



# BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

**City of Royal Oak, Michigan  
For the Fiscal Year Ended June 30, 2004**

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditors Report .....	1-2
Management Discussion and Analysis .....	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	15
Statement of Activities .....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	17
Reconciliation of the Balance Sheet to the Statement of Net Assets .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
General Fund .....	21
Solid Waste Fund .....	22
Statement of Net Assets - Proprietary Funds .....	23
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds .....	24
Statement of Cash Flows - Proprietary Funds .....	25
Statement of Fiduciary Net Assets - Fiduciary Funds .....	26
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	27
Statement of Net Assets - Component Units .....	28
Statement of Activities - Component Units .....	29
Notes to Financial Statements .....	30-52
Required Supplementary Information:	
Schedule of Funding Progress .....	53
Combining Fund Statements:	
Combining Balance Sheet - Nonmajor Governmental Funds .....	54-55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds .....	56-57
Combining Statement of Net Assets - Nonmajor Enterprise Funds .....	58
Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds .....	59
Combining Statement of Cash Flows - Nonmajor Enterprise Funds .....	60
Combining Statement of Net Assets - Internal Service Funds .....	61
Combining Statement of Revenues, Expenses, and Changes in Net Assets - Internal Service Funds .....	62
Combining Statement of Cash Flows - Internal Service Funds .....	63
Combining Statement of Net Assets - Pension and Other Employee Benefit Trust Funds .....	64

**City of Royal Oak, Michigan**  
**For the Fiscal Year Ended June 30, 2004**

**TABLE OF CONTENTS**

	<b>Page</b>
Combining Statement of Changes in Net Assets - Pension and Other	
Employee Benefit Trust Funds .....	65
Combining Statement of Fiduciary Net Assets - Agency Funds .....	66
Component Units:	
Balance Sheet - Component Units .....	67
Statement of Revenues, Expenditures, and Changes in Fund Balance –	
Component Units.....	68
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund	
Balances of Component Units to the Statement of Activities .....	69



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

October 15, 2004

To the Mayor and City Commissioners  
City of Royal Oak  
Royal Oak, Michigan 48068

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 Royal Oak, Michigan*, as of and for the year ended June 30, 2004, 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 Royal Oak, 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 Royal Oak, Michigan*, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General and Solid Waste funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 15, 2004, on our consideration of the ***City of Royal Oak, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 14 and the Schedule of Funding Progress on page 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Royal Oak, Michigan's*** basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

PDF version emailed to Brit Winter 12-20-04  
248-246-3033

BRITTR@CI.Royal-Oak.MI.US

## Management's Discussion and Analysis

As management of the *City of Royal Oak*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City of Royal Oak exceeded its liabilities at the close of the most recent fiscal year by \$178,229,452 (*net assets*). Of this amount, \$17,012,503 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,752,031 . This increase is attributed in part to increased tax revenues and decreased employee expenditures due to reduction of full-time staff.
- As of the close of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$18,976,289 , an increase of \$513,257 in comparison with the prior year. Approximately 60% of this total amount, \$11,424,994, is unreserved and undesignated in the special revenue, debt and capital project funds.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,340,265 , or 14 percent of total general fund expenditures.
- The City of Royal Oak's total debt increased by \$6,379,757 (10 percent) during the current fiscal year. The key factor in this increase was additional State Revolving Funds drawn down by the County for the George Kuhn Drain.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City of Royal Oak's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include 'Water and Sewer' and a parking system operations.

The government-wide financial statements include, not only the City itself (known as the *primary government*), but also a legally separate Tax Increment Financing Authority, a legally separate Downtown Development Authority, a legally separate Economic Development Corporation and a legally separate Housing Commission for which the

City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The City of Royal Oak Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore its activities have been included as an integral part of the primary government of the City.

The government-wide financial statements can be found on pages 15-16 of this report.

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

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

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

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and two other funds that are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Royal Oak adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-20 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City maintains six individual enterprise funds. The City's Water and Sewer operations and its Automobile Parking System operations are shown as Major Enterprise Funds. Data from the other four enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor Enterprise Funds is provided in the form of *combining statements* elsewhere in this report.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool, for its management information systems, and for its self-insured workers compensation fund. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations and its Automobile Parking System operations, both of which are considered to be major funds of the City of Royal Oak. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.



The basic proprietary fund financial statements can be found on pages 23-25 of this report.

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

The basic fiduciary fund financial statements can be found on pages 26-27 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-52 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 53 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 54-69 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Royal Oak, assets exceeded liabilities by \$78,229,452 at the close of the most recent fiscal year.

By far the largest portion of the City of Royal Oak's net assets (78 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Royal Oak uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Royal Oak's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ROYAL OAK Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$28,485,965	\$28,375,998	\$20,751,334	\$21,092,003	\$49,237,299	\$49,468,001
Capital assets	117,439,400	117,261,491	95,763,970	87,411,866	213,203,370	204,673,357
Total assets	145,925,365	145,637,489	116,515,304	108,503,869	262,440,669	254,141,358
Long-term liabilities outstanding	18,509,508	19,787,091	53,442,869	47,694,096	71,952,377	67,481,187
Other liabilities	7,965,499	9,352,464	4,293,341	2,827,751	12,258,840	12,180,215
Total liabilities	26,475,007	29,139,555	57,736,210	50,521,847	84,211,217	79,661,402
Net assets:						
Investment in capital assets, net of related debt	102,449,400	102,083,257	40,189,816	38,726,466	142,639,216	140,809,723
Restricted	16,080,945	15,710,666	2,496,788	1,399,095	18,577,733	17,109,761
Unrestricted	920,013	(1,295,989)	16,092,490	17,856,461	17,012,503	16,560,472
Total net assets	\$119,450,358	\$116,497,934	\$58,779,094	\$57,982,022	\$178,229,452	\$174,479,956

An additional portion of the City of Royal Oak's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$17,012,503 ) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by \$2,752,031 during the current fiscal year. The major cause of this is attributed in part to increased tax revenues and decreased employee expenditures due to reduction of full-time staff.

**Governmental Activities.** Governmental activities increased the City of Royal Oak's net assets by \$2,952,424 . Key elements of this increase are as follows:

- Operating transfer from Auto Parking Fund in the amount of \$1,598,540.
- Increase in tax revenues and decreased employee expenditures due to reduction of full-time staff.

