Combining Balance Sheet	58
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	59

Nonmajor Special Revenue Funds:

Description of Funds	60
Combining Balance Sheet	61-62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	63-64
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	65-68

Nonmajor Debt Service Funds:

Description of Funds	69
Combining Balance Sheet	70-72
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	73-75
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	76-81

Nonmajor Capital Projects Funds:

Description of Funds	82
Combining Balance Sheet	83-84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	85-86
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Amended Budget and Actual	87-89

Internal Service Funds:

Description of Funds	90
Combining Statement of Net Assets	91
Combining Statement of Revenues, Expenses, and Changes in Net Assets	92
Combining Statement of Cash Flows	93-94

City of Rochester Hills, Michigan

Contents (Continued)

Other Supplemental Information (Continued)

Fiduciary Funds:	
Description of Funds	95
Combining Statement of Assets and Liabilities	96
Combining Statement of Changes in Assets and Liabilities	97

Statistical Section

General Governmental Expenditures by Function - Primary Government - Last Ten Fiscal Years	98-99
General Governmental Revenue by Source - Primary Government - Last Ten Fiscal Years	100-101
General City Tax Levies and Tax Collections - Primary Government - Last Ten Fiscal Years	102
Assessed State Equalized Valuation of Taxable Property - Last Ten Fiscal Years	103
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	104-106
Principal Taxpayers	107
Special Assessment Billings and Collections - Last Ten Fiscal Years	108
Computation of Legal Debt Margin	109
Ratio of Net Bonded Debt to State Equalized Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years	110
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures - Last Ten Fiscal Years	111
Schedule of Direct and Overlapping Debt	112
Debt Coverage - Water and Sewer Debt	113
Demographic Statistics	114-115
Miscellaneous Statistics	116
Economic Development Corporation	117

Introductory Section

April 28, 2006

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

We are pleased to submit the Comprehensive Annual Financial Report of the City of Rochester Hills (the "City") for the year ended December 31, 2005, in accordance with state law and the City Charter. This report was prepared by the accounting division and consists of management representation disclosing the City's financial condition to the elected officials, the residents, and other interest parties. Responsibility for the accuracy, completeness, and fairness of the financial data, including all disclosures, rests with the administration and management of the City of Rochester Hills. To the best of our knowledge and belief the content of this Comprehensive Annual Financial Report (CAFR) and the information presented is accurate in all material aspects, and is presented in a manner that fairly presents the financial position of the City.

The City implemented the new governmental reporting model in 2003. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussions and analysis (MD&A). This letter of transmittal is intended to be read in conjunction and complement the MD&A.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory sections of the CAFR includes this transmittal letter, the City's organizational chart, a list of City administration, and the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended December 31, 2004 from the Government Finance Officers Association of the United States and Canada.

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

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

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

The approximate population of the City is over 69,000 and comprises an area of 32.2 square miles. The City employs approximately 250 full-time employees and 58 contracted law enforcement officers. The City provides a full range of municipal services for the public's health, safety, welfare, and quality of life. City services include general administration, fire protection, contracted police protection, planning and zoning, engineering, building and code enforcement, cemetery operations and maintenance, park operations and maintenance, street construction and maintenance, storm drain improvements, and pedestrian pathway maintenance.

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

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

Revenue projections continue to be challenging due to the reduction in the State of Michigan's state-shared revenue program. The City's state revenue sharing decreased by \$48,807, or less than 1 percent, from the prior year with a total decline since 2001 of over \$1.1 million, or 17.6 percent. Due to the decrease in state-shared revenue, the City continues to be challenged in maintaining current levels of operating expenses.

The local economic base of the City of Rochester Hills possesses a diversified property tax base where residential housing comprises 76 percent of the tax base, commercial 13 percent, industrial 6 percent, and personal property (business equipment, furniture, and machinery) 5 percent. No one taxpayer exceeds 1 percent of the tax roll and the top 10 payers combined account for less than 6 percent of the total. The following table illustrates the specific diversity of the City's tax base:

Single-family homes	18,480 homes
Condominiums	3,603 units
Low-income/senior citizen (11 buildings)	1,415 units
Rental apartments (18 complexes)	4,700 units
Mobile home parks (2 locations)	1,392 sites
Shopping centers	40 centers
Hotel/Motels (2 buildings)	236 rooms
Office space	145 buildings
Commercial	177 buildings
Light industrial	337 buildings

The principal source of revenue to fund the City's operations is property tax. The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the of the City's current tax base, including the LDFA district, which will be the basis for property tax revenue for the fiscal year 2006 budget:

<u>By Class</u>	<u>Taxable Value</u>	<u>Percent</u>
Real property	\$ 3,214,649,540	95%
Personal property	<u>187,326,370</u>	<u>5%</u>
Total	<u>\$3,401,975,910</u>	100%

<u>By Use</u>		
Residential	\$ 2,573,882,270	76%
Commercial	440,887,010	13%
Industrial	199,880,260	6%
Personal property	<u>187,326,370</u>	<u>5%</u>
Total	<u>\$3,401,975,910</u>	100%

Major Initiatives

Local Roads - Local roads continue to be a concern for the City. Due to the lack of funds and a local road program, the City will to continue to address and work towards establishing a fund source for the needed local road projects. There were no local roads constructed or improved in 2005.

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

The City of Rochester Hills Planning Commission adopted the 2006-2011 Capital Improvement Plan. Currently the commission is reviewing the 2007-2012 plan for the 2007 budget process. Significant capital projects include:

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

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

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

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

Investment Policy - Funds of the City will be invested in accordance with Michigan Public Act 239 of the Public Acts of 1988, as amended. The City has an investment policy that identifies the following objectives, procedures and policies: safety of capital, liquidity, return on investment, protection of purchasing power, and maintaining the public's trust.

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

Risk Management - The City is self-insured for comprehensive general liability, motor vehicle damage, comprehensive property damage, and public official liability through the Michigan Municipal Risk Management Authority (MMRMA). The City has aggregate excess reinsurance coverage for aggregate claims in excess of \$400,000 up to a maximum limit of \$15,000,000 per each occurrence.

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

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

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

Awards - For each of the last 17 years (fiscal years 1988 through 2004, inclusive), the City of Rochester Hills, Oakland County, Michigan has received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

The certificate of achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

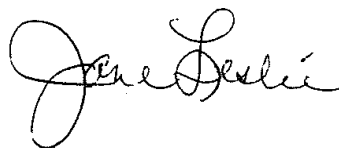
Acknowledgements - The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated staff of the accounting division. Also, the cooperation and assistance of every department in the City have been invaluable. We thank all of them for their efforts.

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

Respectfully submitted,

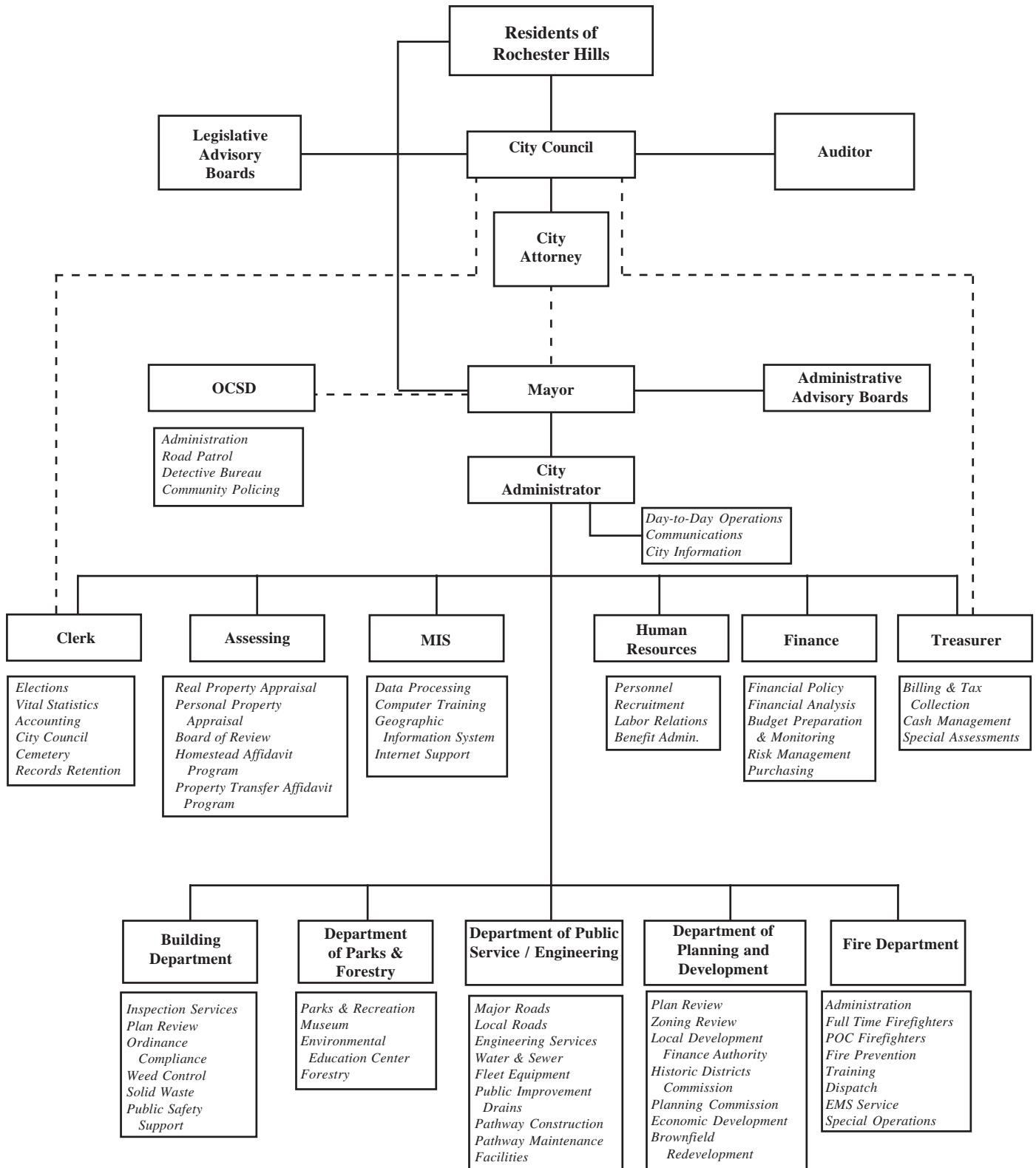


Pamela Lee
City Accountant



Jane Leslie
City Clerk

Functional City-Wide Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester Hills,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

CITY OF ROCHESTER HILLS
OAKLAND COUNTY, MICHIGAN

CITY ADMINISTRATION

ED ANZEK

DIRECTOR OF PLANNING

SCOTT COPE

DIRECTOR OF BUILDING

RONALD CROWELL

FIRE CHIEF

KURT DAWSON

DIRECTOR OF ASSESSING/CITY TREASURER

BOB GRACE

DIRECTOR OF MANAGEMENT INFORMATION SERVICES

MICHAEL HARTNER

DIRECTOR OF PARKS & FORESTRY

JULIE JENUWINE

FINANCE DIRECTOR

PAMELA M. LEE

DIRECTOR OF HUMAN RESOURCES

PAMELA S. LEE

CITY ACCOUNTANT

JANE LESLIE

CITY CLERK

ROGER ROUSSE

DIRECTOR OF PUBLIC SERVICES



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rochester Hills, Michigan (the "City") as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rochester Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Rochester Hills, Michigan as of December 31, 2005 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.

A member of



A worldwide association of independent accounting firms

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006 on our consideration of the City of Rochester Hills, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

March 24, 2006

City of Rochester Hills, Michigan

Management's Discussion and Analysis

The City of Rochester Hills, Michigan's (the "City") management's discussion and analysis (MD&A) is a narrative overview of the City's financial activities and performance for the fiscal year ended December 31, 2005. Please read it in conjunction with the City's financial statements and notes to the financial statements.

Government-wide Statements

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

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

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

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

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

- **Governmental Funds** - The majority of the City's basic services included in the governmental funds not only focus on how cash and other financial assets that can readily be converted to cash flow in and out, but also what year-end balances are available to finance future City programs. Because this information does not include the additional long-term focus of the government-wide statements, reconciliation statements are provided to explain the differences between the two methods of reporting. Pages 16 and 19 illustrate this concept.
- **Proprietary Funds** - Services for which the City charges customers fees are reported in this fund type. This fund type provides both the short- and long-term financial information comparable to the business-type activity in the government-wide statements.

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

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

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

Statement of Net Assets - The City's combined net assets increased 6.5 percent, or \$18 million, from \$278.7 million in 2004 to \$296.7 million in 2005. Of this increase, \$15.6 million, or 86.6 percent, is attributed to governmental activities. The primary increase is attributed to the governmental activities' net assets invested in capital assets, net of related debt of \$110.7 million, which increased by \$6.1 million, or 5.8 percent. Business-type net assets increased by \$2.4 million between 2004 and 2005 to \$122.2 million. The primary increase is attributed to the unrestricted net assets, which represents the amount that may be used for ongoing operations and maintenance.

The City's assets totaled \$395.5 million, up by \$23.4 million, an increase of 6.3 percent from 2004. This relates primarily to amounts being invested in capital assets and donated infrastructure and road right of way in the governmental activities in 2005.

The City's total liabilities increased approximately \$5.4 million, or 5.8 percent, to \$98.8 million in 2005. This relates primarily to new debt obligations in both the governmental activities of \$3.2 million and business-type activities of \$3.8 million.

In condensed format, the table below shows the comparison of net assets (in millions) as of December 31, 2005 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 110.2	\$ 97.9	\$ 21.4	\$ 17.8	\$ 131.6	\$ 115.7
Long-term receivables	0.7	0.8	1.3	1.4	2.0	2.2
Restricted assets	1.0	1.3	3.8	1.1	4.8	2.4
Capital assets	<u>154.9</u>	<u>149.8</u>	<u>102.2</u>	<u>102.0</u>	<u>257.1</u>	<u>251.8</u>
Total assets	266.8	249.8	128.7	122.3	395.5	372.1
Liabilities						
Current liabilities	37.4	34.3	2.7	2.5	40.1	36.8
Long-term liabilities	<u>54.9</u>	<u>56.6</u>	<u>3.8</u>	<u>-</u>	<u>58.7</u>	<u>56.6</u>
Total liabilities	<u>92.3</u>	<u>90.9</u>	<u>6.5</u>	<u>2.5</u>	<u>98.8</u>	<u>93.4</u>
Net Assets						
Invested in capital assets -						
Net of related debt	110.7	104.6	102.2	102.0	212.9	206.6
Restricted	44.2	40.8	-	1.1	44.2	41.9
Unrestricted	<u>19.6</u>	<u>13.5</u>	<u>20.0</u>	<u>16.7</u>	<u>39.6</u>	<u>30.2</u>
Total net assets	<u>\$ 174.5</u>	<u>\$ 158.9</u>	<u>\$ 122.2</u>	<u>\$ 119.8</u>	<u>\$ 296.7</u>	<u>\$ 278.7</u>

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Changes in Net Assets - The City's total net assets increased by \$18.0 million during the fiscal year ended December 31, 2005. The table below shows the comparison of changes in net assets (in millions) to the prior year:

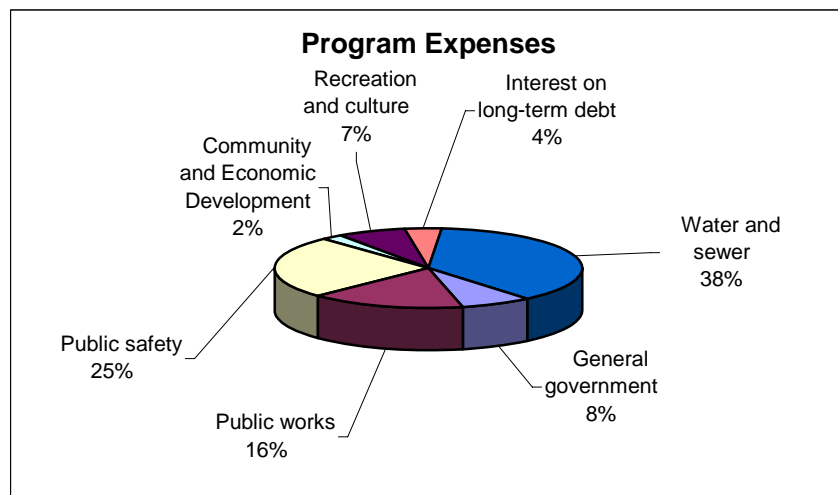
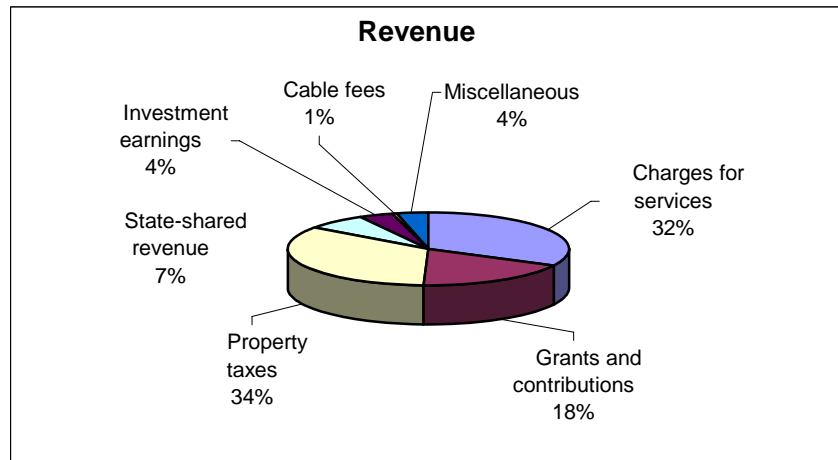
TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 5.2	\$ 5.7	\$ 20.6	\$ 17.8	\$ 25.8	\$ 23.5
Operating grants and contributions	4.5	4.7	-	-	4.5	4.7
Capital grants and contributions	6.2	1.9	3.8	3.5	10.0	5.4
General revenue:						
Property taxes	27.5	26.1	-	-	27.5	26.1
State-shared revenue	5.4	5.4	-	-	5.4	5.4
Investment earnings	2.6	0.9	0.5	0.2	3.1	1.1
Cable franchise fees	0.6	0.7	-	-	0.6	0.7
Miscellaneous	2.2	0.8	0.6	-	2.8	0.8
Total revenue	54.2	46.2	25.5	21.5	79.7	67.7
Program Expenses						
General government	4.7	6.5	-	-	4.7	6.5
Public works	10.1	10.2	-	-	10.1	10.2
Public safety	15.6	15.2	-	-	15.6	15.2
Community and economic development	1.3	1.4	-	-	1.3	1.4
Recreation and culture	4.5	4.4	-	-	4.5	4.4
Interest on long-term debt	2.4	2.4	-	-	2.4	2.4
Water and sewer	-	-	23.1	19.7	23.1	19.7
Total program expenses	38.6	40.1	23.1	19.7	61.7	59.8
Change in Net Assets	15.6	6.1	2.4	1.8	18.0	7.9
Net Assets - Beginning of year	158.9	152.8	119.8	118.0	278.7	270.8
Net Assets - End of year	<u>\$ 174.5</u>	<u>\$ 158.9</u>	<u>\$ 122.2</u>	<u>\$ 119.8</u>	<u>\$ 296.7</u>	<u>\$ 278.7</u>

The City's governmental activity revenue exceeded annual expenses by \$15.6 million, resulting in an increase in net assets as of December 31, 2005 to \$174.5 million. Business-type activity revenue exceeded annual expenses by \$2.4 million, resulting in an increase in net assets to \$122.2 million. The following graphs illustrate the primary sources of revenue and expenses for the total primary government of the City of Rochester Hills for the year ended December 31, 2005.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)



Governmental Activities - Of the City's total revenue generated for fiscal year 2005, property tax comprises the largest segment. Property tax revenue increased over the prior year by \$1.4 million, or 5.4 percent. This increase relates primarily to a 5.3 percent increase in taxable value, while the millage rates remained the same. Of the grants and contributions revenue, \$4.2 million is associated with the State of Michigan Act 51 revenues for the major and local road systems, while much of the remaining revenue is associated with the governmental activity related to road systems donated by developers in the amount of \$2.0 million. State-shared revenue is a large segment of the governmental activity, for which the City received \$5.4 million.