CITY OF ROYAL OAK Changes in Net Assets

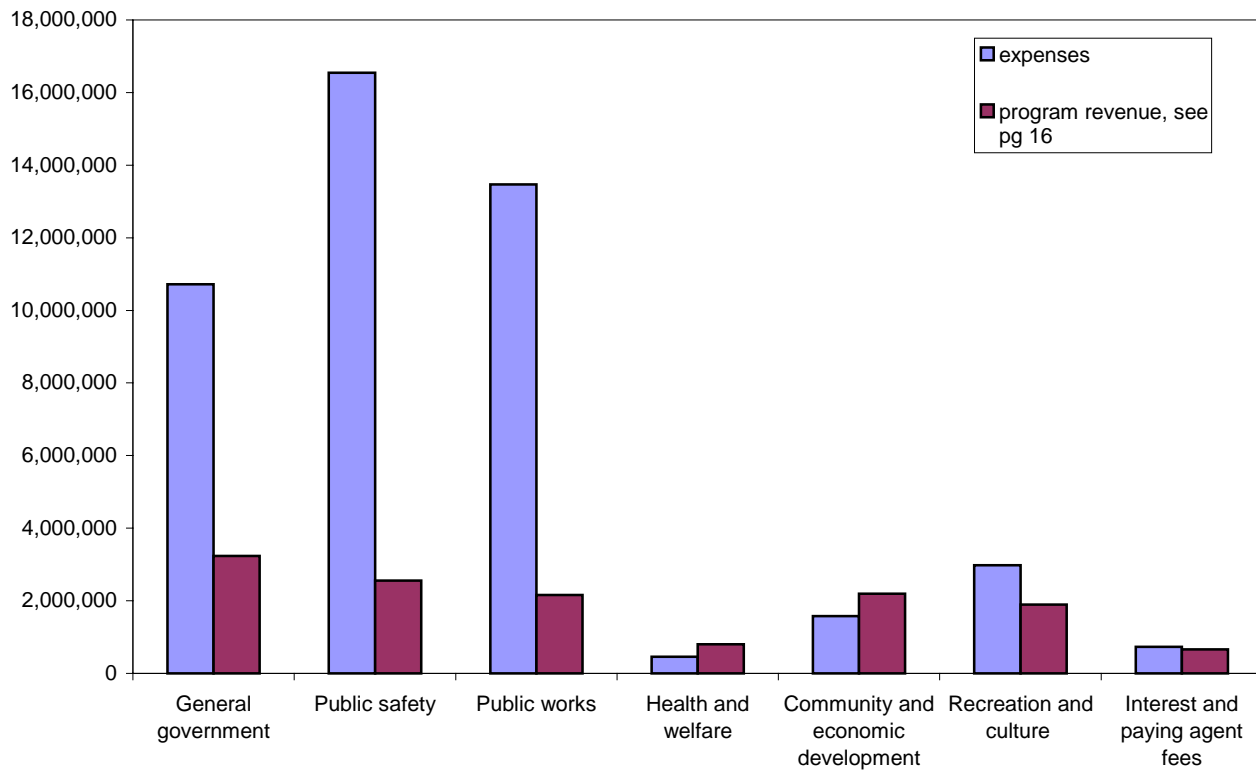
	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 9,924,191	\$ 8,818,079	\$ 20,068,572	\$ 19,519,193	\$ 29,992,763	\$ 28,337,272
Operating grants and contributions	2,899,089	2,484,230	695,144	436,160	3,594,233	2,920,390
Capital grants and contributions	682,829	1,127,952	29,802	1,626,280	712,631	2,754,232
General revenue:						
Property taxes	23,137,213	20,598,307			23,137,213	20,598,307
Grants and contributions not restricted to specific programs						
Other	9,877,965	10,235,529			9,877,965	10,235,529
Total revenue	47,777,930	44,993,215	20,956,306	21,870,123	68,734,236	66,863,338
Expenses:						
General government	10,723,060	11,234,438			10,723,060	11,234,438
Public safety	16,542,881	17,619,573			16,542,881	17,619,573
Public works	13,465,346	14,587,704			13,465,346	14,587,704
Health and welfare	457,109	499,650			457,109	499,650
Community and economic development	1,579,285	1,798,736			1,579,285	1,798,736
Recreation and culture	2,977,851	3,186,534			2,977,851	3,186,534
Interest and paying agent fees	728,469	747,718			728,469	747,718
Water & sewer			14,577,922	15,297,697	14,577,922	15,297,697
Parking			2,019,263	1,877,865	2,019,263	1,877,865
Recreation			2,716,899	2,668,982	2,716,899	2,668,982
Farmers market			194,120	217,957	194,120	217,957
Total expenses	46,474,001	49,674,353	19,508,204	20,062,501	65,982,205	69,736,854
Increase in net assets before transfers	1,303,929	(4,681,138)	1,448,102	1,807,622	2,752,031	(2,873,516)
Transfers	1,648,495	35,554	(1,648,495)	(35,554)	0	0
Increase (decrease) in net assets	2,952,424	(4,645,584)	(200,393)	1,772,068	2,752,031	(2,873,516)
Net assets - 7/1/03	116,497,934	121,143,518	58,979,487	56,209,954	175,477,421	177,353,472
Net assets - 6/30/04	\$ 119,450,358	\$ 116,497,934	\$ 58,779,094	\$ 57,982,022	\$ 178,229,452	\$ 174,479,956

Property taxes increased by \$2,538,906 (12 percent) during the year. This increase is the result of a new millage to fund Library improvements and operations, a 4% increase in the taxable value of the City's SEV, and an increase in the levy to provide money for the Fire Bond issue.

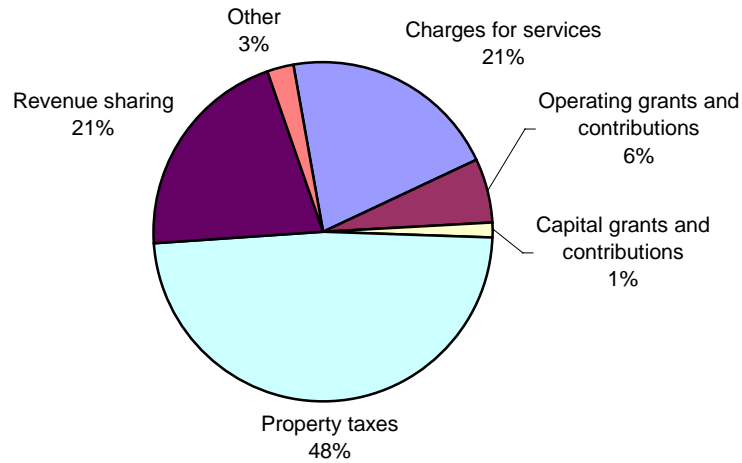
Operating grants for governmental activities increased by \$414,859, with the key factor being the recognition of monies previously held in trust.

---

## Expenses and Program Revenues – Governmental Activities



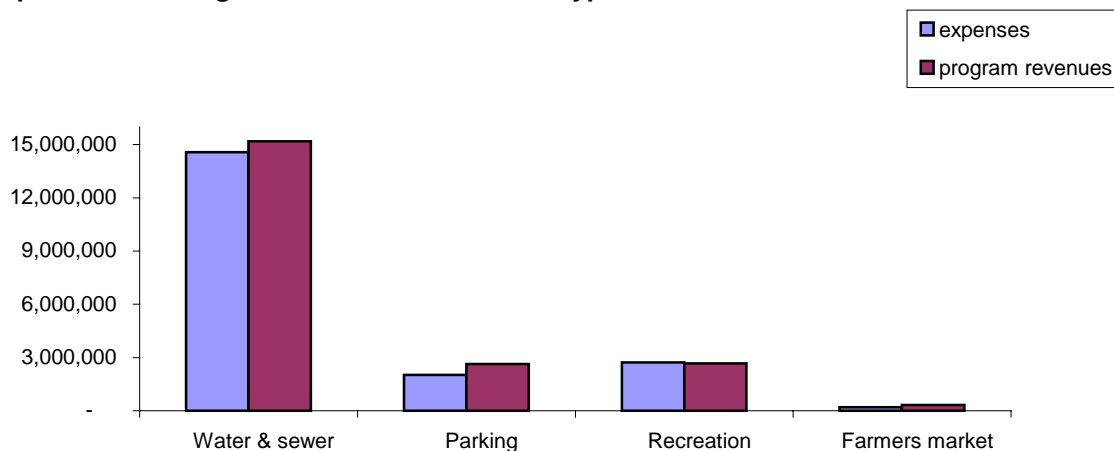
## Revenues by Source - Governmental Activities



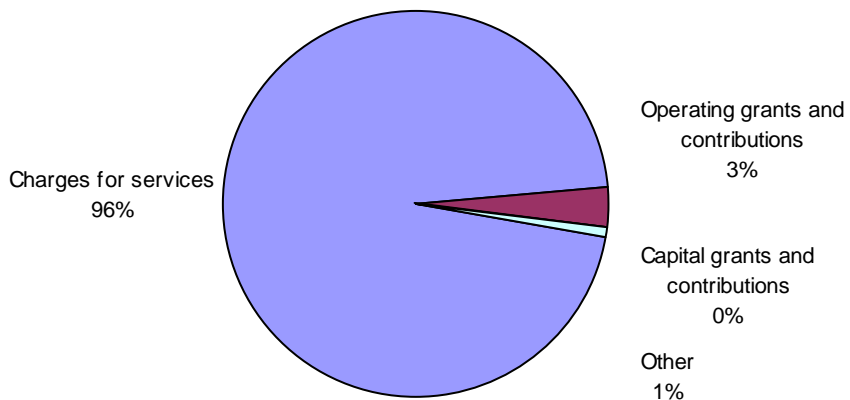
Decreases in expenses are mainly the result of a reduction in full-time staff. Most notable are the decreases in the public safety and public works functions of approximately \$900,000 each.

**Business-Type Activities.** Business-type activities decreased the City of Royal Oak's net assets by (200,393). The cause of this decrease was the transfer to the General Fund of \$1,598,540 from the Auto Parking Fund.

**Expenses and Program Revenues - Business-type Activities**



**Revenues by Source - Business-type Activities**



## Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the City of Royal Oak's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Royal Oak's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$18,976,289 , and an increase of \$513,257 in comparison with the prior year. Approximately 90% of this total amount (\$17,119,937) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to cover restricted assets used for repayment of debt (1,446,001 ), for inventories (\$109,018 ), for right-of-way expenditures per State law (\$40,156 ), for senior activities (\$240,108 ) and for books and capital expenditures per donor requests (\$21,069).

The general fund is the chief operating fund of the City of Royal Oak. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,340,265 , while total fund balance was \$4,449,283 . As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.88 percent of total general fund expenditures, while total fund balance represents 15.25 percent of that same amount.

The fund balance of the City of Royal Oak's general fund increased by \$1,134,242 during the current fiscal year. The key factor in this was the \$1,598,540 transfer from the Auto Parking Fund.

The solid waste fund has a total fund balance of \$ 448,837 , all of which is unreserved and undesignated. The net decrease in fund balance during the current year in the solid waste fund was \$(129,908).

The capital projects fund has a total fund balance of \$2,822,124 , of which \$1,420,001 is reserved to cover restricted cash from unspent bond proceeds. The net decrease in fund balance during the current year in the capital projects fund was \$(2,775,388). The major factor in this decrease was caused by the spending of bond proceeds for the Fire Improvements project.

**Proprietary funds.** The City of Royal Oak's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer System at the end of the year amounted to \$8,729,471 , and those for the Automobile Parking System Fund operation amounted to \$5,738,211 . The total increase in net assets for Water and Sewer was \$ 565,714 . The total decrease in net assets for the Automobile Parking System Fund was \$(930,562). Information concerning the decrease in the Parking System has already been addressed in the discussion of the City of Royal Oak's business-type activities.

## General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$530,980 and can be briefly summarized as follows:

- \$527,950 decrease in state shared revenues
- \$387,680 increase in reimbursements
- \$358,200 increases in other revenues
- \$294,840 increase in general government
- \$637,620 decrease in recreation and culture

The decrease provided for an expected increase in fund balance. During the year, while revenues were less than budget, expenditures were significantly less than budgetary estimates, thus increasing fund balance.