The majority of governmental expense is associated with the public safety function, which is \$15.6 million, or 40.5 percent of the total governmental activity. Public safety includes building, ordinance enforcement, fire, and police services. General government expenses total \$4.7 million, or 12.2 percent. General government activities decreased by \$1.8 million, which is attributed to fewer capital outlay expenses due to completed projects in the prior year. Public works expenses totaled \$10.1 million, or 25.9 percent, in which expenses slightly decreased.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities - The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water purchased from the City of Detroit to residents. Of the City's charges for service revenue, the majority is generated from charges passed on to residents, which is \$20.6 million. The charges for services are offset by water and sewer expenses of \$23.1 million, or 37.5 percent of the City's total expenses, and after capital contributions the business activity has a net change in assets of \$2.4 million.

Financial Analysis of the City's Funds - An analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information on the most significant funds, not the City as a whole. In addition to State legislative requirements to maintain separate funds for Act 51 major and local road money, the City creates funds to administer certain dedicated dollars and demonstrate accountability to the citizens for special tax millages voted by citizens and earmarked bond proceeds. The City's major funds for fiscal year 2005 include the General Fund, the Major Road Fund, the Local Road Fund, the Fire Fund, and the Special Police Protection Fund. The General Fund transferred a substantial amount of its operating funds to subsidize programs such as police protection, roads, seed money for capital projects, and to cover its share for internal service.

General Fund Budgetary Highlights - The City administration, mayor, and City Council continuously monitor budget performance and amend the budget to reflect up to date estimates throughout the year. Revenues outperformed budget expectations by \$47,842 and overall the General Fund departments stayed below budget, resulting in total expenditures below budget by \$1,451,220, or 6.2 percent under budget, resulting in an increase in fund balance in the amount of \$1,499,062. Significant increases in General Fund revenue occurred due to interest income increasing \$470,000 over the original budget, state sources of revenue exceeding original budget by \$162,000, actual charges for services (building department) exceeding the amended budget by \$100,000 along with miscellaneous revenue. Administrative interfund charges decreased by \$721,550 due to the prior year's look-back allocation. Major expenditures for city administration came in approximately \$690,000 below budget, mostly due to position vacancies. Operating supplies and equipment came in under budget by approximately \$130,000, professional consultant services by \$172,000, interfund charges for management information systems by \$172,250, training expenditures by \$62,000, and printing by \$58,000.

Capital Asset and Debt Administration - The City of Rochester Hills has \$257.1 million invested in a broad range of capital assets including land, building, technology equipment, fire equipment, water and sewer lines, and infrastructure for its governmental and business-type activities as of December 31, 2005. This reflects an increase in net capital assets of \$5.3 million during the year. Refer to Note 5 - Capital Assets and Note 7 - Long-term Debt for detail.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
	Land	18.6	18.3	5.1	6.4	23.7
Right of way	41.6	38.2	-	-	41.6	38.2
Construction in progress	-	-	1.0	2.6	1.0	2.6
Infrastructure	61.6	60.1	93.9	90.8	155.5	150.9
Building and land improvements	26.8	26.9	0.5	0.6	27.3	27.5
Vehicles	3.5	3.2	-	-	3.5	3.2
Furniture and equipment	2.8	3.1	1.6	1.6	4.4	4.7
Total	<u>154.9</u>	<u>149.8</u>	<u>102.1</u>	<u>102.0</u>	<u>257.0</u>	<u>251.8</u>

The City of Rochester Hills' debt rating is excellent. The City maintains an AA+ by Standard and Poor's. The City's bond indebtedness and contractual obligations totaled \$57.6 million at December 31, 2005. During the fiscal year, the City issued \$3.2 million in bonds to construct a storm drain and \$3.8 million in bonds to construct water and sewer mains.

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

	Governmental Activities	
	2005	2004
Governmental activities:		
General obligation bonds	\$ 30.8	\$ 33.4
County contractual obligations	19.5	17.9
Special assessment bonds	<u>3.5</u>	<u>3.9</u>
Total governmental activities	<u>\$ 53.8</u>	<u>\$ 55.2</u>
Business-type activities - General obligation bonds	<u>\$ 3.8</u>	<u>\$ 0.0</u>

Economic Factors and New Year's Budget and Rates - The City's tax base is expected to continue to grow during 2006 by approximately \$200 million, or 6.2 percent. The City's millage rate has been constant for the past four years at 9.3681 mills, but increased to 9.6681 in December 2005 for fiscal year 2006 due to the newly voted Green Space Preservation millage in the amount of 0.3000 mills along with the Older Persons Commission transportation renewal/increase from 0.0224 to 0.0900. The total millage rate historically has been the third lowest among cities in Oakland County. Taxes account for 45 percent of budgeted governmental-type revenues and 44.5 percent of the budgeted General Fund revenues for the 2006 fiscal year. General Fund tax revenue is estimated at \$11 million.

City of Rochester Hills, Michigan

Management's Discussion and Analysis (Continued)

The City's Local Road Fund continues to be depleted and it is anticipated that approximately \$828,000 of fund balance for fiscal year 2006 will be utilized to balance the fund. The City Council and the administration are striving to develop an appropriate long-term funding solution to support local road capital improvements and daily operating activities. The 2006 Local Road Fund budget does not include local road construction, improvements, or rehabilitation projects.

Capital projects for governmental-type funds for the fiscal year 2006 include major road improvements, drain construction, park and museum improvements, and the purchase of vehicles and equipment for fire and fleet activities.

The Water and Sewer Fund anticipates a couple of water and sewer main projects, water system security enhancements, in addition to improvements to the DPS facility, implementation of a radio read system, and construction of two water reservoirs.

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

City of Rochester Hills, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 31,995,102	\$ 7,248,748	\$ 39,243,850	\$ 1,604,138
Investments (Note 3)	58,838,992	10,042,506	68,881,498	1,535,916
Receivables - Net:				
Property tax	16,747,912	-	16,747,912	-
Customers	121,088	3,879,309	4,000,397	65,394
Accrued interest	638,940	76,386	715,326	8,640
Due from other governmental units	1,687,691	-	1,687,691	790,378
Internal balances (Note 6)	(10,547)	10,547	-	-
Inventories	43,808	71,617	115,425	39,865
Long-term receivables	669,336	1,331,648	2,000,984	-
Other assets	154,015	-	154,015	48,108
Restricted assets (Note 8)	991,890	3,796,173	4,788,063	-
Nondepreciable capital assets (Note 5)	60,132,128	6,127,383	66,259,511	2,790,244
Depreciable capital assets - Net (Note 5)	94,768,735	96,094,864	190,863,599	14,316,556
Total assets	266,779,090	128,679,181	395,458,271	21,199,239
Liabilities				
Accounts payable	1,982,541	2,219,959	4,202,500	495,566
Retainage payable	7,000	5,004	12,004	-
Accrued and other liabilities	1,739,487	325,121	2,064,608	41,602
Deposits and escrows	3,630,875	135,687	3,766,562	-
Unearned revenue (Note 4)	30,025,002	-	30,025,002	940,474
Noncurrent liabilities (Note 7):				
Due within one year - Debt	4,486,060	100,000	4,586,060	-
Due in more than one year - Debt	49,323,953	3,700,000	53,023,953	-
Due within one year - Other noncurrent liabilities	805,862	-	805,862	15,767
Due in more than one year - Other noncurrent liabilities	248,391	-	248,391	12,763
Total liabilities	92,249,171	6,485,771	98,734,942	1,506,172
Net Assets				
Invested in capital assets - Net of related debt	110,689,829	102,222,247	212,912,076	17,106,800
Restricted:				
Streets and highways	18,959,401	-	18,959,401	-
Dedicated millages	7,849,728	-	7,849,728	-
Debt service	6,999,896	-	6,999,896	-
Capital projects	8,230,953	-	8,230,953	-
Cemetery	879,249	-	879,249	-
Woodland preservation	1,343,801	-	1,343,801	-
Unrestricted	19,577,062	19,971,163	39,548,225	2,586,267
Total net assets	\$ 174,529,919	\$ 122,193,410	\$ 296,723,329	\$ 19,693,067

City of Rochester Hills, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,682,613	\$ 210,223	\$ -	\$ -
Public works	10,077,715	494,101	4,341,686	6,151,863
Public safety	15,572,006	3,703,136	87,144	-
Community and economic development	1,321,727	198,384	-	-
Recreation and culture	4,478,326	636,928	39,341	10,434
Interest on long-term debt	2,383,866	-	-	-
Total governmental activities	38,516,253	5,242,772	4,468,171	6,162,297
Business-type activities:				
Sewer	10,204,161	8,261,655	-	2,124,301
Water	12,857,990	12,274,196	-	1,716,082
Total business-type activities	23,062,151	20,535,851	-	3,840,383
Total primary government	\$ 61,578,404	\$ 25,778,623	\$ 4,468,171	\$ 10,002,680
Component units:				
Local Development Finance Authority	\$ 1,423,817	\$ -	\$ -	\$ -
Rochester-Avon Recreation Authority	1,848,521	1,256,979	-	-
Older Persons' Commission	3,726,492	837,030	1,312,149	-
Total component units	\$ 6,998,830	\$ 2,094,009	\$ 1,312,149	\$ -
General revenues:				
Property taxes				
Intergovernmental revenue				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Miscellaneous				
Gain (loss) on sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (4,472,390)	\$ -	\$ (4,472,390)	\$ -
909,935	-	909,935	-
(11,781,726)	-	(11,781,726)	-
(1,123,343)	-	(1,123,343)	-
(3,791,623)	-	(3,791,623)	-
(2,383,866)	-	(2,383,866)	-
(22,643,013)	-	(22,643,013)	-
-	181,795	181,795	-
-	1,132,288	1,132,288	-
-	1,314,083	1,314,083	-
(22,643,013)	1,314,083	(21,328,930)	-
-	-	-	(1,423,817)
-	-	-	(591,542)
-	-	-	(1,577,313)
-	-	-	(3,592,672)
27,492,422	-	27,492,422	508,021
-	-	-	1,890,823
5,395,634	-	5,395,634	-
2,618,951	517,710	3,136,661	114,921
647,350	-	647,350	-
1,031,921	14,232	1,046,153	55,735
1,118,104	480,792	1,598,896	(248,514)
38,304,382	1,012,734	39,317,116	2,320,986
15,661,369	2,326,817	17,988,186	(1,271,686)
158,868,550	119,866,593	278,735,143	20,964,753
\$ 174,529,919	\$ 122,193,410	\$ 296,723,329	\$ 19,693,067

City of Rochester Hills, Michigan

	Local Road			
	General Fund	Major Road Fund	Fund	Fire Fund
Assets				
Cash and cash equivalents	\$ 5,812,480	\$ 4,049,115	\$ 852,635	\$ 3,080,093
Investments	14,375,152	12,271,473	1,124,215	1,016,326
Receivables:				
Property tax	6,069,594	-	-	3,583,233
State of Michigan	-	497,558	183,069	-
Oakland County	105,551	-	-	-
Accounts	49,440	-	22,650	-
Interest and other	166,562	118,184	7,877	9,204
Due from other funds	311	18,449	-	-
Inventories	-	-	43,808	-
Long-term receivables	-	-	203,898	-
Restricted assets - Assets held at County	-	-	-	-
Total assets	<u>\$ 26,579,090</u>	<u>\$ 16,954,779</u>	<u>\$ 2,438,152</u>	<u>\$ 7,688,856</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 152,711	\$ 135,973	\$ 40,910	\$ 36,724
Retainages payable	-	750	5,000	-
Accrued wages	187,949	11,266	19,720	88,265
Deposits and escrows	3,134,774	500	6,050	-
Due to other funds	53,579	-	7,543	5,160
Deferred revenue	10,811,747	-	203,898	6,382,681
Other liabilities	<u>274,027</u>	<u>580</u>	<u>1,340</u>	<u>3,788</u>
Total liabilities	14,614,787	149,069	284,461	6,516,618
Fund Balances				
Reserved for public improvement	-	-	44,097	-
Unreserved, designated for subsequent year's budget, reported in:				
General Fund	23,140	-	-	-
Special Revenue Funds	-	2,836,840	828,220	-
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Unreserved/Undesignated, reported in:				
General Fund	11,941,163	-	-	-
Special Revenue Funds	-	13,968,870	1,281,374	1,172,238
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Total fund balances	<u>11,964,303</u>	<u>16,805,710</u>	<u>2,153,691</u>	<u>1,172,238</u>
Total liabilities and fund balances	<u>\$ 26,579,090</u>	<u>\$ 16,954,779</u>	<u>\$ 2,438,152</u>	<u>\$ 7,688,856</u>



**Governmental Funds
Balance Sheet
December 31, 2005**

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,083,148	\$ 9,923,750	\$ 26,801,221
650,000	19,710,152	49,147,318
2,299,839	4,795,246	16,747,912
-	-	680,627
-	-	105,551
26,030	22,968	121,088
15,681	236,664	554,172
-	9,119	27,879
-	-	43,808
-	465,438	669,336
-	262,910	262,910
<u>\$ 6,074,698</u>	<u>\$ 35,426,247</u>	<u>\$ 95,161,822</u>
\$ 1,183,684	\$ 110,943	\$ 1,660,945
-	500	6,250
2,473	15,872	325,545
-	489,551	3,630,875
-	676	66,958
4,145,374	9,149,403	30,693,103
188	823	280,746
5,331,719	9,767,768	36,664,422
-	-	44,097
-	-	23,140
330,350	3,510,280	7,505,690
-	795,810	795,810
-	425,060	425,060
-	-	11,941,163
412,629	4,686,965	21,522,076
-	6,204,086	6,204,086
-	10,036,278	10,036,278
742,979	25,658,479	58,497,400
<u>\$ 6,074,698</u>	<u>\$ 35,426,247</u>	<u>\$ 95,161,822</u>

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of Fund Balances to Statement of Net Assets December 31, 2005

Total Fund Balances for Governmental Funds	\$ 58,497,400
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	108,602,214
Special assessment receivables are expected to be collected over several years and are not available to pay current year expenditures	668,101
Certain other receivables are expected to be collected over several years and are not available to pay for current year expenditures	901,513
Accrued interest in governmental activities are not reported in the funds	(624,135)
Amortization of bond issuance costs are not reported in the funds	117,816
Compensated absences in governmental activities are not reported in the funds	(988,627)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(49,160,013)
Tax tribunal claims	(65,626)
Internal Service Funds are included as part of governmental activities	<u>56,581,276</u>
Net Assets of Government Activities	<u>\$ 174,529,919</u>

City of Rochester Hills, Michigan

	General Fund	Major Road Fund	Local Road Fund	Fire Fund
Revenue				
Property taxes	\$ 10,026,196	\$ -	\$ -	\$ 6,063,034
Licenses and permits	1,890,417	-	17,958	13,450
Intergovernmental:				
State grants	5,474,685	3,114,289	1,183,035	5,735
Federal grants	200,559	17,199	-	26,001
Other governmental revenues	-	-	40,000	-
Charges for services	5,100,255	251,525	109,395	1,082,470
Fines and forfeitures	177,726	-	-	9,398
Investment earnings	618,494	468,873	85,024	143,136
Special assessments	-	-	77,690	-
Refunds and other revenue	39,220	45,973	9,201	12,806
	<u>23,527,552</u>	<u>3,897,859</u>	<u>1,522,303</u>	<u>7,356,030</u>
Total revenue	23,527,552	3,897,859	1,522,303	7,356,030
Expenditures				
Current:				
General government	7,149,633	-	-	-
Public works	714,722	-	-	-
Public safety	2,953,176	-	-	5,579,470
Community and economic development	1,325,230	-	-	-
Streets	-	1,244,080	1,520,244	-
Recreation and culture	2,949,467	-	-	-
Capital outlay	-	838,214	91,141	-
Debt service	-	-	-	-
	<u>15,092,228</u>	<u>2,082,294</u>	<u>1,611,385</u>	<u>5,579,470</u>
Total expenditures	15,092,228	2,082,294	1,611,385	5,579,470
Excess of Revenue Over (Under) Expenditures	8,435,324	1,815,565	(89,082)	1,776,560
Other Financing Sources (Uses)				
Transfers in	-	1,624,336	25,000	-
Transfers out	(6,936,262)	(457,092)	(805,834)	(2,001,940)
Sales of capital assets	-	-	-	-
Issuance of bonds	-	-	-	-
	<u>(6,936,262)</u>	<u>1,167,244</u>	<u>(780,834)</u>	<u>(2,001,940)</u>
Total other financing sources (uses)	(6,936,262)	1,167,244	(780,834)	(2,001,940)
Net Change in Fund Balance	1,499,062	2,982,809	(869,916)	(225,380)
Fund Balances - Beginning of year	10,465,241	13,822,901	3,023,607	1,397,618
Fund Balances - End of year	<u>\$ 11,964,303</u>	<u>\$ 16,805,710</u>	<u>\$ 2,153,691</u>	<u>\$ 1,172,238</u>

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2005**

Special Police Protection Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,914,749	\$ 7,488,443	\$ 27,492,422
-	7,650	1,929,475
28,091	-	9,805,835
27,317	-	271,076
220,660	-	260,660
116,229	314,599	6,974,473
388,777	-	575,901
95,303	815,553	2,226,383
-	86,676	164,366
74	1,138,863	1,246,137
4,791,200	9,851,784	50,946,728
-	-	7,149,633
-	1,813,254	2,527,976
7,162,930	-	15,695,576
-	-	1,325,230
-	-	2,764,324
-	1,365,844	4,315,311
-	4,324,129	5,253,484
-	6,689,119	6,689,119
7,162,930	14,192,346	45,720,653
(2,371,730)	(4,340,562)	5,226,075
2,566,700	5,733,308	9,949,344
(397,370)	(2,159,698)	(12,758,196)
-	38,404	38,404
-	3,235,000	3,235,000
2,169,330	6,847,014	464,552
(202,400)	2,506,452	5,690,627
945,379	23,152,027	52,806,773
\$ 742,979	\$ 25,658,479	\$ 58,497,400

City of Rochester Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 5,690,627
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	4,876,797
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(157,351)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(79,051)
Accrued interest payable is recorded when due in governmental funds; in addition, bond issuance costs are amortized during the life of the bond	(78,316)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	4,498,024
Bond proceeds are not reported as financing sources on the statement of activities	(3,235,000)
The change in accumulated employee sick and vacation pay, as well as estimated general liability and tax tribunal claims, are recorded when earned in the statement of activities	285,212
Internal Service Funds are also included as governmental activities	<u>3,860,427</u>
Change in Net Assets of Governmental Activities	<u>\$ 15,661,369</u>

City of Rochester Hills, Michigan

Proprietary Funds Statement of Net Assets December 31, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,248,748	\$ 5,193,881
Investments	10,042,506	9,691,674
Receivables:		
Accounts	3,879,309	-
Accrued interest	76,386	97,183
Due from other funds	11,900	29,502
Inventories	71,617	-
Prepaid costs and other assets	-	23,784
	<hr/>	<hr/>
Total current assets	21,330,466	15,036,024
Noncurrent assets:		
Restricted assets - Assets held at the County	3,796,173	728,980
Capital assets - Net	102,222,247	46,298,649
Long-term receivable	1,331,648	-
	<hr/>	<hr/>
Total assets	128,680,534	62,063,653
Liabilities		
Current liabilities:		
Accounts payable	2,219,959	321,596
Retainages payable	5,004	750
Accrued wages	69,941	35,628
Accrued vacation	146,400	80,191
Accrued annual leave	77,990	48,323
Deposits and escrows	135,687	-
Due to other funds	1,353	970
Accrued and other liabilities	4,160	281,223
Payable related to long-term obligations:		
Current portion of long-term obligations	100,000	200,000
Accrued interest	26,630	63,696
	<hr/>	<hr/>
Total current liabilities	2,787,124	1,032,377
Long-term liabilities - Net of current portion	<hr/>	<hr/>
	3,700,000	4,450,000
	<hr/>	<hr/>
Total liabilities	6,487,124	5,482,377
Net Assets		
Investment in capital assets - Net of related debt	102,222,247	42,377,629
Unrestricted	19,971,163	14,203,647
	<hr/>	<hr/>
Total net assets	\$ 122,193,410	\$ 56,581,276

City of Rochester Hills, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Charges for services	\$ 20,491,443	\$ 7,408,076
Other charges for services	<u>24,986</u>	<u>58,715</u>
Total operating revenue	20,516,429	7,466,791
Operating Expenses		
Cost of water produced/purchased	7,506,554	-
Cost of sewage treatment	4,771,632	-
Salaries and wages	3,290,765	1,892,033
Professional services	2,811,509	2,003,811
Public utilities	-	619,283
Material and supplies	359,946	243,257
Repairs and maintenance	71,535	648,621
Rentals	1,143,344	16,663
Depreciation and amortization	<u>3,106,866</u>	<u>2,389,982</u>
Total operating expenses	<u>23,062,151</u>	<u>7,813,650</u>
Operating Loss	(2,545,722)	(346,859)
Nonoperating Revenue (Expenses)		
Investment income	507,264	434,735
Net change in fair value of investments	10,446	(9,211)
Capital and lateral charges	1,455,048	-
Interest expense	-	(195,088)
Gain on disposal of fixed assets	<u>480,792</u>	<u>767,998</u>
Total nonoperating revenue	<u>2,453,550</u>	<u>998,434</u>
Income (Loss) - Before capital grants and contributions and transfers	(92,172)	651,575
Capital Grants and Contributions	2,418,989	400,000
Transfers from Other Funds	<u>-</u>	<u>2,808,852</u>
Change in Net Assets	2,326,817	3,860,427
Net Assets - Beginning of year	<u>119,866,593</u>	<u>52,720,849</u>
Net Assets - End of year	<u><u>\$ 122,193,410</u></u>	<u><u>\$ 56,581,276</u></u>

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Cash received from customers	\$ 20,137,593	\$ 7,422,347
Cash payments for goods and services	(16,590,361)	(3,432,929)
Cash payments to employees	(3,196,948)	(1,871,469)
Other operating revenue	-	58,715
	350,284	2,176,664
Cash Flows from Noncapital Financing Activities		
Transfers in from other funds	-	2,808,852
Repayments to other funds	(1,003)	(27,329)
	(1,003)	2,781,523
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	1,815,534	866,808
Capital grants received	-	400,000
Payment for capital acquisitions	(996,764)	(2,641,798)
Collection of capital and lateral charges	1,455,048	-
Principal payments	-	(200,000)
Interest paid	-	(197,088)
	2,273,818	(1,772,078)
Cash Flows from Investing Activities		
Purchase of investment securities	(17,091,096)	(14,003,824)
Proceeds from maturities of investment securities	13,068,020	10,704,366
Receipts of interest and dividends	450,389	364,663
	(3,572,687)	(2,934,795)
Net Increase (Decrease) in Cash and Cash Equivalents	(949,588)	251,314
Cash and Cash Equivalents - January 1, 2005	8,198,336	4,942,567
Cash and Cash Equivalents - December 31, 2005	\$ 7,248,748	\$ 5,193,881

City of Rochester Hills, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2005

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (2,545,722)	\$ (346,859)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:		
Depreciation expense	3,106,866	2,389,982
Increase in accounts receivable	(378,836)	-
Decrease in other assets	7,167	14,271
Decrease in inventories	10,059	-
Increase in accounts payable and other accrued expenses	56,933	119,270
Increase in accrued wages, vacation, and annual leave	93,817	-
	2,896,006	2,523,523
Total adjustments		
Net cash provided by operating activities	\$ 350,284	\$ 2,176,664

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2005, the Water and Sewer Fund received \$2,418,989 of lines donated by developers. Also, the Water and Sewer Fund issued bonds totaling \$3,800,000, the proceeds of which are held by the County for the construction of water and sewer infrastructure and reflected as restricted assets at December 31, 2005. During the year, \$1,212,584 of assets were constructed by the County with amounts paid by the City in previous years.

City of Rochester Hills, Michigan

Fiduciary Funds Statement of Assets and Liabilities December 31, 2005

Assets - Cash and cash equivalents	<u>\$ 3,004,897</u>
Liabilities	
Accounts payable	\$ 38,239
Due to other governments	2,960,221
Accrued and other liabilities	<u>6,437</u>
 Total liabilities	 <u>\$ 3,004,897</u>

City of Rochester Hills, Michigan

Component Units Statement of Net Assets December 31, 2005

	Local Development Finance Authority	Economic Development Corporation	Automation Alley SmartZone Authority	Brownfield Redevelopment Authority	Rochester-Avon Recreation Authority	Older Persons' Commission	Total
Assets							
Cash and investments	\$ 1,997,396	\$ 2,534	\$ -	\$ -	\$ 793,604	\$ 346,520	\$ 3,140,054
Due from other governmental units	666,252	-	92,921	29,168	1,000	1,037	790,378
Receivables - Accrued interest and other	8,449	-	-	-	41,709	23,876	74,034
Prepaid expenses	-	-	-	-	4,800	43,308	48,108
Inventories	-	-	-	-	39,865	-	39,865
Capital assets	-	-	-	-	35,852	17,070,948	17,106,800
Total assets	2,672,097	2,534	92,921	29,168	916,830	17,485,689	21,199,239
Liabilities							
Accounts payable	329,143	-	-	-	76,394	90,029	495,566
Accrued and other liabilities	-	-	-	-	12,598	29,004	41,602
Deferred revenue	666,252	-	92,921	29,168	135,991	16,142	940,474
Noncurrent liabilities (Note 7):							
Due within one year	-	-	-	-	-	15,767	15,767
Due in more than one year	-	-	-	-	-	12,763	12,763
Total liabilities	995,395	-	92,921	29,168	224,983	163,705	1,506,172
Net Assets							
Investment in capital assets - Net of related debt	-	-	-	-	35,852	17,070,948	17,106,800
Unrestricted	1,676,702	2,534	-	-	655,995	251,036	2,586,267
Total net assets	\$ 1,676,702	\$ 2,534	\$ -	\$ -	\$ 691,847	\$ 17,321,984	\$ 19,693,067

City of Rochester Hills, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions
Local Development Finance Authority - Public service	\$ 1,423,817	\$ -	\$ -
Rochester-Avon Recreation Authority - Recreation and culture	1,848,521	1,256,979	-
Older Persons' Commission - Recreation and culture	<u>3,726,492</u>	<u>837,030</u>	<u>1,312,149</u>
Total governmental activities	<u>\$ 6,998,830</u>	<u>\$ 2,094,009</u>	<u>\$ 1,312,149</u>

General revenues:

- Property taxes
- Intergovernmental revenue
- Unrestricted investment earnings
- Miscellaneous
- Loss on disposal of capital assets

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended December 31, 2005**

Net (Expense) Revenue and Changes in Net Assets					
Local Development Finance Authority	Economic Development Corporation	Rochester-Avon Recreation Authority	Older Persons' Commission	Total	
\$ (1,423,817)	\$ -	\$ -	\$ -	\$ (1,423,817)	
-	-	(591,542)	-	(591,542)	
-	-	-	(1,577,313)	(1,577,313)	
(1,423,817)	-	(591,542)	(1,577,313)	(3,592,672)	
508,021	-	-	-	508,021	
-	-	581,484	1,309,339	1,890,823	
71,190	102	27,653	15,976	114,921	
-	-	5,172	50,563	55,735	
-	-	-	(248,514)	(248,514)	
579,211	102	614,309	1,127,364	2,320,986	
(844,606)	102	22,767	(449,949)	(1,271,686)	
2,521,308	2,432	669,080	17,771,933	20,964,753	
\$ 1,676,702	\$ 2,534	\$ 691,847	\$ 17,321,984	\$ 19,693,067	

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

Joint Ventures

The City is a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (14 percent), City of Rochester (8 percent), City of Rochester Hills (16 percent), and Oakland Township (62 percent), provide annual funding for its operations. During the current year, the City contributed approximately \$18,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The City does not have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Along with the City of Rochester Hills, Michigan, which is a 90 percent-member unit, the City of Rochester is also a member unit with a 10 percent interest. The governing body of R.A.R.A. consists of one City Council member and two Council-appointed persons from the City of Rochester Hills, one City Council member, and one Council-appointed person from the City of Rochester and three board-appointed persons each from the Rochester and Avondale school districts. There is a financial benefit/burden relationship between R.A.R.A. and the City of Rochester Hills. R.A.R.A.'s financial statements can be obtained from its administrative offices at 108 East Second Street, Rochester, MI.

Note 1 - Summary of Significant Accounting Policies (Continued)

- d. The Older Persons' Commission (O.P.C.) was organized in 1983 for the purpose of providing activities and services for older persons residing within the jurisdiction of the participating governmental organizations. Along with the City of Rochester Hills, Michigan, which is a 65 percent participating member, Oakland Township (21 percent) and the City of Rochester (14 percent) are also member units of the O.P.C.

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

- e. The Brownfield Redevelopment Authority (the "Brownfield Authority") was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the 32.2 square mile boundary of the City. The Brownfield Redevelopment Authority is governed by a seven-member board that is appointed by the mayor and confirmed by the City Council. The Authority's financial statements can be obtained from its administrative offices at 1000 Rochester Hills Drive, Rochester Hills, MI.
- f. The Automation Alley SmartZone (SmartZone) was created in 2003 to foster new economic growth and development by establishing clusters of technology companies. The program also seeks to develop relationships between these businesses and universities by providing businesses resources and accessibility to university facilities for the purpose of commercializing research. The SmartZone is governed by a 13-member board, which is appointed by the mayor and confirmed by the City Council. The City of Rochester Hills has the ability to impose its will upon the SmartZone.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- a. Internal Service Funds account for costs of operating and maintaining the land, buildings, machinery, equipment, and vehicle purchases of the City, as well as risk management services provided to other departments of the City on a cost reimbursement basis.
- b. The Agency Funds account for assets held by the City in a trustee capacity. 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 business-type activities.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. 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.

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

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

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

The City's 2004 tax is levied and collectible on December 1, 2004, and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled approximately \$3,200,000,000 (of which approximately \$26,000,000 is captured by the LDFA), on which taxes are levied as follows:

Function	Mills	Dollars
General operating purposes	3.1130	\$ 9,973,893
Fire operating services	1.9000	6,087,503
Police protection services	1.2268	3,930,604
OPC operating and transportation	.2665	853,852
R.A.R.A. operating	.1596	511,350
Bike path maintenance	.1888	604,906
Drain maintenance	.3980	1,275,172
Debt service	1.3212	4,267,172

These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue. In addition, there are .7942 mills that are collected by the City for library operations.

Assets, Liabilities, and Net Assets or Equity

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

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

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

Cumulative excess at January 1, 2005		\$	9,844
Building permit revenue			1,674,510
Related expenses:			
Direct expenses	\$	2,010,447	
Estimated indirect costs		<u>301,567</u>	<u>2,312,014</u>
Current year shortfall			<u>(637,504)</u>
Cumulative shortfall at December 31, 2005		\$	<u>(627,660)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 13 banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

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 government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires that all financial institutions utilized by the City maintain an office within the State of Michigan and meet certain requirements and financial criteria. At year end, the City had approximately \$29,722,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units had approximately \$1,489,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The City's investment policy minimizes the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rate by structuring the maturities of the portfolio to meet cash requirements of ongoing operations, thereby avoiding the need to liquidate securities prior to maturity. This is done by investing operating funds primarily in short-term securities and investment pools and only purchasing securities with the intent to hold to maturity. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
Government agency securities	\$ 20,836,995	427 days
U.S. Treasury securities	10,340,635	251 days
Commercial paper	6,896,752	133 days

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

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

Investments	Fair Value	Rating	Rating Organization
Government agency securities	\$ 20,836,995	AAA	Standard and Poors
Commercial paper	6,896,752	A-1+	Standard and Poors
Pooled investment funds	14,115,157	AAAm	Standard and Poors
Pooled investment funds	13,420,378	Not rated	N/A

Concentration of Credit Risk

The City's investment policy minimizes the risk inherent in placing a large portion of the portfolio with a single security issuer by limiting such placement to 10 percent of the total portfolio, defined as securities plus deposits and cash equivalents. At December 31, 2005, 9.34 percent of the City's investments is in Federal Home Loan Bank bonds, 6.27 percent is in Federal Home Loan Mortgage Corporation bonds, and 5.58 percent is in Federal National Mortgage Association bonds.

Note 4 - Deferred Revenue

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

	Unavailable	Unearned
Property taxes	\$ -	\$ 29,890,717
Special assessments	668,101	-
Other	-	134,285
Deferred revenue	<u>\$ 668,101</u>	<u>\$ 30,025,002</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

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

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 18,284,900	\$ 1,442,780	\$ 1,148,206	\$ 18,579,474
Right of way	38,196,306	3,356,348	-	41,552,654
Subtotal	56,481,206	4,799,128	1,148,206	60,132,128
Capital assets being depreciated:				
Roads	74,674,180	2,940,568	-	77,614,748
Drain flowage rights	27,537,175	3,235,000	-	30,772,175
Land improvements	11,253,606	1,403,257	695,925	11,960,938
Building improvements	28,474,291	746,855	206,809	29,014,337
Vehicles	8,610,162	948,522	352,628	9,206,056
Office furnishings	4,867,190	193,866	160,260	4,900,796
Other tools and equipment	4,468,843	536,292	399,175	4,605,960
Subtotal	159,885,447	10,004,360	1,814,797	168,075,010
Accumulated depreciation:				
Roads	32,699,687	3,872,252	-	36,571,939
Drain flowage rights	9,403,829	769,304	-	10,173,133
Land improvements	6,607,925	652,067	98,589	7,161,403
Building improvements	6,153,033	924,215	108,000	6,969,248
Vehicles	5,370,796	697,392	352,628	5,715,560
Office furnishings	3,379,455	581,274	160,260	3,800,469
Other tools and equipment	2,940,996	372,702	399,175	2,914,523
Subtotal	66,555,721	7,869,206	1,118,652	73,306,275
Net capital assets being depreciated	93,329,726	2,135,154	696,145	94,768,735
Net capital assets	<u>\$ 149,810,932</u>	<u>\$ 6,934,282</u>	<u>\$ 1,844,351</u>	<u>\$ 154,900,863</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 6,426,799	\$ -	\$ 1,334,742	\$ 5,092,057
Construction in progress	2,614,016	579,973	2,158,663	1,035,326
Subtotal	9,040,815	579,973	3,493,405	6,127,383
Capital assets being depreciated:				
Water and sewer distribution systems	137,418,940	3,690,961	(2,158,663)	143,268,564
Land improvements	196,906	-	-	196,906
Building improvements	997,128	39,049	-	1,036,177
Office furnishings	14,184	-	-	14,184
Other tools and equipment	5,098,069	352,130	24,784	5,425,415
Subtotal	143,725,227	4,082,140	(2,133,879)	149,941,246
Accumulated depreciation:				
Water and sewer distribution systems	46,581,150	2,761,167	-	49,342,317
Land improvements	179,655	2,836	-	182,491
Building improvements	466,820	24,800	-	491,620
Office furnishings	2,548	2,848	-	5,396
Other tools and equipment	3,534,127	315,215	24,784	3,824,558
Subtotal	50,764,300	3,106,866	24,784	53,846,382
Net capital assets being depreciated	92,960,927	975,274	(2,158,663)	96,094,864
Net capital assets	\$ 102,001,742	\$ 1,555,247	\$ 1,334,742	\$ 102,222,247

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets (Continued)