**Capital Asset and Debt Administration**

**Capital Assets.** The City of Royal Oak’s investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$213,203,370 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City of Royal Oak’s investment in capital assets for the current fiscal year was 4 percent (a 0.15 percent increase for governmental activities and a 10 percent increase for business-type activities).

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

- The George Kuhn Drain project construction continued
- Fire house replacements and repairs were continued

**CITY OF ROYAL OAK Capital Assets  
(net of depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$66,485,407	\$66,666,407	\$5,121,005	\$5,121,005	\$71,606,412	\$71,787,412
Buildings	9,750,761	10,094,536	21,453,527	22,055,389	31,204,288	32,149,925
Improvements other than buildings	1,154,632	1,300,694	430,742	496,284	1,585,374	1,796,978
Machinery and equipment	7,241,445	7,658,169	664,190	708,143	7,905,635	8,366,312
Infrastructure	25,098,472	26,878,345	40,509,976	39,777,513	65,608,448	66,655,858
Intangibles	37,031	90,191	12,909	2,130	49,940	92,321
Construction in progress	7,671,652	4,573,149	27,571,621	19,251,403	35,243,273	23,824,552
<b>Total</b>	<b>\$117,439,400</b>	<b>\$117,261,491</b>	<b>\$95,763,970</b>	<b>\$87,411,867</b>	<b>\$213,203,370</b>	<b>\$204,673,358</b>

Additional information on the City of Royal Oak’s capital assets can be found on pages 41-44 of this report.



**Long-term debt.** At the end of the current fiscal year, the City of Royal Oak had total bonded debt outstanding of \$70,707,873. Of this amount, \$19,005,000 is debt issued by the city, which has pledged its full faith and credit for the repayment. Dedicated revenue sources have been established for the repayment of this debt. A tax levy authorized by the citizens of Royal Oak funds \$8,400,000 of the debt. Another \$12,022,387 of the debt was obtained through the State Revolving Fund and is an obligation of the City of Royal Oak and five surrounding communities. The City's portion of the debt is \$5,751,029 with the remainder being paid from receipts of the other five communities. The remaining debt is the City of Royal Oak's portion of County debt issued for the benefit of the City of Royal Oak and surrounding communities.

**CITY OF ROYAL OAK Outstanding Debt**

	Governmental		Business-type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Limited general obligation bonds	\$6,590,000	\$6,785,000	\$12,415,000	\$12,920,000	\$19,005,000	\$19,705,000
Unlimited general obligation bonds	8,400,000	8,705,000	0	0	8,400,000	8,705,000
State Revolving Fund	0	0	12,022,387	12,597,387	12,022,387	12,597,387
Contractual obligations	0	0	31,280,486	23,320,729	31,280,486	23,320,729
<b>Total</b>	<b>\$14,990,000</b>	<b>\$15,490,000</b>	<b>\$55,717,873</b>	<b>\$48,838,116</b>	<b>\$70,707,873</b>	<b>\$64,328,116</b>

The City of Royal Oak's total debt increased by \$6,379,757 (10 percent) during the current fiscal year. The key factor in this increase was additional state revolving funds drawn for the George Kuhn drain.

The City of Royal Oak's bond ratings are as follows:

Standard & Poor's	Unlimited AA-, Limited A+
Moody's	Unlimited NR, Limited A3
Fitch	Unlimited AA-, Limited NR

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Royal Oak is \$254,444,317 which is significantly in excess of the City of Royal Oak's outstanding general obligation debt.

Additional information on the City of Royal Oak's long-term debt can be found on pages 46-48 of this report.

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

- The unemployment rate for Oakland County, in which the City of Royal Oak is located, is currently 4.1 percent. This compares favorably to the state's average unemployment rate of 7.0 percent and the national average rate of 6.1 percent.
- The occupancy rate of the government's central business district has ranged between 90 and 95 percent for the past three years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Royal Oak's budget for the 2004/05 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$4,340,265 . The City budgeted for the transfer of \$1,613,175 from the Automobile Parking System fund. It is intended that with this transfer the City will avoid the need to raise taxes or charges during the 2004/05 fiscal year.

The Water and Sewer rates were increased for the 2004 budget year. The water and sewer rates were increased by an average of 9.88 percent for all customers. The water and sewer rates affected both residential and industrial

consumers by the same percentage. This rate increase was necessary to finance debt service on the new debt issued during the current fiscal year by the county for the portion owed by the City of Royal Oak.

In November 2004, a charter revision to provide for a minimum staffing level of 1.17 firefighters per 1,000 residents was approved by popular vote. This will require the City of Royal Oak to hire 5 firefighters in the 2004/05 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Royal Oak's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Royal Oak, 211 Williams Street, Royal Oak, MI 48067.