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

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Component Units				
Land	\$ 2,790,244	\$ -	\$ -	\$ 2,790,244
Capital assets being depreciated:				
Building	12,940,297	-	-	12,940,297
Building improvements	402,219	384,775	-	786,994
Land improvements	15,667	-	-	15,667
Furniture, equipment, and other	2,077,000	58,518	298,217	1,837,301
Vehicles	491,053	104,085	-	595,138
Subtotal	15,926,236	547,378	298,217	16,175,397
Less accumulated depreciation	1,226,836	604,228	(27,777)	1,858,841
Net capital assets being depreciated	14,699,400	(56,850)	325,994	14,316,556
Net capital assets	<u>\$ 17,489,644</u>	<u>\$ (56,850)</u>	<u>\$ 325,994</u>	<u>\$ 17,106,800</u>

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

Governmental activities:		
General government		\$ 111,157
Public works		5,098,283
Public safety		701,115
Recreation and culture		645,972
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset		1,312,679
Total governmental activities		<u>\$ 7,869,206</u>
Business-type activities:		
Water		\$ 1,837,048
Sewer		1,269,818
Total business-type activities		<u>\$ 3,106,866</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Local Road Fund	\$ 311
Major Road Fund	General Fund	11,893
	Local Road Fund	<u>6,556</u>
	Total Major Road Fund	18,449
Nonmajor governmental funds	General Fund	9,119
Water and Sewer Fund	General Fund	11,900
Fleet Equipment Fund	General Fund	20,667
	Local Road Fund	676
	Fire Fund	5,160
	Nonmajor governmental funds	676
	Water and Sewer Fund	1,353
	Building and Grounds Fund	<u>970</u>
	Total Fleet Equipment Fund	<u>29,502</u>
	Total	<u><u>\$ 69,281</u></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 Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

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

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

Fund Transferred From	Funds Transferred To	Amount
General Fund	Major Road Fund	\$ 1,585,182
	Local Road Fund	25,000
	Special Police Fund	2,566,700
	Nonmajor governmental funds	2,121,180
	Building and Grounds Fund	610,970
	Fleet Equipment Fund	<u>27,230</u>
	Total General Fund	6,936,262
Major Road Fund	Nonmajor governmental funds	457,092
Local Road Fund	Major Road Fund	39,154
	Nonmajor governmental funds	<u>766,680</u>
	Total Local Road Fund	805,834
Fire Fund	Nonmajor governmental funds	1,977,940
	Building and Grounds Fund	<u>24,000</u>
	Total Fire Fund	2,001,940
Special Police Funds	Building and Grounds Fund	397,370
Nonmajor governmental funds	Building and Grounds Fund	1,749,282
	Nonmajor governmental funds	<u>410,416</u>
	Total nonmajor governmental funds	<u>2,159,698</u>
	Total	<u>\$ 12,758,196</u>

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

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

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

Note 7 - Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
<u>General Obligation Bonds:</u>					
Building Authority Bonds, Series 2002, payable through 2021 with interest at 3.12% to 4.75%	\$ 9,000,000	\$ -	\$ (300,000)	\$ 8,700,000	\$ 300,000
General Obligation Limited Tax Capital Improvement Bond, Series 2002, payable through 2017 with interest at 3.0% to 4.5%	4,350,000	-	(175,000)	4,175,000	200,000
General Obligation Unlimited Tax Bonds, OPC, Series 2001, payable through 2021 with interest at 3.5% to 5.0%	9,220,000	-	(350,000)	8,870,000	350,000
Michigan Transportation Fund Bond, MTF-2001 Series, payable through 2016 with interest at 4.25% to 4.6%	2,225,000	-	(100,000)	2,125,000	100,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>General Obligation Bonds</u> (Continued):					
Refunding Bond, payable through 2010 with interest at 3.9% to 4.9%	\$ 3,265,000	\$ -	\$ (30,000)	\$ 3,235,000	\$ 30,000
Refunding Bond, MTF, payable through 2005 with interest at 3.9% to 4.5%	470,000	-	(470,000)	-	-
Refunding Bond, payable through 2008 with interest at 2.0% to 3.5%	4,895,000	-	(1,240,000)	3,655,000	1,275,000
<u>County Contractual Obligations:</u>					
Ireland Drain, payable through 2010 with interest at 7.42%	826,676	-	(126,433)	700,243	131,296
Crake Drain Refunding, payable through 2011 with interest at 1.50% to 3.55%	1,035,458	-	(161,370)	874,088	152,405
Lueders Drain, payable through 2011 with interest at 4.25% to 5.00%	2,332,660	-	(299,650)	2,033,010	295,040
Lueders Drain #2, payable through 2011 with interest at 4.0% to 6.0%	800,000	-	(100,000)	700,000	100,000
McIntyre Drain, payable through 2013 with interest at 2.75% to 5.20%	710,883	-	(64,177)	646,706	64,177
Hampton Drain, payable through 2013 with interest at 2.75% to 5.2%	505,372	-	(42,828)	462,544	47,111
Bishop Drain, payable through 2013 with interest at 2.8% to 5.3%	925,000	-	(75,000)	850,000	75,000
Chester Drain Refunding, payable through 2013 with interest at 1.25% to 2.75%	1,600,000	-	(185,000)	1,415,000	185,000
Robert Huber Drain, payable through 2014 with interest at 3.3% to 2.0%	1,105,000	-	(95,000)	1,010,000	95,000
Wolf Drain, payable through 2013 with interest at 4.0% to 4.7%	3,216,988	-	(278,566)	2,938,422	301,031
Rewold Drain, payable through 2025 with interest at 3.0% to 4.3%	-	3,235,000	-	3,235,000	155,000
Capital Project Lease - Oakland County Building Authority, Building Authority Bonds, Series 2002A, payable through 2022 with interest at 3.0% to 4.75%	4,850,000	-	(200,000)	4,650,000	200,000

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special Assessment Bonds:					
Public Improvement City Share Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	\$ 250,000	\$ -	\$ (50,000)	\$ 200,000	\$ 50,000
Public Improvement Special Assessment Bonds, 1994 Series, payable through 2009 with interest at 4.75% to 6.15%	545,000	-	(100,000)	445,000	100,000
Public Improvement City Share Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	275,000	-	(25,000)	250,000	50,000
Public Improvement Special Assessment Bonds, 1995 Series, payable through 2010 with interest at 4.25% to 5.5%	670,000	-	(105,000)	565,000	105,000
Public Improvement Special Assessment Bonds, 2001 Series, payable through 2016 with interest at 3.0% to 4.7%	1,075,000	-	(50,000)	1,025,000	50,000
Public Improvement City Share Bonds, 2001 Series, payable through 2016 with interest at 2.6% to 4.7%	1,125,000	-	(75,000)	1,050,000	75,000
Total bond obligations	55,273,037	3,235,000	(4,698,024)	53,810,013	4,486,060
Tax Tribunal	400,000	-	(334,374)	65,626	-
Compensated absences	939,465	1,441,472	(1,392,310)	988,627	805,862
Total other long-term obligations	1,339,465	1,441,472	(1,726,684)	1,054,253	805,862
Total governmental activities	\$ 56,612,502	\$ 4,676,472	\$ (6,424,708)	\$ 54,864,266	\$ 5,291,922
Business-type Activities					
Oakland County Water and Sewage Disposal System Bonds, Series 2005, payable through 2025 with interest at 4.0% to 4.5%	\$ -	\$ 3,800,000	\$ -	\$ 3,800,000	\$ 100,000
Component Units - Compensated absences	\$ -	\$ 28,530	\$ -	\$ 28,530	\$ 15,767

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 4,486,060	\$ 2,247,857	\$ 6,733,917	\$ 100,000	\$ 131,151	\$ 231,151
2007	4,696,018	2,066,162	6,762,180	150,000	152,782	302,782
2008	4,869,707	1,890,273	6,759,980	150,000	146,782	296,782
2009	5,222,417	1,693,847	6,916,264	150,000	140,781	290,781
2010	5,073,247	1,462,839	6,536,086	150,000	134,782	284,782
2011-2015	14,997,564	4,925,030	19,922,594	850,000	575,909	1,425,909
2016-2020	11,050,000	2,072,586	13,122,586	1,025,000	384,160	1,409,160
2021-2025	3,415,000	205,157	3,620,157	1,225,000	142,645	1,367,645
Total	\$ 53,810,013	\$ 16,563,751	\$ 70,373,764	\$ 3,800,000	\$ 1,808,992	\$ 5,608,992

Advance and Current Refundings

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2005, \$9,265,077 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Assets held at the County represent the City's pro rata share of monies received by the County in excess of the financing requirements of the drain systems in the amount of \$262,910 and for the City's unspent portion of bond proceeds held for the improvement of the water and sewer system and construction of a sheriff substation in the amount of \$3,796,173 and \$728,980, respectively. The County holds these monies to apply against future payment obligations of the City for future water and sewer system expansion and facility construction, as well as for future drain system projects. Oakland County has invested these monies and allocated interest earned as an increase to the amount due the City.

Note 9 - Risk Management

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

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

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

City of Rochester Hills, Michigan

Notes to Financial Statements December 31, 2005

Note 9 - Risk Management (Continued)

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

	2005	2004
Estimated liability - Beginning of year	\$ 272,402	\$ 268,673
Estimated claims incurred, including changes in estimates	160,307	138,916
Claim payments	<u>(153,261)</u>	<u>(135,187)</u>
Estimated liability - End of year	<u>\$ 279,448</u>	<u>\$ 272,402</u>
Estimated liability for claims reported	\$ 101,448	\$ 94,402
Estimated liability for claims incurred but not reported	<u>178,000</u>	<u>178,000</u>
Total estimated liability	<u>\$ 279,448</u>	<u>\$ 272,402</u>

Note 10 - Defined Contribution Pension Plan

The Rochester Hills Group Pension Plan, which is administered by the City, provides pension benefits for substantially all of its full-time employees, City Council members, and paid on-call firefighters through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees over 18 years of age are eligible to participate after a six-month probationary period. As established by the pension contract, the City contributes 12 percent of employees' gross earnings and employees can match those contributions. In accordance with these requirements, the City contributed \$1,691,159 during the current year and employees contributed \$29,210. The City's contributions for each employee (plus interest allocated to the employee's account) are fully vested after five years of continuous service.

Note 11 - Other Postemployment Benefits

The City has established a retiree health benefit program, which is composed of a health savings plan and a supplemental benefit plan. All active full-time employees who have completed their six-month probationary period are eligible for the health savings plan. The supplemental benefit plan is available only to those employees with 10 years of credited service as of March 21, 2001. The City contributes to the health savings plan on a monthly basis a minimum of 3 percent of the compensation of all eligible employees. Employees must contribute the monetary equivalent of up to 16 hours of unused annual leave time over the maximum 40-hour accrual to the health savings plan annually. Voluntary contributions are not permitted. Benefits paid out depend solely on amounts contributed to the plan plus investment earnings. During the year, the City contributed, from various funds, \$500,452 to the health savings plan.

Expenditures for postemployment health care costs for employees participating in the supplemental benefit plan are paid as the applicable costs are incurred. During the year, this amounted to approximately \$33,000.

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

Required Supplemental Information

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 10,075,080	\$ 10,011,730	\$ 10,026,196	\$ 14,466
Federal sources	176,550	176,550	200,559	24,009
State sources	5,258,250	5,420,000	5,474,685	54,685
Fees and permits	1,937,000	1,945,700	1,890,417	(55,283)
Fines and forfeitures	112,000	177,740	177,726	(14)
Charges for services	5,702,020	5,022,250	5,100,255	78,005
Interest income	180,000	689,540	618,494	(71,046)
Other	-	35,560	38,579	3,019
Sales of fixed assets	-	640	641	1
Total revenues	23,440,900	23,479,710	23,527,552	47,842
Expenditures				
General government:				
City council	253,820	197,250	189,084	8,166
City administration	3,685,900	4,451,860	3,261,792	1,190,068
Clerk	1,462,190	1,325,130	1,256,078	69,052
Assessing	1,760,540	1,709,460	1,685,465	23,995
Human resources	673,200	643,050	621,883	21,167
Support services	177,800	148,920	135,331	13,589
Public works:				
City development	517,460	488,660	483,549	5,111
Cemetery	246,530	250,200	231,173	19,027
Public safety:				
Building	3,144,240	2,984,190	2,903,839	80,351
Crossing guard	62,480	51,580	49,337	2,243
Community and economic development:				
Planning	1,260,490	1,151,870	1,134,214	17,656
Community development block grant	176,550	176,550	191,016	(14,466)
Recreation and culture:				
Parks and recreation	3,015,480	2,958,320	2,946,120	12,200
Historic district commission	11,400	6,400	3,347	3,053
Transfers to other funds	6,931,050	6,936,270	6,936,262	8
Total expenditures	23,379,130	23,479,710	22,028,490	1,451,220
Excess of Revenue Over Expenditures	61,770	-	1,499,062	1,499,062
Fund Balance - Beginning of year	10,358,249	10,465,241	10,465,241	-
Fund Balance - End of year	\$ 10,420,019	\$ 10,465,241	\$ 11,964,303	\$ 1,499,062

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Major Road Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 3,302,860	\$ 3,138,000	\$ 3,114,289	\$ (23,711)
Federal sources	-	220	17,199	16,979
Charges for services	203,660	227,000	251,525	24,525
Interest income	120,000	445,240	468,873	23,633
Other	771,330	34,690	45,973	11,283
Bond proceeds	3,898,300	-	-	-
Transfer from other funds	1,646,090	1,623,950	1,624,336	386
	<u>9,942,240</u>	<u>5,469,100</u>	<u>5,522,195</u>	<u>53,095</u>
Expenditures				
Public works:				
Street maintenance	1,539,980	1,420,790	1,244,080	176,710
Capital outlay	5,034,620	823,550	838,214	(14,664)
Transfers to other funds	491,450	457,100	457,092	8
	<u>7,066,050</u>	<u>2,701,440</u>	<u>2,539,386</u>	<u>162,054</u>
Excess of Revenue Over Expenditures	2,876,190	2,767,660	2,982,809	215,149
Fund Balance - Beginning of year	<u>11,867,540</u>	<u>13,822,901</u>	<u>13,822,901</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 14,743,730</u>	<u>\$ 16,590,561</u>	<u>\$ 16,805,710</u>	<u>\$ 215,149</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Local Road Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
State sources	\$ 1,245,550	\$ 1,191,000	\$ 1,183,035	\$ (7,965)
Other governmental sources	40,000	40,000	40,000	-
License and permits	25,000	15,700	17,958	2,258
Charges for services	58,200	101,160	109,395	8,235
Special assessment	26,600	69,280	77,690	8,410
Interest income	39,160	79,930	85,024	5,094
Other	-	9,200	9,201	1
Transfer from other funds	25,000	25,000	25,000	-
	<u>1,459,510</u>	<u>1,531,270</u>	<u>1,547,303</u>	<u>16,033</u>
Total revenues				
Expenditures				
Public works:				
Street maintenance	2,041,300	1,811,050	1,520,244	290,806
Capital outlay	28,000	96,360	91,141	5,219
Transfers to other funds	805,440	805,440	805,834	(394)
	<u>2,874,740</u>	<u>2,712,850</u>	<u>2,417,219</u>	<u>295,631</u>
Total expenditures				
Excess of Expenditures Over Revenue	(1,415,230)	(1,181,580)	(869,916)	311,664
Fund Balance - Beginning of year	<u>1,931,304</u>	<u>3,023,607</u>	<u>3,023,607</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 516,074</u>	<u>\$ 1,842,027</u>	<u>\$ 2,153,691</u>	<u>\$ 311,664</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,125,030	\$ 6,061,840	\$ 6,063,034	\$ 1,194
State sources	3,450	5,740	5,735	(5)
Federal grant	-	26,200	26,001	(199)
License and permits	13,500	13,500	13,450	(50)
Fines and forfeitures	8,000	10,000	9,398	(602)
Charges for services	955,500	1,067,040	1,082,470	15,430
Interest income	48,000	140,000	143,136	3,136
Other	2,000	11,520	11,711	191
Sales of capital assets	-	80	1,095	1,015
	<u>7,155,480</u>	<u>7,335,920</u>	<u>7,356,030</u>	<u>20,110</u>
Expenditures				
Public safety - Fire	6,297,060	5,733,480	5,579,470	154,010
Transfers to other funds	24,000	2,001,940	2,001,940	-
	<u>6,321,060</u>	<u>7,735,420</u>	<u>7,581,410</u>	<u>154,010</u>
Excess of Revenue Over (Under)				
Expenditures	834,420	(399,500)	(225,380)	174,120
Fund Balance - Beginning of year				
	<u>708,650</u>	<u>1,397,618</u>	<u>1,397,618</u>	<u>-</u>
Fund Balance - End of year				
	<u>\$ 1,543,070</u>	<u>\$ 998,118</u>	<u>\$ 1,172,238</u>	<u>\$ 174,120</u>

City of Rochester Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Special Police Protection Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 3,954,840	\$ 3,913,430	\$ 3,914,749	\$ 1,319
Federal sources	13,890	27,310	27,317	7
State sources	28,000	28,000	28,091	91
Other governmental sources	219,050	220,720	220,660	(60)
Fines and forfeitures	435,000	381,280	388,777	7,497
Charges for services	99,880	110,800	116,229	5,429
Interest income	36,000	92,500	95,303	2,803
Other	-	50	54	4
Sales of capital assets	-	-	20	20
Transfer from other funds	2,566,700	2,566,700	2,566,700	-
Total revenues	7,353,360	7,340,790	7,357,900	17,110
Expenditures				
Public safety - Police	7,139,430	7,174,660	7,162,930	11,730
Transfers to other funds	374,720	397,370	397,370	-
Total expenditures	7,514,150	7,572,030	7,560,300	11,730
Excess of Expenditures Over Revenue	(160,790)	(231,240)	(202,400)	28,840
Fund Balance - Beginning of year	985,988	945,379	945,379	-
Fund Balance - End of year	<u>\$ 825,198</u>	<u>\$ 714,139</u>	<u>\$ 742,979</u>	<u>\$ 28,840</u>

City of Rochester Hills, Michigan

Note to Required Supplemental Information

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

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

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

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

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

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

Other Supplemental Information

City of Rochester Hills, Michigan

Other Supplemental Information Combining Balance Sheet - All Fund Types Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Assets				
Cash and investments	\$ 10,405,114	\$ 8,826,552	\$ 10,402,236	\$ 29,633,902
Receivables:				
Property tax	2,399,787	2,395,459	-	4,795,246
Accounts	353	22,615	-	22,968
Accrued interest	76,850	85,422	74,392	236,664
Due from other funds	9,119	-	-	9,119
Long-term receivables - SAD	-	465,438	-	465,438
Restricted assets - Assets held at County	197,356	65,554	-	262,910
	\$ 13,088,579	\$ 11,861,040	\$ 10,476,628	\$ 35,426,247
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 90,615	5,538	\$ 14,790	\$ 110,943
Retainage payable	-	-	500	500
Accrued wages	15,872	-	-	15,872
Deposits and escrows	489,551	-	-	489,551
Due to other funds	676	-	-	676
Deferred revenue	4,293,797	4,855,606	-	9,149,403
Other liabilities	823	-	-	823
	4,891,334	4,861,144	15,290	9,767,768
Fund Balances				
Unreserved, designated for subsequent year's budget	3,510,280	795,810	425,060	4,731,150
Unreserved/Undesignated	4,686,965	6,204,086	10,036,278	20,927,329
	8,197,245	6,999,896	10,461,338	25,658,479
	\$ 13,088,579	\$ 11,861,040	\$ 10,476,628	\$ 35,426,247

City of Rochester Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - All Fund Types Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
Revenue				
Property taxes	\$ 3,238,230	\$ 4,250,213	\$ -	\$ 7,488,443
License and permits	7,650			7,650
Charges for services	313,254	-	1,345	314,599
Investment earnings	266,626	290,878	258,049	815,553
Special assessments	-	86,676	-	86,676
Other	820,157	297,938	20,768	1,138,863
	<u>4,645,917</u>	<u>4,925,705</u>	<u>280,162</u>	<u>9,851,784</u>
Expenditures				
Public works	1,813,254	-	-	1,813,254
Parks and recreation	1,365,844	-	-	1,365,844
Capital outlay	88,361	3,138,629	1,097,139	4,324,129
Debt service:				
Principal retirement	-	4,498,024	-	4,498,024
Interest and fiscal charges	-	2,087,709	-	2,087,709
Paying agent and other	-	103,386	-	103,386
	<u>3,267,459</u>	<u>9,827,748</u>	<u>1,097,139</u>	<u>14,192,346</u>
Excess of Revenue Over (Under)				
Expenditures	1,378,458	(4,902,043)	(816,977)	(4,340,562)
Other Financing Sources (Uses)				
Bond proceeds	-	3,235,000	-	3,235,000
Sale of capital assets	-	-	38,404	38,404
Transfers in	-	1,917,518	3,815,790	5,733,308
Transfers out	(615,580)	-	(1,544,118)	(2,159,698)
	<u>(615,580)</u>	<u>5,152,518</u>	<u>2,310,076</u>	<u>6,847,014</u>
Net Change in Fund Balance				
	762,878	250,475	1,493,099	2,506,452
Fund Balances - Beginning of year				
	<u>7,434,367</u>	<u>6,749,421</u>	<u>8,968,239</u>	<u>23,152,027</u>
Fund Balances - End of year				
	<u>\$ 8,197,245</u>	<u>\$ 6,999,896</u>	<u>\$ 10,461,338</u>	<u>\$ 25,658,479</u>

Nonmajor Special Revenue Funds

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

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

Bike Path Fund - This fund accounts for the special millage used primarily to maintain existing bike pathways.

Solid Waste Management Fund - This fund accounts for solid waste issues.

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

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

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

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

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

City of Rochester Hills, Michigan

	R.A.R.A Millage		Solid Waste	Public
	Fund	Bike Path Fund	Management	Improvement
			Fund	Fund
Assets				
Cash and investments	\$ 233,680	\$ 420,450	\$ 47,873	\$ 6,054,457
Receivables:				
Property tax	299,102	241,328	-	664,780
Accounts	-	-	-	353
Accrued interest	-	2,038	-	64,466
Restricted assets - Assets held at County	-	-	-	197,356
Due from other funds	-	-	-	9,119
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,119</u>
 Total assets	 <u>\$ 532,782</u>	 <u>\$ 663,816</u>	 <u>\$ 47,873</u>	 <u>\$ 6,990,531</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 794	\$ 8,189	\$ 66,885
Accrued wages	-	981	-	13,792
Deposits and escrows	-	1,600	-	-
Due to other funds	-	-	-	676
Deferred revenue	532,782	430,070	-	1,204,299
Other liabilities	-	75	-	664
	<u>-</u>	<u>75</u>	<u>-</u>	<u>664</u>
 Total liabilities	 532,782	 433,520	 8,189	 1,286,316
 Fund Balances				
Unreserved, designated for subsequent year's budget	-	-	-	3,345,330
Unreserved/Undesignated	-	230,296	39,684	2,358,885
	<u>-</u>	<u>230,296</u>	<u>39,684</u>	<u>2,358,885</u>
 Total fund balances	 <u>-</u>	 <u>230,296</u>	 <u>39,684</u>	 <u>5,704,215</u>
 Total liabilities and fund balances	 <u>\$ 532,782</u>	 <u>\$ 663,816</u>	 <u>\$ 47,873</u>	 <u>\$ 6,990,531</u>

**Combining Balance Sheet
Nonmajor Governmental Funds
Special Revenue Funds
December 31, 2005**

Older Persons' Millage Fund	Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ 490,051	\$ 878,223	\$ 1,838,362	\$ 442,018	\$ 10,405,114
627,534	-	-	567,043	2,399,787
-	-	-	-	353
-	1,026	9,320	-	76,850
-	-	-	-	197,356
-	-	-	-	9,119
<u>\$ 1,117,585</u>	<u>\$ 879,249</u>	<u>\$ 1,847,682</u>	<u>\$ 1,009,061</u>	<u>\$ 13,088,579</u>
\$ -	\$ -	\$ 14,747	\$ -	\$ 90,615
-	-	1,099	-	15,872
-	-	487,951	-	489,551
-	-	-	-	676
1,117,585	-	-	1,009,061	4,293,797
-	-	84	-	823
<u>1,117,585</u>	<u>-</u>	<u>503,881</u>	<u>1,009,061</u>	<u>4,891,334</u>
-	-	164,950	-	3,510,280
-	879,249	1,178,851	-	4,686,965
<u>-</u>	<u>879,249</u>	<u>1,343,801</u>	<u>-</u>	<u>8,197,245</u>
<u>\$ 1,117,585</u>	<u>\$ 879,249</u>	<u>\$ 1,847,682</u>	<u>\$ 1,009,061</u>	<u>\$ 13,088,579</u>

City of Rochester Hills, Michigan

	R.A.R.A Millage		Solid Waste	Public	Older Persons'
	Fund	Bike Path Fund	Management Fund	Improvement Fund	Millage Fund
Revenue					
Property taxes	\$ 511,656	\$ 602,465	\$ -	\$ 1,269,921	\$ 854,188
Licenses and permits	-	-	7,650	-	-
Charges for services	-	4,520	-	192,619	-
Investment earnings	-	12,807	2,696	172,182	-
Other	-	168	601	819,198	-
Total revenue	511,656	619,960	10,947	2,453,920	854,188
Expenditures					
Public works	-	190,396	45,271	1,438,950	-
Parks and recreation	511,656	-	-	-	854,188
Capital outlay	-	-	-	88,361	-
Total expenditures	511,656	190,396	45,271	1,527,311	854,188
Excess of Revenue Over (Under)					
Expenditures	-	429,564	(34,324)	926,609	-
Other Financing Uses - Transfers out	-	(407,180)	-	-	-
Net Change in Fund Balance	-	22,384	(34,324)	926,609	-
Fund Balances - Beginning of year	-	207,912	74,008	4,777,606	-
Fund Balances - End of year	\$ -	\$ 230,296	\$ 39,684	\$ 5,704,215	\$ -

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Special Revenue Funds
Year Ended December 31, 2005**

Stoney Creek Perpetual Care Fund	Tree Fund	Green Space Preservation	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ 3,238,230
-	-	-	7,650
38,828	77,287	-	313,254
27,987	50,954	-	266,626
-	190	-	820,157
66,815	128,431	-	4,645,917
-	138,637	-	1,813,254
-	-	-	1,365,844
-	-	-	88,361
-	138,637	-	-
-	138,637	-	3,267,459
66,815	(10,206)	-	1,378,458
(208,400)	-	-	(615,580)
(141,585)	(10,206)	-	762,878
1,020,834	1,354,007	-	7,434,367
<u>\$ 879,249</u>	<u>\$ 1,343,801</u>	<u>\$ -</u>	<u>\$ 8,197,245</u>

City of Rochester Hills, Michigan

	R.A.R.A Millage Fund			Bike Path Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ 511,700	\$ 511,656	\$ (44)	\$ 602,340	\$ 602,465	\$ 125
License and permits	-	-	-	-	-	-
Charges for services	-	-	-	2,900	4,520	1,620
Interest income	-	-	-	14,000	12,807	(1,193)
Other	-	-	-	160	168	8
Total revenue	511,700	511,656	(44)	619,400	619,960	560
Expenditures						
Public works	-	-	-	212,220	190,396	21,824
Parks and recreation	511,700	511,656	44	-	-	-
Transfers out	-	-	-	407,180	407,180	-
Capital outlay	-	-	-	-	-	-
Total expenditures	511,700	511,656	44	619,400	597,576	21,824
Excess of Revenue Over (Under)						
Expenditures	-	-	-	-	22,384	22,384
Fund Balances - Beginning of year	-	-	-	207,912	207,912	-
Fund Balances - End of year	\$ -	\$ -	\$ -	\$ 207,912	\$ 230,296	\$ 22,384

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2005

Solid Waste Management Fund			Public Improvement Fund		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ 1,269,780	\$ 1,269,921	\$ 141
7,650	7,650	-	-	-	-
-	-	-	154,830	192,619	37,789
2,250	2,696	446	160,690	172,182	11,492
590	601	11	819,190	819,198	8
10,490	10,947	457	2,404,490	2,453,920	49,430
54,180	45,271	8,909	2,349,940	1,438,950	910,990
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	54,550	88,361	(33,811)
54,180	45,271	8,909	2,404,490	1,527,311	877,179
(43,690)	(34,324)	9,366	-	926,609	926,609
74,008	74,008	-	4,777,606	4,777,606	-
\$ 30,318	\$ 39,684	\$ 9,366	\$ 4,777,606	\$ 5,704,215	\$ 926,609

(Continued on next page)

City of Rochester Hills, Michigan

	Older Persons' Millage Fund			Stoney Creek Perpetual Care Fund		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ 854,220	\$ 854,188	\$ (32)	\$ -	\$ -	\$ -
License and permits	-	-	-	-	-	-
Charges for services	-	-	-	37,000	38,828	1,828
Interest income	-	-	-	25,000	27,987	2,987
Other	-	-	-	-	-	-
Total revenue	854,220	854,188	(32)	62,000	66,815	4,815
Expenditures						
Public works	-	-	-	-	-	-
Parks and recreation	854,220	854,188	32	-	-	-
Transfers out	-	-	-	208,400	208,400	-
Capital outlay	-	-	-	-	-	-
Total expenditures	854,220	854,188	32	208,400	208,400	-
Excess of Revenue Over (Under)						
Expenditures	-	-	-	(146,400)	(141,585)	4,815
Fund Balances - Beginning of year	-	-	-	1,020,834	1,020,834	-
Fund Balances - End of year	\$ -	\$ -	\$ -	\$ 874,434	\$ 879,249	\$ 4,815

Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2005

Tree Fund			Total		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ 3,238,040	\$ 3,238,230	\$ 190
-	-	-	7,650	7,650	-
77,030	77,287	257	271,760	313,254	41,494
46,900	50,954	4,054	248,840	266,626	17,786
<u>190</u>	<u>190</u>	<u>-</u>	<u>820,130</u>	<u>820,157</u>	<u>27</u>
124,120	128,431	4,311	4,586,420	4,645,917	59,497
133,160	138,637	(5,477)	2,749,500	1,813,254	936,246
-	-	-	1,365,920	1,365,844	76
-	-	-	615,580	615,580	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>54,550</u>	<u>88,361</u>	<u>(33,811)</u>
<u>133,160</u>	<u>138,637</u>	<u>(5,477)</u>	<u>4,785,550</u>	<u>3,883,039</u>	<u>902,511</u>
(9,040)	(10,206)	(1,166)	(199,130)	762,878	962,008
<u>1,354,007</u>	<u>1,354,007</u>	<u>-</u>	<u>7,434,367</u>	<u>7,434,367</u>	<u>-</u>
<u>\$ 1,344,967</u>	<u>\$ 1,343,801</u>	<u>\$ (1,166)</u>	<u>\$ 7,235,237</u>	<u>\$ 8,197,245</u>	<u>\$ 962,008</u>

Nonmajor Debt Service Funds

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

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

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

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

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

Refunding General Obligation Bond Series 1998 Fund - This fund accounts for payment of debt created for the refunding of the Park and Museum, Park and Recreation, and the Library Building bonds' called portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

Refunding Michigan Transportation Bond Series 1998 Fund - This fund accounts for payment of debt created for the refunding of the 1987 Series, 1988 Series Act 175, and the 1990 Series Michigan Transportation (Local Road Improvement 1987 Fund, Local Road Improvement 1988 Fund, and Major Road Improvement 1990 Fund) called bonds. Revenue for the 1987 and 1988 Series Act 175 bonds is generated from special assessment collections, and funds received under Act 21 are transferred to this fund from the Local Road and Major Road Special Revenue Funds for the City's portion. Expenditures are made for principal and interest.

Refunding Bond Series 2002 Fund - This fund account for payment of debt created for refunding of Series 1989, 1990A, 1990B, and 1993 bonds (Park and Museum Bonds, Parks and Recreation Bonds, and Library Building Bonds) callable portion. Revenue is generated from tax levies and expenditures are made for principal and interest.

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

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund
Assets				
Cash and investments	\$ 1,206,889	\$ 718,960	\$ 1,540,401	\$ 719,059
Receivables:				
Property tax	-	-	1,221,132	-
Accounts	-	3,414	-	1,563
Accrued interest	18,777	9,074	538	10,078
Restricted assets - Assets held at County	-	-	65,554	-
Long-term receivables - SAD	-	352,428	-	42,936
	<u>-</u>	<u>352,428</u>	<u>-</u>	<u>42,936</u>
Total assets	<u>\$ 1,225,666</u>	<u>\$ 1,083,876</u>	<u>\$ 2,827,625</u>	<u>\$ 773,636</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 2,520	\$ -
Deferred revenue	-	352,428	2,270,497	41,701
	<u>-</u>	<u>352,428</u>	<u>2,270,497</u>	<u>41,701</u>
Total liabilities	-	352,428	2,273,017	41,701
Fund Balances				
Unreserved, designated for subsequent year's budget	108,000	63,360	-	153,150
Unreserved/Undesignated	1,117,666	668,088	554,608	578,785
	<u>1,117,666</u>	<u>668,088</u>	<u>554,608</u>	<u>578,785</u>
Total fund balances	<u>1,225,666</u>	<u>731,448</u>	<u>554,608</u>	<u>731,935</u>
Total liabilities and fund balances	<u>\$ 1,225,666</u>	<u>\$ 1,083,876</u>	<u>\$ 2,827,625</u>	<u>\$ 773,636</u>

**Debt Service Funds
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

Local Road Improvement 1995 Fund	OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Michigan Transportation Bond Series 1998 Fund
\$ 572,156	\$ 454,155	\$ 255,437	\$ -
-	406,912	102,578	-
654	16,984	-	-
8,395	-	-	-
-	-	-	-
<u>70,074</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 651,279</u>	<u>\$ 878,051</u>	<u>\$ 358,015</u>	<u>\$ -</u>
\$ -	\$ 902	\$ 263	\$ -
<u>70,074</u>	<u>734,848</u>	<u>185,247</u>	<u>-</u>
70,074	735,750	185,510	-
113,500	-	-	-
<u>467,705</u>	<u>142,301</u>	<u>172,505</u>	<u>-</u>
581,205	142,301	172,505	-
<u>\$ 651,279</u>	<u>\$ 878,051</u>	<u>\$ 358,015</u>	<u>\$ -</u>

(Continued on next page)

City of Rochester Hills, Michigan

Debt Service Funds Combining Balance Sheet Nonmajor Governmental Funds (Continued) December 31, 2005

	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
Assets				
Cash and investments	\$ 1,089,725	\$ 35,813	\$ 2,233,957	\$ 8,826,552
Receivables:				
Property tax	664,837	-	-	2,395,459
Accounts	-	-	-	22,615
Accrued interest	1,554	-	37,006	85,422
Restricted assets - Assets held at County	-	-	-	65,554
Long-term receivables - SAD	-	-	-	465,438
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,756,116</u>	<u>\$ 35,813</u>	<u>\$ 2,270,963</u>	<u>\$ 11,861,040</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,853	\$ -	\$ -	\$ 5,538
Deferred revenue	1,200,811	-	-	4,855,606
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,202,664	-	-	4,861,144
Fund Balances				
Unreserved, designated for subsequent year's budget	174,400	-	183,400	795,810
Unreserved/Undesignated	379,052	35,813	2,087,563	6,204,086
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	553,452	35,813	2,270,963	6,999,896
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,756,116</u>	<u>\$ 35,813</u>	<u>\$ 2,270,963</u>	<u>\$ 11,861,040</u>

City of Rochester Hills, Michigan

	Road Improvement 2001 Fund	Local Road Improvement 2001 Fund	Drain Fund	Local Road Improvement 1994 Fund
Revenue				
Property taxes	\$ -	\$ -	\$ 1,936,606	\$ -
Investment earnings	37,130	41,473	27,611	25,752
Special assessments	-	47,884	-	17,889
Other	-	-	280,954	-
Total revenue	37,130	89,357	2,245,171	43,641
Expenditures				
Principal retirement	100,000	125,000	1,428,024	150,000
Interest and fiscal charges	92,563	94,800	514,625	41,743
Capital outlay	-	-	3,138,629	-
Miscellaneous	-	-	99,897	-
Total expenditures	192,563	219,800	5,181,175	191,743
Excess of Revenue Over (Under)				
Expenditures	(155,433)	(130,443)	(2,936,004)	(148,102)
Other Financing Sources				
Bond proceeds	-	-	3,235,000	-
Transfers in	192,570	123,600	-	63,680
Total other financing sources	192,570	123,600	3,235,000	63,680
Net Change in Fund Balance	37,137	(6,843)	298,996	(84,422)
Fund Balances - Beginning of year	1,188,529	738,291	255,612	816,357
Fund Balances - End of year	\$ 1,225,666	\$ 731,448	\$ 554,608	\$ 731,935