**City of Royal Oak, Michigan**  
**Statement of Net Assets**  
**June 30, 2004**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,816,544	\$ 499,180	\$ 3,315,724	\$ 24,456
Investments	15,664,313	4,228,753	19,893,066	5,538,536
Receivables, net	6,230,497	14,766,692	20,997,189	99,593
Deposits and other assets	16,700	126,111	142,811	97,260
Due from primary government			-	764,309
Due from component units	103,421		103,421	
Internal balances	1,987,967	(1,987,967)	-	
Inventories	220,522	130,702	351,224	
Restricted assets - cash	1,446,001	2,987,863	4,433,864	6,391
Capital assets, not being depreciated	74,157,059	32,692,626	106,849,685	1,084,754
Capital assets, being depreciated, net	43,282,341	63,071,344	106,353,685	515,505
<b>Total assets</b>	<b>145,925,365</b>	<b>116,515,304</b>	<b>262,440,669</b>	<b>8,130,804</b>
<b>LIABILITIES</b>				
Accounts payable	1,726,204	1,448,112	3,174,316	30,345
Accrued and other liabilities	2,577,382	350,586	2,927,968	
Due to primary government			-	103,421
Due to component units	764,309		764,309	
Due to other governmental units	25,872		25,872	1,669,546
Cash bonds and deposits	1,183,744	6,535	1,190,279	
Deferred revenue	1,167,988	7,934	1,175,922	94,299
Noncurrent liabilities:				
Due within one year	520,000	2,480,174	3,000,174	100,000
Due in more than one year	18,509,508	53,442,869	71,952,377	598,229
<b>Total liabilities</b>	<b>26,475,007</b>	<b>57,736,210</b>	<b>84,211,217</b>	<b>2,595,840</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	102,449,400	40,189,816	142,639,216	891,155
Restricted for:				
Highways and streets	9,064,286		9,064,286	
Solid waste	542,576		542,576	
Recreation and culture		16,614	16,614	
Debt service	536,105	2,480,174	3,016,279	
Capital projects funds	2,822,124		2,822,124	
Permanent fund:				
Expendable	1,825		1,825	
Non-expendable	26,000		26,000	
Other purposes	3,088,029		3,088,029	6,391
Unrestricted	920,013	16,092,490	17,012,503	4,637,418
<b>Total net assets</b>	<b>\$ 119,450,358</b>	<b>\$ 58,779,094</b>	<b>\$ 178,229,452</b>	<b>\$ 5,534,964</b>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan  
Statement of Activities  
For the Year Ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 10,723,060	\$ 3,133,449	\$ 99,540		\$ (7,490,071)		\$ (7,490,071)	
Public safety	16,542,881	1,985,138	459,590	\$ 109,195	(13,988,958)		(13,988,958)	
Public works	13,465,346	1,587,523	2,540	573,634	(11,301,649)		(11,301,649)	
Health and welfare	457,109	804,043			346,934		346,934	
Community and economic development	1,579,285	568,002	1,628,057		616,774		616,774	
Recreation and culture	2,977,851	1,182,389	709,362		(1,086,100)		(1,086,100)	
Interest and paying agent fees	728,469	663,647			(64,822)		(64,822)	
Total governmental activities	46,474,001	9,924,191	2,899,089	682,829	(32,967,892)		(32,967,892)	
Business-type activities:								
Water & sewer	14,577,922	15,179,686				\$ 601,764	601,764	
Parking	2,019,263	1,948,505	678,530			607,772	607,772	
Recreation	2,716,899	2,621,140	16,614	29,802		(49,343)	(49,343)	
Farmers Market	194,120	319,241				125,121	125,121	
Total business-type activities	19,508,204	20,068,572	695,144	29,802		1,285,314	1,285,314	
Total primary government	\$ 65,982,205	\$ 29,992,763	\$ 3,594,233	\$ 712,631				
<b>Component units:</b>								
Tax Increment Financing Authority	\$ 1,602,613		\$ 38,477					\$ (1,564,136)
Downtown Development Authority	56,746							(56,746)
Economic Development Corporation	-							-
Housing Commission	1,229,921		1,236,860					6,939
Total component units	\$ 2,889,280	\$ -	\$ 1,275,337	\$ -				(1,613,943)
<b>General revenues:</b>								
Property taxes					23,137,213		23,137,213	1,585,683
State-shared revenues					9,877,965		9,877,965	
Unrestricted investment earnings					343,078	142,708	485,786	74,587
Gain on sale of capital assets					13,118	1,600	14,718	3,018,675
Reimbursements					400,749		400,749	
Miscellaneous					499,698	18,480	518,178	90,435
Transfers					1,648,495	(1,648,495)	-	
Total general revenues and transfers					35,920,316	(1,485,707)	34,434,609	4,769,380
Change in net assets					2,952,424	(200,393)	2,752,031	3,155,437
Net assets - beginning, as restated					116,497,934	58,979,487	175,477,421	2,379,527
Net assets - ending					\$ 119,450,358	\$ 58,779,094	\$ 178,229,452	\$ 5,534,964

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,468,179		\$ 178,361	\$ 164,684	\$ 2,811,224
Investments	3,814,766	\$ 1,053,573		10,256,161	15,124,500
Receivables, net	524,846	137,431	248,714	2,166,838	3,077,829
Due from other governmental units	1,132,591			780,591	1,913,182
Due from other funds	4,338,260		1,701,293	1,299,290	7,338,843
Due from component units	103,421				103,421
Inventories	109,018				109,018
Restricted assets - cash			1,420,001	26,000	1,446,001
<b>Total assets</b>	<b>\$ 12,491,081</b>	<b>\$ 1,191,004</b>	<b>\$ 3,548,369</b>	<b>\$ 14,693,564</b>	<b>\$ 31,924,018</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 356,187	\$ 627,509	\$ 489,100	\$ 179,061	\$ 1,651,857
Accrued and other liabilities	1,258,204	9,696	88,320	121,237	1,477,457
Due to other funds	4,098,977	11,223	122,953	1,081,845	5,314,998
Due to component units	764,309				764,309
Due to other governmental units			25,872		25,872
Cash bonds and deposits	1,183,744				1,183,744
Deferred revenue	380,377	93,739		2,055,376	2,529,492
<b>Total liabilities</b>	<b>8,041,798</b>	<b>742,167</b>	<b>726,245</b>	<b>3,437,519</b>	<b>12,947,729</b>
Fund balances:					
Reserved for inventories	109,018				109,018
Reserved for restricted assets			1,420,001	26,000	1,446,001
Reserved for right of way expenditures				40,156	40,156
Reserved for senior activities				240,108	240,108
Reserved for books and capital expenditures				21,069	21,069
Unreserved, designated, reported in nonmajor special revenue funds				1,354,678	1,354,678
Unreserved, undesignated	4,340,265	448,837	1,402,123		6,191,225
Unreserved, undesignated, reported in nonmajor:					
Special revenue funds				8,891,386	8,891,386
Debt service funds				680,823	680,823
Permanent funds				1,825	1,825
<b>Total fund balances</b>	<b>4,449,283</b>	<b>448,837</b>	<b>2,822,124</b>	<b>11,256,045</b>	<b>18,976,289</b>
<b>Total liabilities and fund balances</b>	<b>\$ 12,491,081</b>	<b>\$ 1,191,004</b>	<b>\$ 3,548,369</b>	<b>\$ 14,693,564</b>	<b>\$ 31,924,018</b>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan  
 Reconciliation of the Balance Sheet  
 to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2004**

Total fund balances for governmental funds \$ 18,976,289

Total net assets reported for governmental activities in the statement of net assets is different because:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 110,496,466

- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 7,798,157

- Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,361,504

- Long-term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both long-term and short-term, are reported in the statement of net assets.