Debt Service Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2005

Local Road Improvement 1995 Fund	OPC Building Bond 2001 Series Fund	Refunding General Obligation Bond Series 1998 Fund	Refunding Michigan Transportation Bond Series 1998 Fund
\$ -	\$ 745,936	\$ 186,561	\$ -
23,615	9,843	8,171	544
20,903	-	-	-
<u>-</u>	<u>16,984</u>	<u>-</u>	<u>-</u>
44,518	772,763	194,732	544
130,000	350,000	30,000	470,000
50,390	397,650	158,175	21,450
-	-	-	-
<u>-</u>	<u>1,097</u>	<u>318</u>	<u>-</u>
<u>180,390</u>	<u>748,747</u>	<u>188,493</u>	<u>491,450</u>
(135,872)	24,016	6,239	(490,906)
-	-	-	-
<u>40,190</u>	<u>3,236</u>	<u>-</u>	<u>457,092</u>
<u>40,190</u>	<u>3,236</u>	<u>-</u>	<u>457,092</u>
(95,682)	27,252	6,239	(33,814)
<u>676,887</u>	<u>115,049</u>	<u>166,266</u>	<u>33,814</u>
<u>\$ 581,205</u>	<u>\$ 142,301</u>	<u>\$ 172,505</u>	<u>\$ -</u>

(Continued on next page)

City of Rochester Hills, Michigan

Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended December 31, 2005

	Refunding Bond Series 2002	Municipal Building Bond Series 2002 Fund	Local Road Improvement 2002 Fund	Total Nonmajor Debt Service Funds
Revenue				
Property taxes	\$ 1,381,110	\$ -	\$ -	\$ 4,250,213
Investment earnings	45,426	1,107	70,206	290,878
Special assessments	-	-	-	86,676
Other	-	-	-	297,938
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	1,426,536	1,107	70,206	4,925,705
Expenditures				
Principal retirement	1,240,000	300,000	175,000	4,498,024
Interest and fiscal charges	154,175	390,500	171,638	2,087,709
Capital outlay	-	-	-	3,138,629
Miscellaneous	2,074	-	-	103,386
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,396,249	690,500	346,638	9,827,748
Excess of Revenue Over (Under)				
Expenditures	30,287	(689,393)	(276,432)	(4,902,043)
Other Financing Sources				
Bond proceeds	-	-	-	3,235,000
Transfers in	-	690,510	346,640	1,917,518
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	-	690,510	346,640	5,152,518
Net Change in Fund Balance	30,287	1,117	70,208	250,475
Fund Balances - Beginning of year	<hr/>	<hr/>	<hr/>	<hr/>
	523,165	34,696	2,200,755	6,749,421
Fund Balances - End of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 553,452	\$ 35,813	\$ 2,270,963	\$ 6,999,896

City of Rochester Hills, Michigan

	Road Improvement 2001			Local Road Improvement 2001		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	34,000	37,130	3,130	40,370	41,473	1,103
Special assessments	-	-	-	47,880	47,884	4
Bond proceeds	-	-	-	-	-	-
Transfers in	192,570	192,570	-	123,600	123,600	-
Other	-	-	-	-	-	-
Total revenue	226,570	229,700	3,130	211,850	212,957	1,107
Expenditures						
Principal retirement	100,000	100,000	-	125,000	125,000	-
Interest and fiscal charges	92,570	92,563	7	94,800	94,800	-
Capital outlay	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total expenditures	192,570	192,563	7	219,800	219,800	-
Excess of Revenue Over (Under) Expenditures	34,000	37,137	3,137	(7,950)	(6,843)	1,107
Fund Balances - Beginning of year	1,188,529	1,188,529	-	738,291	738,291	-
Fund Balances - End of year	<u>\$ 1,222,529</u>	<u>\$ 1,225,666</u>	<u>\$ 3,137</u>	<u>\$ 730,341</u>	<u>\$ 731,448</u>	<u>\$ 1,107</u>

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2005

Drain Fund			Local Road Improvement 1994		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,935,850	\$ 1,936,606	\$ 756	\$ -	\$ -	\$ -
26,000	27,611	1,611	23,450	25,752	2,302
-	-	-	15,330	17,889	2,559
3,235,000	3,235,000	-	-	-	-
-	-	-	63,680	63,680	-
<u>280,950</u>	<u>280,954</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
5,477,800	5,480,171	2,371	102,460	107,321	4,861
1,428,030	1,428,024	6	150,000	150,000	-
515,480	514,625	855	41,750	41,743	7
3,138,630	3,138,629	1	-	-	-
<u>99,900</u>	<u>99,897</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,182,040</u>	<u>5,181,175</u>	<u>865</u>	<u>191,750</u>	<u>191,743</u>	<u>7</u>
295,760	298,996	3,236	(89,290)	(84,422)	4,868
<u>255,612</u>	<u>255,612</u>	<u>-</u>	<u>816,357</u>	<u>816,357</u>	<u>-</u>
<u>\$ 551,372</u>	<u>\$ 554,608</u>	<u>\$ 3,236</u>	<u>\$ 727,067</u>	<u>\$ 731,935</u>	<u>\$ 4,868</u>

(Continued on next page)

City of Rochester Hills, Michigan

	Local Road Improvement 1995			OPC Building Bond 2001 Series		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ 745,610	\$ 745,936	\$ 326
Investment earnings	21,460	23,615	2,155	10,000	9,843	(157)
Special assessments	20,900	20,903	3	-	-	-
Bond proceeds	-	-	-	-	-	-
Transfers in	40,190	40,190	-	3,230	3,236	6
Other	-	-	-	-	16,984	16,984
Total revenue	82,550	84,708	2,158	758,840	775,999	17,159
Expenditures						
Principal retirement	130,000	130,000	-	350,000	350,000	-
Interest and fiscal charges	50,400	50,390	10	397,660	397,650	10
Capital outlay	-	-	-	-	-	-
Miscellaneous	-	-	-	660	1,097	(437)
Total expenditures	180,400	180,390	10	748,320	748,747	(427)
Excess of Revenue Over (Under)						
Expenditures	(97,850)	(95,682)	2,168	10,520	27,252	16,732
Fund Balances - Beginning of year	676,887	676,887	-	115,049	115,049	-
Fund Balances - End of year	<u>\$ 579,037</u>	<u>\$ 581,205</u>	<u>\$ 2,168</u>	<u>\$ 125,569</u>	<u>\$ 142,301</u>	<u>\$ 16,732</u>

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2005

Refunding General Obligation Bond Series 1998			Refunding Michigan Transportation Bond Series 1998			Refunding Bond Series 2002		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 186,520	\$ 186,561	\$ 41	\$ -	\$ -	\$ -	\$ 1,380,420	\$ 1,381,110	\$ 690
7,500	8,171	671	550	544	(6)	45,000	45,426	426
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	457,100	457,092	(8)	-	-	-
-	-	-	-	-	-	-	-	-
<u>194,020</u>	<u>194,732</u>	<u>712</u>	<u>457,650</u>	<u>457,636</u>	<u>(14)</u>	<u>1,425,420</u>	<u>1,426,536</u>	<u>1,116</u>
30,000	30,000	-	470,000	470,000	-	1,240,000	1,240,000	-
158,180	158,175	5	21,450	21,450	-	154,180	154,175	5
-	-	-	-	-	-	-	-	-
<u>180</u>	<u>318</u>	<u>(138)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,360</u>	<u>2,074</u>	<u>(714)</u>
<u>188,360</u>	<u>188,493</u>	<u>(133)</u>	<u>491,450</u>	<u>491,450</u>	<u>-</u>	<u>1,395,540</u>	<u>1,396,249</u>	<u>(709)</u>
5,660	6,239	579	(33,800)	(33,814)	(14)	29,880	30,287	407
<u>166,266</u>	<u>166,266</u>	<u>-</u>	<u>33,814</u>	<u>33,814</u>	<u>-</u>	<u>523,165</u>	<u>523,165</u>	<u>-</u>
<u>\$ 171,926</u>	<u>\$ 172,505</u>	<u>\$ 579</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ 553,045</u>	<u>\$ 553,452</u>	<u>\$ 407</u>

(Continued on next page)

City of Rochester Hills, Michigan

	Municipal Building Bond Series 2002			Local Road Improvement 2002		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	1,107	1,107	60,000	70,206	10,206
Special assessments	-	-	-	-	-	-
Bond proceeds	-	-	-	-	-	-
Transfers in	690,510	690,510	-	346,640	346,640	-
Other	-	-	-	-	-	-
Total revenue	690,510	691,617	1,107	406,640	416,846	10,206
Expenditures						
Principal retirement	300,000	300,000	-	175,000	175,000	-
Interest and fiscal charges	390,510	390,500	10	171,640	171,638	2
Capital outlay	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total expenditures	690,510	690,500	10	346,640	346,638	2
Excess of Revenue Over (Under) Expenditures	-	1,117	1,117	60,000	70,208	10,208
Fund Balances - Beginning of year	34,696	34,696	-	2,200,755	2,200,755	-
Fund Balances - End of year	<u>\$ 34,696</u>	<u>\$ 35,813</u>	<u>\$ 1,117</u>	<u>\$ 2,260,755</u>	<u>\$ 2,270,963</u>	<u>\$ 10,208</u>

Debt Service Funds
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds (Continued)
Year Ended December 31, 2005

Total		
Amended Budget	Actual	Variance with Amended Budget
\$ 4,248,400	\$ 4,250,213	\$ 1,813
268,330	290,878	22,548
84,110	86,676	2,566
3,235,000	3,235,000	-
1,917,520	1,917,518	(2)
280,950	297,938	16,988
<u>10,034,310</u>	<u>10,078,223</u>	<u>43,913</u>
4,498,030	4,498,024	6
2,088,620	2,087,709	911
3,138,630	3,138,629	1
102,100	103,386	(1,286)
<u>9,827,380</u>	<u>9,827,748</u>	<u>(368)</u>
206,930	250,475	43,545
<u>6,749,421</u>	<u>6,749,421</u>	<u>-</u>
<u>\$ 6,956,351</u>	<u>\$ 6,999,896</u>	<u>\$ 43,545</u>

Nonmajor Capital Projects Funds

Capital Projects Funds account for the purchase or construction of major capital facilities that are not financed by proprietary funds.

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

Pedestrian Pathway Construction Fund - This fund accounts for monies received and expended in connection with the Series 1982 General Obligation Bond issuance for the purpose of constructing pedestrian pathways.

OPC Building Construction Fund - This fund accounts for monies received and expended for the purpose of constructing a senior citizen activity building. Revenue was generated from bond proceeds. Expenditures are for purchase of land, development, and construction of a building.

Fire Apparatus Fund - This fund accounts for the purchase and replacement of various major fire department capital apparatuses.

Municipal Building Construction Fund - This fund accounts for monies received and expended for the purpose of constructing the addition to the City's municipal building. Revenue was generated from bond proceeds. Expenditures are for construction of the buildings addition.

City of Rochester Hills

	Capital Improvement Fund	Pedestrian Pathway Construction Fund	OPC Building Construction Fund	Fire Apparatus Fund
Assets				
Cash and investments	\$ 2,219,569	\$ 2,311,940	\$ -	\$ 5,870,727
Receivables - Accrued interest	10,816	15,976	-	47,600
Total assets	<u>\$ 2,230,385</u>	<u>\$ 2,327,916</u>	<u>\$ -</u>	<u>\$ 5,918,327</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 14,790	\$ -	\$ -
Retainage payable	-	500	-	-
Total liabilities	-	15,290	-	-
Fund Balances				
Unreserved, designated for subsequent year's budget	-	425,060	-	-
Unreserved/Undesignated	2,230,385	1,887,566	-	5,918,327
Total fund balances	<u>2,230,385</u>	<u>2,312,626</u>	<u>-</u>	<u>5,918,327</u>
Total liabilities and fund balances	<u>\$ 2,230,385</u>	<u>\$ 2,327,916</u>	<u>\$ -</u>	<u>\$ 5,918,327</u>

**Capital Projects Funds
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

Municipal Building Construction Fund	Total Nonmajor Capital Project Funds
\$ -	\$ 10,402,236
<u>-</u>	<u>74,392</u>
<u>\$ -</u>	<u>\$ 10,476,628</u>
\$ -	\$ 14,790
<u>-</u>	<u>500</u>
-	15,290
-	425,060
<u>-</u>	<u>10,036,278</u>
-	10,461,338
<u>\$ -</u>	<u>\$ 10,476,628</u>

City of Rochester Hills, Michigan

	Capital Improvement Fund	Pedestrian Pathway Construction Fund	OPC Building Construction Fund	Fire Apparatus Fund
Revenue				
Charge for services	\$ -	\$ 1,345	\$ -	\$ -
Investment earnings	60,841	73,465	39	120,538
Other	-	10,434	-	10,334
Total revenue	60,841	85,244	39	130,872
Expenditures - Capital outlay	21,784	250,311	-	825,044
Excess of Revenue Over (Under) Expenditures	39,057	(165,067)	39	(694,172)
Other Financing Sources (Uses)				
Sales of capital assets	-	-	-	38,404
Transfers in	1,430,670	407,180	-	1,977,940
Transfers out	(649,000)	-	(3,236)	-
Total other financing sources (uses)	781,670	407,180	(3,236)	2,016,344
Net Change in Fund Balance	820,727	242,113	(3,197)	1,322,172
Fund Balances - Beginning of year	1,409,658	2,070,513	3,197	4,596,155
Fund Balances - End of year	\$ 2,230,385	\$ 2,312,626	\$ -	\$ 5,918,327

Capital Projects Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2005

Municipal Building Construction Fund	Total Nonmajor Capital Project Funds
\$ -	\$ 1,345
3,166	258,049
<u>-</u>	<u>20,768</u>
3,166	280,162
<u>-</u>	<u>1,097,139</u>
3,166	(816,977)
-	38,404
-	3,815,790
<u>(891,882)</u>	<u>(1,544,118)</u>
<u>(891,882)</u>	<u>2,310,076</u>
(888,716)	1,493,099
<u>888,716</u>	<u>8,968,239</u>
<u>\$ -</u>	<u>\$ 10,461,338</u>

City of Rochester Hills, Michigan

	Capital Improvement Fund			Pedestrian Pathway Construction		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Charge for services	\$ -	\$ -	\$ -	\$ 1,350	\$ 1,345	\$ (5)
Investment earnings	51,910	60,841	8,931	70,000	73,465	3,465
Transfers in	1,430,670	1,430,670	-	407,180	407,180	-
Sale of capital assets	-	-	-	-	-	-
Other	-	-	-	10,430	10,434	4
Total revenue	1,482,580	1,491,511	8,931	488,960	492,424	3,464
Expenditures						
Capital outlay	21,880	21,784	96	228,250	250,311	(22,061)
Transfers out	649,000	649,000	-	-	-	-
Total expenditures	670,880	670,784	96	228,250	250,311	(22,061)
Excess of Revenue Over (Under)						
Expenditures	811,700	820,727	9,027	260,710	242,113	(18,597)
Fund Balances - Beginning of year	<u>1,409,658</u>	<u>1,409,658</u>	-	<u>2,070,513</u>	<u>2,070,513</u>	-
Fund Balances - End of year	<u>\$ 2,221,358</u>	<u>\$ 2,230,385</u>	<u>\$ 9,027</u>	<u>\$ 2,331,223</u>	<u>\$ 2,312,626</u>	<u>\$ (18,597)</u>

**Capital Projects Funds
Combining Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Amended Budget and Actual
Nonmajor Governmental Budgeted Funds
Year Ended December 31, 2005**

OPC Building Construction			Fire Apparatus Fund		
Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40	39	(1)	105,000	120,538	15,538
-	-	-	1,977,940	1,977,940	-
-	-	-	37,500	38,404	904
-	-	-	15,240	10,334	(4,906)
40	39	(1)	2,135,680	2,147,216	11,536
-	-	-	824,190	825,044	(854)
3,240	3,236	4	-	-	-
3,240	3,236	4	824,190	825,044	(854)
(3,200)	(3,197)	3	1,311,490	1,322,172	10,682
3,197	3,197	-	4,596,155	4,596,155	-
<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 5,907,645</u>	<u>\$ 5,918,327</u>	<u>\$ 10,682</u>

(Continued on next page)

City of Rochester Hills

Capital Projects Funds Combining Schedule of Revenue, Expenditures, and Changes in Fund Balances - Amended Budget and Actual Nonmajor Governmental Budgeted Funds (Continued) Year Ended December 31, 2005

	Municipal Building Constructon			Total		
	Amended Budget	Actual	Variance with Amended Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue						
Charge for services	\$ -	\$ -	\$ -	\$ 1,350	\$ 1,345	\$ (5)
Investment earnings	3,160	3,166	6	230,110	258,049	27,939
Transfers in	-	-	-	3,815,790	3,815,790	-
Sale of capital assets	-	-	-	37,500	38,404	904
Other	-	-	-	25,670	20,768	(4,902)
Total revenue	3,160	3,166	6	4,110,420	4,134,356	23,936
Expenditures						
Capital outlay	-	-	-	1,074,320	1,097,139	(22,819)
Transfers out	891,890	891,882	8	1,544,130	1,544,118	12
Total expenditures	891,890	891,882	8	2,618,450	2,641,257	(22,807)
Excess of Revenue Over (Under)						
Expenditures	(888,730)	(888,716)	14	1,491,970	1,493,099	1,129
Fund Balances - Beginning of year	888,716	888,716	-	8,968,239	8,968,239	-
Fund Balances - End of year	\$ (14)	\$ -	\$ 14	\$ 10,460,209	\$ 10,461,338	\$ 1,129

Internal Service Funds

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

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

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

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

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

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Net Assets December 31, 2005