Balances as of June 30, 2004 are:

Accrued interest on bonds		(152,550)
Bonds payable	\$ (14,990,000)	
Unamortized discounts	180,064	
Unamortized issuance costs	115,693	
Noncurrent portion of general liability claims	(580,100)	
Compensated absences	(3,755,165)	
Total long-term liabilities		(19,029,508)

Total net assets of governmental activities \$ 119,450,358

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 15,326,503	\$ 5,036,946		\$ 2,538,421	\$ 22,901,870
Licenses and permits	759,913			1,424,671	2,184,584
Federal grants	109,195		\$ 484,900	1,128,057	1,722,152
State grants	5,952,149			4,330,511	10,282,660
Charges for services	2,254,347	128,065	1,072,326	908,414	4,363,152
Fines and forfeitures	3,039,177			666,488	3,705,665
Interest and rentals	299,650	29,922	22,097	160,550	512,219
Contributions and donations	67,707		74,607	394,439	536,753
Reimbursements	400,749				400,749
Other revenue	303,743	7,888	1,511	186,552	499,694
Total revenues and other sources	<u>28,513,133</u>	<u>5,202,821</u>	<u>1,655,441</u>	<u>11,738,103</u>	<u>47,109,498</u>
<b>EXPENDITURES</b>					
Current:					
General government	10,596,597				10,596,597
Public safety	15,560,668			1,517,488	17,078,156
Public works	1,253,111	5,332,729	5,507,302	2,965,178	15,058,320
Health and welfare	447,453				447,453
Community and economic development	159,308			1,463,040	1,622,348
Recreation and culture	1,151,522			1,719,233	2,870,755
Debt service:					
Principal payments				500,000	500,000
Interest and paying agent fees				723,310	723,310
Total expenditures	<u>29,168,659</u>	<u>5,332,729</u>	<u>5,507,302</u>	<u>8,888,249</u>	<u>48,896,939</u>
Excess (deficiency) of revenues over expenditures	(655,526)	(129,908)	(3,851,861)	2,849,854	(1,787,441)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,621,650		1,269,593	790,423	3,681,666
Transfers from component units				500,000	500,000
Transfers out	(26,000)		(193,120)	(1,855,966)	(2,075,086)
Sale of capital assets	194,118				194,118
Total other financing sources (uses)	<u>1,789,768</u>	<u>-</u>	<u>1,076,473</u>	<u>(565,543)</u>	<u>2,300,698</u>
Net change in fund balances	1,134,242	(129,908)	(2,775,388)	2,284,311	513,257
Fund balances - beginning	3,315,041	578,745	5,597,512	8,971,734	18,463,032
Fund balances - ending	<u>\$ 4,449,283</u>	<u>\$ 448,837</u>	<u>\$ 2,822,124</u>	<u>\$ 11,256,045</u>	<u>\$ 18,976,289</u>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2004**

Net change in fund balances - total governmental funds \$ 513,257

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those asset is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$3,257,349) exceeded depreciation (\$2,406,127) in the current period. 851,222

- The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins) is to increase net assets. (181,000)

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 500,000

- Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than when it accrues. The adjustment combines the net changes of five balances.

Accrued interest on bonds	\$	4,588	
Amortization of bond discount		(9,743)	
Amortization of bond issuance costs		(6,266)	
Noncurrent portion of general liability claims		(158,800)	
Compensated absences		945,566	
Combined adjustment		775,345	775,345

- Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. 343,308

- Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. 150,292

Change in net assets of governmental activities \$ 2,952,424

The notes to the financial statements are an integral part of this statement.



**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 15,305,000	\$ 15,305,000	\$ 15,326,503	\$ 21,503
Licenses and permits	804,500	830,000	759,913	(70,087)
Federal grants	-	35,000	109,195	74,195
State grants	6,555,000	6,027,050	5,952,149	(74,901)
Charges for services	2,072,800	2,166,800	2,254,347	87,547
Fines and forfeitures	2,703,700	2,813,700	3,039,177	225,477
Interest and rentals	435,000	435,000	299,650	(135,350)
Contributions and donations	85,000	29,442	67,707	38,265
Reimbursements	355,000	742,680	400,749	(341,931)
Other revenue	200,000	558,200	303,743	(254,457)
Total revenues	28,516,000	28,942,872	28,513,133	(429,739)
<b>EXPENDITURES</b>				
General government	10,607,810	10,902,650	10,596,597	(306,053)
Public safety	15,458,680	15,666,822	15,560,668	(106,154)
Public works	1,500,270	1,508,350	1,253,111	(255,239)
Health and welfare	424,540	458,990	447,453	(11,537)
Community and economic development	162,770	162,770	159,308	(3,462)
Recreation and culture	1,904,300	1,266,680	1,151,522	(115,158)
Total expenditures	30,058,370	29,966,262	29,168,659	(797,603)
Excess of revenues over (under) expenditures	(1,542,370)	(1,023,390)	(655,526)	367,864
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,598,540	1,598,540	1,621,650	23,110
Transfers out	(76,170)	(76,170)	(26,000)	50,170
Sale of capital assets	20,000	32,000	194,118	162,118
Total other financing sources (uses)	1,542,370	1,554,370	1,789,768	235,398
Net change in fund balance	-	530,980	1,134,242	603,262
Fund balances - beginning	3,315,041	3,315,041	3,315,041	-
Fund balances - ending	\$ 3,315,041	\$ 3,846,021	\$ 4,449,283	\$ 603,262

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Solid Waste Fund**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,500,000	\$ 4,500,000	\$ 5,036,946	\$ 536,946
Charges for service	94,500	94,500	128,065	33,565
Interest	50,000	50,000	29,922	(20,078)
Other	1,000	1,000	7,888	6,888
Total revenues	4,645,500	4,645,500	5,202,821	557,321
<b>EXPENDITURES</b>				
Public works	5,745,760	5,745,760	5,332,729	(413,031)
Total expenditures	5,745,760	5,745,760	5,332,729	(413,031)
Net change in fund balance	(1,100,260)	(1,100,260)	(129,908)	970,352
Fund balances - beginning	578,745	578,745	578,745	-
Fund balances - ending	\$ (521,515)	\$ (521,515)	\$ 448,837	\$ 970,352

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2004**

	Business Type Activities - Enterprise Funds			Total	Internal Service Funds
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds		
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 155,541	\$ 199,990	\$ 143,649	\$ 499,180	\$ 5,320
Investments		2,288,753	1,940,000	4,228,753	539,813
Receivables, net	8,401,581	3,416	23,613	8,428,610	223,212
Deposits and other assets		126,111		126,111	16,700
Due from other governmental units			217,578	217,578	
Due from other funds		568,707	26,000	594,707	935,889
Inventories	114,091	16,611		130,702	111,504
Total current assets	8,671,213	3,203,588	2,350,840	14,225,641	1,832,438
Noncurrent assets:					
Restricted assets		2,987,823	40	2,987,863	
Receivables, net	6,120,504			6,120,504	
Capital assets, net	67,797,713	19,319,484	8,646,773	95,763,970	6,942,934
Total noncurrent assets	73,918,217	22,307,307	8,646,813	104,872,337	6,942,934
Total assets	82,589,430	25,510,895	10,997,653	119,097,978	8,775,372
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,166,153	101,783	180,176	1,448,112	74,347
Accrued and other liabilities	315,318	19,192	16,076	350,586	947,375
Due to other funds	2,352,651		185,516	2,538,167	
Cash bonds and deposits	6,185	350		6,535	
Deferred revenue			7,934	7,934	
Bonds payable	1,964,171	284,427	231,576	2,480,174	
Total current liabilities	5,804,478	405,752	621,278	6,831,508	1,021,722
Noncurrent liabilities:					
Accrued compensated absences	213,468	43,948	36,573	293,989	238,879
Other long-term liabilities	44,300	3,500	7,100	54,900	
Bonds payable	41,338,702	10,032,967	1,722,311	53,093,980	
Total noncurrent liabilities	41,596,470	10,080,415	1,765,984	53,442,869	238,879
Total liabilities	47,400,948	10,486,167	2,387,262	60,274,377	1,260,601
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	24,494,840	9,002,090	6,692,886	40,189,816	6,942,934
Restricted for debt service	1,964,171	284,427	231,576	2,480,174	
Restricted for cultural activities			16,614	16,614	
Unrestricted	8,729,471	5,738,211	1,669,315	16,136,997	571,837
Total net assets	\$ 35,188,482	\$ 15,024,728	\$ 8,610,391	58,823,601	\$ 7,514,771

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

(44,507)

Net assets of business-type activities

\$ 58,779,094

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business Type Activities - Enterprise Funds</b>			<b>Total</b>	<b>Internal Service Funds</b>
	<b>Water &amp; Sewer</b>	<b>Automobile Parking System</b>	<b>Nonmajor Enterprise Funds</b>		
<b>OPERATING REVENUES</b>					
Charges for services	\$ 15,179,686	\$ 1,948,505	\$ 2,940,381	\$ 20,068,572	\$ 3,600,237
Contributions and donations			46,416	46,416	
Other	17,181		1,299	18,480	328,953
Total operating revenues	<u>15,196,867</u>	<u>1,948,505</u>	<u>2,988,096</u>	<u>20,133,468</u>	<u>3,929,190</u>
<b>OPERATING EXPENSES</b>					
Salaries and benefits	2,108,392	556,212	398,921	3,063,525	1,504,819
Supplies	183,659	113,334	230,644	527,637	491,312
Water purchases	2,803,340			2,803,340	
Sewage disposal services	6,460,778			6,460,778	
Other services and charges	1,488,247	264,508	1,818,274	3,571,029	614,235
Depreciation	1,346,605	548,951	364,715	2,260,271	1,241,246
Total operating expenses	<u>14,391,021</u>	<u>1,483,005</u>	<u>2,812,554</u>	<u>18,686,580</u>	<u>3,851,612</u>
Operating income	<u>805,846</u>	<u>465,500</u>	<u>175,542</u>	<u>1,446,888</u>	<u>77,578</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	57,413	64,917	20,378	142,708	5,150
Interest expense	(206,890)	(540,969)	(104,049)	(851,908)	
Gain on disposal of capital assets			1,600	1,600	55,933
Total nonoperating revenue (expenses)	<u>(149,477)</u>	<u>(476,052)</u>	<u>(82,071)</u>	<u>(707,600)</u>	<u>61,083</u>
Income (loss) before contributions and transfers	656,369	(10,552)	93,471	739,288	138,661
<b>TRANSFERS IN</b>	44,820	678,530	40,700	764,050	41,915
<b>TRANSFERS OUT</b>	<u>(135,475)</u>	<u>(1,598,540)</u>		<u>(1,734,015)</u>	
Change in net assets	565,714	(930,562)	134,171	(230,677)	180,576
Total net assets - beginning, as restated	<u>34,622,768</u>	<u>15,955,290</u>	<u>8,476,220</u>		<u>7,334,195</u>
Total net assets - ending	<u>\$ 35,188,482</u>	<u>\$ 15,024,728</u>	<u>\$ 8,610,391</u>		<u>\$ 7,514,771</u>

Some amounts reported for business-type activities in the statement of net assets are different because the net revenue (expense) of certain internal service funds are reported with business-type activities.