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Assets					
Current assets:					
Cash and investments	\$ 6,409,692	\$ 3,540,083	\$ 4,317,737	\$ 618,043	\$ 14,885,555
Accrued interest receivable	46,174	30,812	20,197	-	97,183
Due from other governmental sources	-	-	-	-	-
Due from other funds	-	-	29,502	-	29,502
Other	23,784	-	-	-	23,784
Total current assets	6,479,650	3,570,895	4,367,436	618,043	15,036,024
Restricted assets - Assets held at County	728,980	-	-	-	728,980
Property, plant, and equipment:					
Land	17,726,940	-	-	-	17,726,940
Land improvements	3,635,427	-	-	-	3,635,427
Building	28,925,496	-	-	-	28,925,496
Furniture	1,750,200	2,762,993	-	-	4,513,193
Machinery and equipment	595,815	-	2,025,884	-	2,621,699
Vehicles	-	-	4,801,994	-	4,801,994
Total property, plant, and equipment	52,633,878	2,762,993	6,827,878	-	62,224,749
Less accumulated depreciation	(8,987,740)	(2,487,648)	(4,450,712)	-	(15,926,100)
Net property, plant, and equipment	43,646,138	275,345	2,377,166	-	46,298,649
Total assets	50,854,768	3,846,240	6,744,602	618,043	62,063,653
Liabilities					
Current liabilities:					
Accounts payable	289,527	19,258	6,488	6,323	321,596
Retainage payable	750	-	-	-	750
Accrued wages	12,463	9,714	13,451	-	35,628
Accrued vacation	13,004	36,772	30,415	-	80,191
Accrued annual leave	11,088	22,253	14,982	-	48,323
Due to other funds	970	-	-	-	970
Payable related to long-term obligations:					
Current portion of long-term obligations	200,000	-	-	-	200,000
Accrued interest	63,696	-	-	-	63,696
Other liabilities	544	652	578	279,449	281,223
Total current liabilities	592,042	88,649	65,914	285,772	1,032,377
Long-term liabilities - Obligations under long-term obligations - Less current portion	4,450,000	-	-	-	4,450,000
Net Assets					
Invested in capital assets - Net of related debt	39,725,118	275,345	2,377,166	-	42,377,629
Unrestricted	6,087,608	3,482,246	4,301,522	332,271	14,203,647
Total net assets	\$ 45,812,726	\$ 3,757,591	\$ 6,678,688	\$ 332,271	\$ 56,581,276

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Operating Revenue					
Charges for services	\$ 3,091,450	\$ 1,777,570	\$ 1,886,256	\$ 652,800	\$ 7,408,076
Miscellaneous revenue	<u>10,841</u>	<u>4,270</u>	<u>2,098</u>	<u>41,506</u>	<u>58,715</u>
Total operating revenue	3,102,291	1,781,840	1,888,354	694,306	7,466,791
Operating Expenses					
Salaries and wages	579,070	650,894	662,069	-	1,892,033
Public utilities	619,283	-	-	-	619,283
Professional services	803,192	252,873	309,419	638,327	2,003,811
Materials and supplies	91,351	131,926	19,980	-	243,257
Repairs and maintenance	111,462	172,535	364,624	-	648,621
Rentals	1,096	-	15,268	-	16,364
Miscellaneous expense	299	-	-	-	299
Depreciation and amortization	<u>1,531,793</u>	<u>249,110</u>	<u>609,079</u>	<u>-</u>	<u>2,389,982</u>
Total operating expenses	<u>3,737,546</u>	<u>1,457,338</u>	<u>1,980,439</u>	<u>638,327</u>	<u>7,813,650</u>
Operating Income (Loss)	(635,255)	324,502	(92,085)	55,979	(346,859)
Nonoperating Revenues (Expenses)					
Investment income	170,249	113,056	129,374	22,056	434,735
Net depreciation in fair value of investments	(9,569)	-	358	-	(9,211)
Interest expense	(195,088)	-	-	-	(195,088)
Gain on sale of assets	<u>728,918</u>	<u>715</u>	<u>38,365</u>	<u>-</u>	<u>767,998</u>
Total nonoperating revenues	<u>694,510</u>	<u>113,771</u>	<u>168,097</u>	<u>22,056</u>	<u>998,434</u>
Income - Before capital grants and transfers	59,255	438,273	76,012	78,035	651,575
Capital Grants	400,000	-	-	-	400,000
Transfers from Other Funds	<u>2,781,622</u>	<u>-</u>	<u>27,230</u>	<u>-</u>	<u>2,808,852</u>
Net Income	3,240,877	438,273	103,242	78,035	3,860,427
Net Assets - Beginning of year	<u>42,571,849</u>	<u>3,319,318</u>	<u>6,575,446</u>	<u>254,236</u>	<u>52,720,849</u>
Net Assets - End of year	<u>\$ 45,812,726</u>	<u>\$ 3,757,591</u>	<u>\$ 6,678,688</u>	<u>\$ 332,271</u>	<u>\$ 56,581,276</u>

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows Year Ended December 31, 2005

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Cash Flows from Operating Activities					
Cash received from customers	\$ 3,105,721	\$ 1,777,570	\$ 1,886,256	\$ 652,800	\$ 7,422,347
Cash payments for goods and services	(1,542,186)	(590,919)	(711,997)	(587,827)	(3,432,929)
Cash payments to employees	(570,054)	(648,130)	(653,285)	-	(1,871,469)
Other operating revenue	10,841	4,270	2,098	41,506	58,715
Net cash provided by operating activities	1,004,322	542,791	523,072	106,479	2,176,664
Cash Flows from Noncapital Financing Activities					
Transfers in from other funds	2,781,622	-	27,230	-	2,808,852
Repayments to (borrowings from) other funds	2,019	300	(29,648)	-	(27,329)
Net cash provided by (used in) noncapital financing activities	2,783,641	300	(2,418)	-	2,781,523
Cash Flows from Capital and Related Financing Activities					
Proceeds from sale of capital assets	827,728	715	38,365	-	866,808
Capital grants received	400,000	-	-	-	400,000
Payment for capital acquisitions	(2,207,469)	(163,404)	(270,925)	-	(2,641,798)
Principal payments	(200,000)	-	-	-	(200,000)
Interest paid	(197,088)	-	-	-	(197,088)
Net cash used in capital and related financing activities	(1,376,829)	(162,689)	(232,560)	-	(1,772,078)
Cash Flows from Investing Activities					
Purchase of investment securities	(6,147,195)	(3,543,406)	(4,313,223)	-	(14,003,824)
Proceeds from maturities of investment securities	2,648,508	3,546,013	4,509,845	-	10,704,366
Receipts of interest and dividends	125,175	96,077	121,355	22,056	364,663
Net cash provided by (used in) investing activities	(3,373,512)	98,684	317,977	22,056	(2,934,795)
Net Increase (Decrease) in Cash and Cash Equivalents	(962,378)	479,086	606,071	128,535	251,314
Cash and Cash Equivalents - January 1, 2005	2,674,990	542,737	1,235,332	489,508	4,942,567
Cash and Cash Equivalents - December 31, 2005	<u>\$ 1,712,612</u>	<u>\$ 1,021,823</u>	<u>\$ 1,841,403</u>	<u>\$ 618,043</u>	<u>\$ 5,193,881</u>

City of Rochester Hills, Michigan

Internal Service Funds Combining Statement of Cash Flows (Continued) Year Ended December 31, 2005

	Building and Grounds Fund	Management Information Systems Fund	Fleet Equipment Fund	Insurance Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (635,255)	\$ 324,502	\$ (92,085)	\$ 55,979	\$ (346,859)
Adjustments to reconcile operating income (loss) to net cash from operating activities - Changes in assets and liabilities:					
Depreciation expense	1,531,793	249,110	609,079	-	2,389,982
Decrease in other assets	14,271	-	-	-	14,271
Increase (decrease) in accounts payable and other accrued expenses	<u>93,513</u>	<u>(30,821)</u>	<u>6,078</u>	<u>50,500</u>	<u>119,270</u>
Total adjustments	<u>1,639,577</u>	<u>218,289</u>	<u>615,157</u>	<u>50,500</u>	<u>2,523,523</u>
Net cash provided by operating activities	<u>\$ 1,004,322</u>	<u>\$ 542,791</u>	<u>\$ 523,072</u>	<u>\$ 106,479</u>	<u>\$ 2,176,664</u>

Fiduciary Funds

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

Agency Funds

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

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

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

City of Rochester Hills, Michigan

Fiduciary Funds Combining Statement of Assets and Liabilities December 31, 2005

	Trust and Agency Fund	Tax Collection Fund	Payroll Fund	Total
Assets - Cash and investments	<u>\$ 87,255</u>	<u>\$ 2,877,261</u>	<u>\$ 40,381</u>	<u>\$ 3,004,897</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 38,239	\$ 38,239
Due to other governmental units	87,255	2,870,824	2,142	2,960,221
Accrued and other liabilities	<u>-</u>	<u>6,437</u>	<u>-</u>	<u>6,437</u>
 Total liabilities	 <u>\$ 87,255</u>	 <u>\$ 2,877,261</u>	 <u>\$ 40,381</u>	 <u>\$ 3,004,897</u>

City of Rochester Hills, Michigan

Agency Funds Combining Statement of Changes in Assets and Liabilities Year Ended December 31, 2005

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<u>Trust and Agency Fund</u>				
Assets - Cash	\$ 5,864	\$ 1,831,089	\$ 1,749,698	\$ 87,255
Liabilities				
Accounts payable	\$ -	\$ 262,890	\$ 262,890	\$ -
Due to other governmental units	5,864	1,042,059	960,668	87,255
Total liabilities	\$ 5,864	\$ 1,304,949	\$ 1,223,558	\$ 87,255
<u>Tax Collection Fund</u>				
Assets - Cash	\$ 4,877,603	\$ 118,091,630	\$ 120,091,972	\$ 2,877,261
Liabilities				
Accounts payable	\$ -	\$ 71,478	\$ 71,478	\$ -
Due to other governmental/component units	4,809,611	44,088,960	46,027,747	2,870,824
Other liabilities	67,992	355,283	416,838	6,437
Total liabilities	\$ 4,877,603	\$ 44,515,721	\$ 46,516,063	\$ 2,877,261
<u>Payroll Fund</u>				
Assets				
Cash	\$ 37,857	\$ 17,481,036	\$ 17,478,512	\$ 40,381
Other assets	-	35,353	35,353	-
Total assets	\$ 37,857	\$ 17,516,389	\$ 17,513,865	\$ 40,381
Liabilities				
Accounts payable	\$ 34,766	\$ 2,012,317	\$ 2,008,844	\$ 38,239
Due to other governmental/component units	3,091	3,875,213	3,876,162	2,142
Total liabilities	\$ 37,857	\$ 5,887,530	\$ 5,885,006	\$ 40,381

Statistical Section

City of Rochester Hills, Michigan

	1996	1997	1998	1999
General government	\$ 4,717,139	\$ 4,705,396	\$ 5,122,655	\$ 6,118,607
Public service	383,426	455,523	1,336,203	1,267,814
Public safety	8,034,562	9,106,139	9,893,780	10,210,766
Community and economic development	397,108	619,115	724,544	841,451
Streets	5,520,477	6,501,058	4,061,564	4,631,399
Recreation and culture	2,386,923	2,691,500	2,731,488	3,008,275
Capital outlay	1,777,995	1,130,422	1,955,086	6,026,933
Debt:				
Principal	2,395,579	2,593,804	2,510,937	2,506,542
Interest	2,637,372	2,417,111	2,036,342	2,094,754
Miscellaneous	5,409	68,873	150,751	37,618
	<u>5,409</u>	<u>68,873</u>	<u>150,751</u>	<u>37,618</u>
Total	<u>\$ 28,255,990</u>	<u>\$ 30,288,941</u>	<u>\$ 30,523,350</u>	<u>\$ 36,744,159</u>

(1) Includes General, Special Revenue, Debt Service, and Capital Projects Funds

**General Governmental Expenditures by Function
Primary Government (I)
Last Ten Fiscal Years**

2000	2001	2002	2003	2004	2005
\$ 5,640,034	\$ 6,615,906	\$ 6,858,715	\$ 6,735,682	\$ 6,941,792	\$ 7,149,633
1,431,959	1,620,826	1,509,771	1,746,720	1,701,092	2,527,976
11,099,114	12,397,928	13,286,384	13,959,215	15,036,185	15,695,576
814,015	854,949	1,005,013	1,099,351	1,401,921	1,325,230
5,274,762	4,959,887	5,287,024	4,810,972	3,907,165	2,764,324
3,282,222	3,412,046	4,060,889	4,298,932	4,033,302	4,315,311
3,613,582	9,420,085	15,392,464	20,175,677	3,815,752	2,114,855
2,719,175	2,820,773	3,087,550	3,857,433	4,353,516	4,498,024
1,915,703	1,779,215	2,474,909	2,545,378	2,298,669	2,087,708
6,608	5,461	130,700	78,548	40,630	103,387
<u>\$ 35,797,174</u>	<u>\$ 43,887,076</u>	<u>\$ 53,093,419</u>	<u>\$ 59,307,908</u>	<u>\$ 43,530,024</u>	<u>\$ 42,582,024</u>

City of Rochester Hills, Michigan

	1996	1997	1998	1999
Property taxes	\$ 15,983,212	\$ 15,646,887	\$ 16,568,976	\$ 17,463,517
Licenses and permits	1,652,179	1,593,410	1,430,486	1,752,161
Intergovernmental:				
State grants	8,501,736	8,533,737	9,141,722	9,205,660
Federal grants	20,719	261,775	184,217	200,353
Other intergovernmental	124,928	241,846	265,071	119,240
Charges for service	1,474,444	3,097,450	3,739,172	3,972,388
Fines and forfeitures	290,007	314,004	280,120	315,516
Investment earnings	2,891,646	3,072,086	2,989,428	2,788,903
Special assessments	709,381	633,881	620,705	503,151
Miscellaneous	724,395	177,739	1,149,133	147,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 32,372,647</u>	<u>\$ 33,572,815</u>	<u>\$ 36,369,030</u>	<u>\$ 36,468,251</u>

(1) Includes General, Special Revenue, Debt Service, and Capital Projects Funds

**General Governmental Revenue by Source
Primary Government (I)
Last Ten Fiscal Years**

2000	2001	2002	2003	2004	2005
\$ 20,736,441	\$ 21,728,349	\$ 23,569,820	\$ 24,461,796	\$ 26,077,515	\$ 27,492,422
1,591,165	1,693,613	2,020,444	2,060,010	2,379,571	1,929,475
9,743,709	10,506,937	10,382,568	10,342,521	10,008,449	9,805,835
239,943	256,751	206,429	407,022	436,595	271,076
138,018	127,627	269,123	205,265	244,079	260,660
4,570,828	5,406,447	4,954,583	5,596,345	5,860,708	6,974,473
295,575	404,891	475,074	547,780	520,485	575,901
3,598,435	3,146,429	1,829,692	1,015,918	879,770	2,226,383
360,395	619,884	405,365	297,126	213,212	164,366
1,561,300	394,173	1,224,881	1,551,670	172,583	1,246,137
<u>\$ 42,835,809</u>	<u>\$ 44,285,101</u>	<u>\$ 45,337,979</u>	<u>\$ 46,485,453</u>	<u>\$ 46,792,967</u>	<u>\$ 50,946,728</u>

City of Rochester Hills, Michigan

General City Tax Levies and Tax Collections Primary Government Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1996	\$ 17,535,685	\$ 16,988,842	96.9	\$ 653,456	\$ 17,642,298	100.6	\$ 70,771	0.4
1997	17,171,306	16,668,319	97.1	480,165	17,148,484	99.9	96,747	0.6
1998	18,188,720	17,611,336	96.8	600,789	18,212,125	100.1	74,018	0.4
1999	19,455,388	18,866,963	97.0	616,334	19,483,297	100.1	70,565	0.4
2000	22,815,043	22,150,477	97.1	631,682	22,782,159	99.9	96,225	0.4
2001	23,914,509	22,997,740	96.2	772,899	23,770,639	99.4	216,752	0.9
2002	25,845,403	24,839,899	96.1	861,185	25,701,084	99.4	328,003	1.3
2003	27,239,989	26,222,382	96.3	879,231	27,101,614	99.5	448,177	1.6
2004	28,709,347	27,626,606	96.2	969,338	28,595,944	99.6	89,412	0.3
2005	30,256,675	28,998,137	95.8	1,051,151	30,049,288	99.3	78,109	0.3

City of Rochester Hills, Michigan

Assessed State Equalized Valuation of Taxable Property Last Ten Fiscal Years

Tax Year	Real Property (1)		Personal Property (1)		Total (1)	
	Taxable Value	State Equalized	Taxable Value	State Equalized	Taxable Value	State Equalized
1996	\$ 1,914,050,022	\$ 1,956,220,610	\$ 180,568,780	\$ 180,648,010	\$ 2,094,618,802	\$ 2,136,868,620
1997	2,021,948,112	2,114,890,800	198,655,370	198,788,700	2,220,603,482	2,313,679,500
1998	2,156,335,752	2,323,646,250	218,228,160	218,529,700	2,374,563,912	2,542,175,950
1999	2,267,535,234	2,541,786,010	228,085,700	228,610,390	2,495,620,934	2,770,396,400
2000	2,379,079,826	2,738,619,380	227,579,800	228,159,830	2,606,659,626	2,966,779,210
2001	2,530,849,050	2,950,805,550	227,393,630	227,972,560	2,758,242,680	3,178,778,110
2002	2,694,240,380	3,193,091,850	216,081,110	217,082,640	2,910,321,490	3,410,174,490
2003	2,858,868,260	3,436,054,780	205,993,980	205,993,980	3,064,862,240	3,642,048,760
2004	3,026,860,100	3,623,447,890	203,963,970	203,963,970	3,230,824,070	3,827,411,860
2005	3,214,649,540	3,825,030,080	187,326,370	187,326,370	3,401,975,910	4,012,356,450

(1) Figures are tax warrant figures and do not reflect amendments by the Rochester Hills Board of Review, the Michigan Tax Tribunal, the State of Michigan Department of Treasury, or the City Assessor.

City of Rochester Hills, Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Tax rates (Per \$1,000 assessed valuation):

City

Tax Year	General			Total City
	Operating	Special Voted	Debt Service	
1996	2.1410	4.5228	1.5365	8.2003
1997	1.8303	4.7864	1.5836	8.2003
1998	1.6579	5.0618	1.4806	8.2003
1999	2.6602	5.1755	1.3141	9.1498
2000	2.7267	5.0098	1.4133	9.1498
2001	2.8277	4.9982	1.5422	9.3681
2002	2.9188	5.0136	1.4357	9.3681
2003	3.0850	4.9673	1.3158	9.3681
2004	3.1130	4.9339	1.3212	9.3681
2005	3.2169	5.1809	1.2703	9.6681

County

Tax Year	County	Intermediate	School Debt	Special	Vocation	Parks	Total County
	Operating	School		Education	Education		
1996	4.3805	0.2129	-	1.4906	0.4259	0.4675	6.9774
1997	4.3505	0.2129	-	1.4906	0.4259	0.4675	6.9474
1998	4.1900	0.2120	-	1.4846	0.4242	0.4664	6.7772
1999	4.1900	0.2099	-	1.4699	0.4200	0.4622	6.7520
2000	4.1900	0.2074	-	1.4527	0.4151	0.4578	6.7230
2001	4.1900	0.2053	-	2.6085	0.6388	0.4538	8.0964
2002	4.1900	0.2035	-	2.5857	0.6332	0.4623	8.0747
2003	4.1900	0.2021	-	2.5682	0.6288	0.4597	8.0488
2004	4.1900	0.2009	-	2.5530	0.6250	0.4576	8.0265
2005	4.1900	0.2003	-	2.5456	0.6231	0.4561	8.0151

City of Rochester Hills, Michigan

Tax rates (per \$1,000 assessed valuation)

School Districts

Tax Year		Rochester District			Avondale District			
		Operating	Debt Service	Total District	Operating	Extra Voted	Debt Service	Total District
1996	Homestead	-	4.2500	4.2500	-	2.3214	7.0000	9.3214
	Nonhomestead	18.0000	4.2500	22.2500	18.0000	-	7.0000	25.0000
1997	Homestead	-	5.9000	5.9000	-	2.1943	7.0000	9.1943
	Nonhomestead	18.0000	5.9000	23.9000	18.0000	-	7.0000	25.0000
1998	Homestead	-	5.6000	5.6000	-	2.0944	7.0000	9.0944
	Nonhomestead	18.0000	5.6000	23.6000	18.0000	-	7.0000	25.0000
1999	Homestead	-	5.6000	5.6000	-	1.9225	7.0000	8.9225
	Nonhomestead	18.0000	5.6000	23.6000	18.0000	-	7.0000	25.0000
2000	Homestead	-	5.6000	5.6000	-	1.8190	7.0000	8.8190
	Nonhomestead	17.6508	5.6000	23.2508	18.0000	-	7.0000	25.0000
2001	Homestead	-	5.2250	5.2250	-	1.7298	7.0000	8.7298
	Nonhomestead	17.3013	5.2250	22.5263	18.0000	-	7.0000	25.0000
2002	Homestead	-	5.2250	5.2250	-	1.6793	7.0000	8.6793
	Nonhomestead	18.0000	5.2250	23.2250	18.0000	-	7.0000	25.0000
2003	Homestead	-	5.2250	5.2250	-	1.5965	7.6000	9.1965
	Nonhomestead	18.0000	5.2250	23.2250	18.0000	-	7.6000	25.6000
2004	Homestead	-	5.1800	5.1800	-	1.4092	7.6000	9.0092
	Nonhomestead	18.0000	5.1800	23.1800	18.0000	-	7.6000	25.6000
2005	Homestead	-	5.1800	5.1800	-	1.3203	7.5989	8.9192
	Nonhomestead	18.0000	5.1800	23.1800	18.0000	-	7.5989	25.5989

**Property Tax Rates
Direct and Overlapping Governments (Continued)
Last Ten Fiscal Years**

Community College		State Education Tax	Grand Total	
Voted	Total College	Operating	Rochester School District	Avondale School District
1.6522	1.6522	6.0000	27.0799	32.1513
1.6522	1.6522	6.0000	45.0799	47.8299
1.6522	1.6522	6.0000	28.6999	31.9942
1.6522	1.6522	6.0000	46.6999	47.7999
1.6456	1.6456	6.0000	28.2231	31.7175
1.6456	1.6456	6.0000	46.2231	47.6231
1.6295	1.6295	6.0000	29.1313	32.4538
1.6295	1.6295	6.0000	47.1313	48.5313
1.6109	1.6109	6.0000	29.0837	32.3027
1.6109	1.6109	6.0000	46.7345	48.4837
1.5952	1.5952	6.0000	30.2847	33.7895
1.5952	1.5952	6.0000	47.5860	50.0597
1.6090	1.6090	6.0000	30.2768	33.7311
1.6090	1.6090	6.0000	48.2768	50.0518
1.5983	1.5983	5.0000	29.2402	33.2117
1.5983	1.5983	5.0000	47.2402	49.6152
1.4092	1.4092	6.0000	30.1635	33.9927
1.4092	1.4092	6.0000	48.1635	50.5835
1.5844	1.5844	6.0000	30.4476	34.1868
1.5844	1.5844	6.0000	48.4476	50.8665

City of Rochester Hills, Michigan

Principal Taxpayers December 31, 2005

Taxpayer	Type of Business	Taxable Value	Percent of Total Taxable Valuation
Meadowbrook Association	Retail	\$ 24,420,700	0.72
Detroit Edison	Electric utility	21,587,960	0.63
New Plan Realty Trust	Retail	21,008,500	0.62
Stuart Frankel	Retail/Apartments/Industrial	17,429,350	0.51
Fanuc Robotics	Industrial property	15,997,590	0.47
River Oaks North LLC	Apartments	15,700,550	0.46
First Industrial Realty Trust	Industrial property	14,847,780	0.44
Associates Estates Realty	Apartments	13,422,860	0.39
Winchester Center	Retail	13,042,590	0.38
Joel Nosanchuk	Industrial property	12,674,140	0.37
	Subtotal	170,132,020	4.99
Other		3,231,843,890	95.01
	Total	\$ 3,401,975,910	100.00

City of Rochester Hills, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Tax Year	Current Assessments Due	Current Assessments Collected	Percent of Current Assessments Collected (1)	Total Outstanding Assessments
1996	\$ 115,435	\$ 709,381	614.53%	\$ 2,519,086
1997	151,237	633,881	419.13%	2,081,307
1998	224,866	620,705	276.03%	1,456,554
1999	134,007	503,150	375.47%	1,693,404
2000	125,713	360,395	286.68%	1,360,923
2001	143,681	558,777	388.90%	1,757,153
2002	121,629	405,364	333.28%	1,524,433
2003	106,341	297,126	279.41%	1,057,290
2004	71,312	213,212	298.98%	825,452
2005	65,920	163,133	247.47%	668,101

(1) Percents in excess of 100 percent represent advance payments on special assessments due over multiple-year periods.

City of Rochester Hills, Michigan

Computation of Legal Debt Margin December 31, 2005

State equalized valuation at December 31, 2005: \$ 4,012,356,450

	Actual Net Debt	Statutory Percent of Taxable Value	Amount	Legal Debt Margin
General obligation debt	\$ 45,000,013	10%	\$ 401,235,645	\$ 356,235,632
Special assessment bonds	<u>2,035,000</u>	12%	<u>481,482,774</u>	<u>479,447,774</u>
Total debt subject to statutory limitation	47,035,013		<u>\$ 882,718,419</u>	<u>\$ 835,683,406</u>
Debt not subject to limitation:				
Michigan Transportation Highway Fund Bonds	2,125,000			
Self-supporting County- issued debt	<u>8,450,000</u>			
Total debt	<u>\$ 57,610,013</u>			

Notes:

- (1) Act 279, Public Acts of Michigan, 1909, as amended, and the City Charter of the City of Rochester Hills provide that the net indebtedness of the City shall not exceed 10 percent of all assessed valuation.

Bonds that shall be excluded in this computation of net indebtedness, according to said Act, are as follows:

- Special assessment bonds
 - Mortgage bonds
 - Motor Vehicle Highway Fund Bonds
 - Revenue bonds
 - Bonds issued, or contracts, or assessment obligations incurred, to comply with an order of the Water Resources Commission or a court of competent jurisdiction
 - Other obligations incurred for water supply, drainage, sewage, or refuse disposal projects necessary to protect the public health by abating pollution
- (2) The Municipal Finance Act provides that the total debt in Special Assessment Bonds, which would require that the City pledge its full faith and credit, shall not exceed 12 percent of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3 percent unless voted. The Special Assessment Bond percent limit is in addition to the 10 percent limit as provided by Act 279, Public Acts of Michigan, 1909, as amended, as described in Note 1 above.

City of Rochester Hills, Michigan

Ratio of Net Bonded Debt to State Equalized Value and Net Bonded Debt Per Capita Last Ten Fiscal Years

Fiscal Year	Population	State Equalized Value	Gross Bonded Debt	Debt Service Monies Available	Self-supporting Revenue Debt	Net Bonded Debt	Ratio of Net Bonded Debt to State Equalized Value	Net Bonded Debt Per Capita
1996	66,365 (2)	\$ 2,136,686,620	\$ 59,636,225	\$ 4,442,518	\$ 21,554,609	\$ 33,639,098	1.57%	\$ 506.88
1997	66,365 (2)	2,313,679,500	54,566,298	4,269,269	18,592,595	31,704,434	1.37%	477.73
1998	68,501 (3)	2,542,175,950	52,351,586	3,045,819	14,503,372	34,802,395	1.36%	508.06
1999	70,400 (4)	2,770,396,400	47,208,244	3,345,215	11,357,953	32,505,076	1.17%	461.72
2000	68,825 (1)	2,966,779,210	42,410,019	3,074,808	8,938,914	30,396,297	1.02%	441.65
2001	68,825 (1)	3,178,778,110	51,990,208	3,446,405	7,984,876	40,558,927	1.28%	589.31
2002	68,825 (1)	3,410,174,490	65,993,589	3,722,903	10,475,807	51,794,880	1.52%	752.56
2003	68,825 (1)	3,642,048,760	59,731,553	3,746,922	7,750,000	48,234,629	1.32%	700.83
2004	68,825 (1)	3,827,411,860	55,273,037	6,749,421	7,140,000	41,383,619	1.08%	601.29
2005	68,825 (1)	4,012,356,450	57,610,013	6,999,894	8,450,000	40,125,119	1.00%	583.00

Footnotes:

- (1) Source: U.S. Bureau of the Census
- (2) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1995
- (3) Source: Oakland County Planning Division, Estimated Growth Population through 1996
- (4) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1999

City of Rochester Hills, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total (1) General Expenditures	Ratio of Debt Service to Total General Expenditures
1996	\$ 2,395,579	\$ 2,637,372	\$ 5,032,951	\$ 28,255,990	17.8%
1997	2,593,804	2,417,111	5,010,915	30,288,941	16.5%
1998	2,510,937	2,036,342	4,547,279	30,523,350	14.9%
1999	2,506,542	2,094,754	4,601,296	36,744,159	12.5%
2000	2,719,175	1,915,703	4,634,878	35,797,174	12.9%
2001	2,820,774	1,779,214	4,599,988	43,887,076	10.5%
2002	3,087,550	2,474,909	5,562,459	53,093,419	10.5%
2003	3,857,433	2,545,378	6,402,811	59,307,908	10.8%
2004	4,353,516	2,298,669	6,652,185	43,530,024	15.3%
2005	4,498,024	2,087,708	6,585,732	42,582,029	15.5%

(1) Includes General, Special Revenue, Debt Service, and Capital Projects Funds of the primary government

City of Rochester Hills, Michigan

Schedule of Direct and Overlapping Debt December 31, 2005

Direct Debt

General obligation bonds:			
Unlimited tax		\$ 32,675,000	
Limited tax		1,260,000	
Special assessment		2,035,000	
Share of County-issued bonds		19,515,013	
Michigan Transportation Fund Bonds		<u>2,125,000</u>	
Total direct debt			\$ 57,610,013
Less:			
Amount available for debt service			6,999,894
Self-supporting share of County-issued debt			8,450,000
Self-supporting Transportation Fund Bonds			<u>2,035,000</u>
Net direct debt			<u>40,125,119</u>

Overlapping Debt

City Share as Percent of Gross	Municipality	Gross Tax Supported Debt	Net City Share
59.07%	Rochester School District	\$ 257,510,000	152,111,157
49.81%	Avondale School District	106,644,732	53,119,741
5.78%	Oakland County at Large	93,611,894	5,410,767
5.82%	Oakland Community College	11,175,000	650,385
5.80%	Oakland Intermediate School District	10,220,000	<u>592,760</u>
			<u>211,884,810</u>
Net direct and overlapping debt			<u><u>\$ 252,009,929</u></u>

Per Capita Debt: Population per Year 2000 Census - 68,825

Net direct debt	\$ 583.00
Net direct and overlapping debt	\$ 3,661.60
Ratio of 2004 taxable value (\$3,230,824,070):	
Net direct debt ratio	1.24%
Net direct and overlapping debt ratio	7.80%

City of Rochester Hills, Michigan

Debt Coverage Water and Sewer Debt (1) December 31, 2005

Fiscal Year	Gross Revenue (2)	Direct Operating Expenses (3)	Net Revenue Available for Service Debt	Debt Service Requirements through December 31			
				Principal	Interest	Total	Coverage
1996	\$ 11,869,523	\$ 12,638,174	\$ (768,651) (4)	\$ 2,514,837	\$ 1,039,353	\$ 3,554,190	-
1997	12,311,408	13,235,788	(924,380) (5)	2,622,014	911,099	3,533,113	-
1998	13,865,140	15,509,926	(1,644,786) (6)	2,729,223	751,170	3,480,393	-
1999	12,489,318	16,232,415	(3,743,097) (7)	2,830,419	586,386	3,416,805	-
2000	10,716,670	15,821,937	(5,105,267) (8)	2,084,039	480,081	2,564,120	-
2001	15,075,311	16,766,992	(1,691,681)	2,209,038	313,044	2,522,082	-
2002	18,992,904	19,243,358	(250,454)	2,384,069	172,125	2,556,194	-
2003	19,759,609	19,906,469	(146,860)	2,300,807	34,264	2,335,071	-
2004	21,321,916	19,676,120	1,645,796	-	-	-	-
2005	24,871,258	23,062,151	1,809,107	-	26,630	26,630	0.02

(1) Information pertains to Water and Sewer Fund only

(2) Total revenue exclusive of investment income

(3) Total expenses exclusive of interest expense

(4) The excess of direct operating expenditures over gross revenue in 1996 is due primarily to the decrease in the water and sewer rates.

(5) The excess of direct operating expenditures over gross revenue in 1997 is due primarily to the overhead allocation charges.

(6) The excess of direct operating expenditures over gross revenue in 1998 is due primarily to an increase in water and sewer rates.

(7) The excess of direct operating expenditures over gross revenue in 1999 is due primarily to an increase in water and sewer rates.

(8) The excess of direct operating expenditures over gross revenue in 2000 is due primarily to an increase in water and sewer rates.

City of Rochester Hills, Michigan

Demographic Statistics December 31, 2005

Fiscal Year	Population of City	Population of Oakland County	City Housing Profile # of Units
1970	24,513 (1)	907,871 (1)	6,252 (1)
1980	40,704 (1)	1,011,793 (1)	14,598 (1)
1985	48,574 (2)	1,011,793 (1)	17,185 (2)
1990	61,523 (3)	1,083,592 (4)	23,531 (5)
1991	61,766 (1)	1,083,592 (1)	24,578 (5)
1992	61,766 (1)	1,083,592 (1)	24,974 (5)
1993	61,766 (1)	1,083,592 (1)	25,198 (5)
1994	64,161 (6)	1,118,611 (6)	25,648 (5)
1995	64,161 (6)	1,118,611 (6)	25,914 (5)
1996	66,365 (7)	1,150,872 (7)	26,135 (5)
1997	66,365 (7)	1,150,872 (7)	26,920 (5)
1998	68,501 (8)	1,150,872 (7)	27,270 (5)
1999	70,400 (9)	1,222,358 (9)	27,368 (5)
2000	68,825 (1)	1,194,156 (1)	27,969 (5)
2001	68,825 (1)	1,194,156 (1)	28,191 (5)
2002	68,825 (1)	1,194,156 (1)	28,536 (5)
2003	68,825 (1)	1,194,156 (1)	28,723 (5)
2004	68,825 (1)	1,194,156 (1)	29,485 (5)
2005	68,825 (1)	1,194,156 (1)	29,590 (5)

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

(2) Source: U.S. Bureau of the Census, special census count, September 25, 1985

(3) Source: U.S. Bureau of the Census, U.S. Census preliminary estimate

(4) Source: Oakland County Planning Division, U.S. Census preliminary estimate

(5) Source: Rochester Hills Assessing Department

(6) Source: Oakland County Planning Division, Estimated Growth Population

(7) Source: Oakland County Planning Division, SEMCOG Estimated Growth Population through 1995

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

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

City of Rochester Hills, Michigan

Demographic Statistics (Continued) December 31, 2005

Construction Activity			Property Value		
Fiscal Year	Total Building Permits	Total Construction Valuation	State Equalized Value		
			Real	Personal	Total
1996	1,110	\$ 104,936,601	\$ 1,956,220,610	\$ 180,648,010	\$ 2,136,868,620
1997	1,048	90,442,390	2,114,890,800	198,788,700	2,313,679,500
1998	990	90,457,005	2,323,646,250	218,529,700	2,542,175,950
1999	958	81,147,080	2,541,786,010	228,610,390	2,770,396,400
2000	842	89,154,870	2,738,619,380	228,159,830	2,966,779,210
2001	759	106,582,700	2,950,805,550	227,972,560	3,178,778,110
2002	886	145,489,900	3,193,091,850	217,082,640	3,410,174,490
2003	1,058	130,369,246	3,436,054,780	205,993,980	3,642,048,760
2004	1,005	170,586,904	3,623,447,890	203,963,970	3,827,411,860
2005	780	118,058,400	3,825,030,080	187,326,370	4,012,356,450

Source: Rochester Hills Building Department

City of Rochester Hills, Michigan

Miscellaneous Statistics December 31, 2005

Area:	32.2 square miles
Form of government:	Home rule city (Mayor-Council)
History of the City:	Avon Township (City of Rochester Hills) was first formed April 6, 1835. In 1978 Avon Township became the Charter Township of Avon. The present City Charter as adopted May 22, 1984 became effective November 20, 1984.
Population	68,825 (Year 2000 Census)
Fiscal year begins:	January 1
Number of city employees (excluding firefighters):	235 regular, 73 seasonal, 59 part-time, and 480 election workers
Fire protection:	Five stations, 19 regular, and 68 paid on-call firefighters
Police protection:	City contracts police protection from the Oakland County Sheriff's department. Currently, 58 regular officers are contracted.
Streets:	16.14 miles of state trunk lines, 38.84 miles of county roads, 37.62 miles of major roads, and 211.52 miles of local roads

City of Rochester Hills, Michigan

Economic Development Corporation December 31, 2005

The Economic Development Corporation of the City of Rochester Hills (the "Corporation") issues tax-exempt revenue bonds under authority of the Michigan Economic Development Corporation Act. Proceeds of the debt issues are used to purchase or construct facilities, which are leased to industrial and commercial enterprises under contracts that provide sufficient revenue to satisfy principal and interest requirements of the related bond issues. These contracts further provide for the transfer of the related property to the lessee at the time such indebtedness becomes paid in full.

The Corporation's bond issues are payable solely from the net revenues derived from the financed projects and are collateralized by mortgages on the underlying project assets. The leased property and the bond issues are not assets or general obligations of the Corporation and, accordingly, are not recognized in the financial statements of the City.

Revenue bonds issued by the Corporation as of December 31, 2005 are as follows:

Issue	Lessee	Original Issue	Interest Rate	Outstanding Balance
1986 Limited Obligation Economic Development Revenue Bonds, payable through 2007	Bond Street Company	\$ 1,250,000	Variable	\$ 21,730