30,284

Change in net assets of business-type activities \$ (200,393)

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	<b>Business Type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Water &amp; Sewer</b>	<b>Automobile Parking System</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 11,531,843	\$ 1,965,660	\$ 2,973,961	\$ 16,471,464	\$ 72,418
Internal activity - receipts from other funds				-	3,070,298
Other operating receipts			30	30	105,938
Payments to vendors	(10,676,140)	(596,336)	(1,934,546)	(13,207,022)	(1,121,144)
Payments to employees	(1,437,377)	(428,379)	(334,751)	(2,200,507)	(925,652)
Payments of benefits on behalf of employees	(703,275)	(76,861)	(53,139)	(833,275)	(918,813)
Internal activity - payments to other funds	(1,173,110)	(98,568)	(65,522)	(1,337,200)	(120,571)
Net cash provided by (used in) operating activities	<u>(2,458,059)</u>	<u>765,516</u>	<u>586,033</u>	<u>(1,106,510)</u>	<u>162,474</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	44,820		40,700	85,520	41,915
Transfers from component units		678,530		678,530	
Transfers to other funds	(135,475)	(1,598,540)		(1,734,015)	
Increase in other long-term liabilities	12,600		3,600	16,200	
Net cash provided by (used in) noncapital financing activities	<u>(78,055)</u>	<u>(920,010)</u>	<u>44,300</u>	<u>(953,765)</u>	<u>41,915</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	(9,415,294)	(45,978)	(153,638)	(9,614,910)	(748,932)
Principal paid on capital debt	(896,906)	(274,427)	(221,576)	(1,392,909)	
Interest paid on capital debt	(206,890)	(540,969)	(104,049)	(851,908)	
Increase in long-term receivable	4,716,764			4,716,764	
Proceeds from sale of capital assets			1,600	1,600	55,933
Proceeds from sale of bonds	8,287,848			8,287,848	
Net cash provided by (used in) capital and related financing activities	<u>2,485,522</u>	<u>(861,374)</u>	<u>(477,663)</u>	<u>1,146,485</u>	<u>(692,999)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments					499,399
Purchase of investment securities					(15,919)
Interest received on investments	57,413	64,917	20,378	142,708	5,150
Net cash provided by investment activities	<u>57,413</u>	<u>64,917</u>	<u>20,378</u>	<u>142,708</u>	<u>488,630</u>
Net increase (decrease) in cash and cash equivalents	6,821	(950,951)	173,048	(771,082)	20
Balances - beginning	148,720	6,427,517	1,910,641	8,486,878	5,300
Balances - ending	<u>\$ 155,541</u>	<u>\$ 5,476,566</u>	<u>\$ 2,083,689</u>	<u>\$ 7,715,796</u>	<u>\$ 5,320</u>
Balance sheet classification of cash and cash equivalents:					
Cash and investments	\$ 155,541	\$ 2,488,743	\$ 2,083,649	\$ 4,727,933	\$ 545,133
Restricted cash and investments		2,987,823	40	2,987,863	
Less investments with original maturities greater than three months					(539,813)
	<u>\$ 155,541</u>	<u>\$ 5,476,566</u>	<u>\$ 2,083,689</u>	<u>\$ 7,715,796</u>	<u>\$ 5,320</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 805,846	\$ 465,500	\$ 175,542	\$ 1,446,888	\$ 77,578
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,346,605	548,951	364,715	2,260,271	1,241,246
Changes in assets and liabilities:					
Receivables	(4,617,654)	10,799	(9,069)	(4,615,924)	(223,015)
Deposits and other assets		6,006	20,000	26,006	(16,700)
Due from other governmental units	952,630			952,630	
Due from other funds		(568,423)	21,910	(546,513)	(457,521)
Due from component units		270,712		270,712	
Inventories	(13,024)	52,088		39,064	16,923
Accounts payable	420,411	(6,762)	(12,422)	401,227	(1,659)
Accrued and other liabilities	(6,900)	(13,182)	1,867	(18,215)	(362,301)
Due to other funds	(1,287,471)		44,603	(1,242,868)	(125,251)
Cash bonds and deposits		350		350	
Deferred revenue			(5,036)	(5,036)	
Accrued compensated absences	(58,502)	(523)	(16,077)	(75,102)	13,174
Net cash provided by (used in) operating activities	<u>\$ (2,458,059)</u>	<u>\$ 765,516</u>	<u>\$ 586,033</u>	<u>\$ (1,106,510)</u>	<u>\$ 162,474</u>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2004**

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,000	\$ 757,722
Investments	2,159,057	
Receivables, net	3,772	150
Retirement investments, at fair value		
U.S. government obligations	23,722,593	
Corporate bonds	19,738,380	
Stocks	84,420,159	
Other investments	2,696,210	
Accrued income	422,618	
Total investments	<u>130,999,960</u>	
Total assets	<u>133,165,789</u>	<u>\$ 757,872</u>
<b>LIABILITIES</b>		
Accounts payable	414,576	\$ 28,695
Due to other funds	687,394	328,880
Due to other governmental units		110,874
Cash bonds and deposits		<u>289,423</u>
Total liabilities	<u>1,101,970</u>	<u>\$ 757,872</u>
<b>NET ASSETS</b>		
Held in trust for pension and other employee benefits	<u>\$ 132,063,819</u>	

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2004**

	<b>Pension and Other Employee Benefit Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 644,440
Plan members	433,059
Plan members' buybacks	422,226
Total contributions	<u>1,499,725</u>
Investment earnings:	
Net increase in fair value of investments	10,543,447
Interest	2,192,333
Dividends	1,343,577
Other investment revenues	234
Total investment income	<u>14,079,591</u>
Less investment expenses	<u>722,247</u>
Net investment income	<u>13,357,344</u>
Total additions	<u>14,857,069</u>
<b>DEDUCTIONS</b>	
Benefits	8,450,953
Refund of contributions	1,411,033
Administrative expenses	46,653
Total deductions	<u>9,908,639</u>
Change in net assets	4,948,430
Net assets - beginning	<u>127,115,389</u>
Net assets - ending	<u>\$ 132,063,819</u>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Statement of Net Assets**  
**Component Units**  
**June 30, 2004**

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents		\$ 4,288	\$ 20,152	\$ 16	\$ 24,456
Investments	\$ 5,432,036			106,500	5,538,536
Receivables, net	97,308	2,285			99,593
Deposits and other assets				97,260	97,260
Due from other funds		17,700			17,700
Due from primary government	764,309				764,309
Total current assets	6,293,653	24,273	20,152	203,776	6,541,854
Noncurrent assets:					
Restricted assets	6,391				6,391
Capital assets, not being depreciated	515,505				515,505
Capital assets, being depreciated, net	1,076,754			8,000	1,084,754
Total noncurrent assets	1,598,650	-	-	8,000	1,606,650
Total assets	7,892,303	24,273	20,152	211,776	8,148,504
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	19,219	2,508		8,618	30,345
Due to other funds	17,700				17,700
Due to primary government		2,562		100,859	103,421
Due to other governmental units	1,669,546				1,669,546
Deferred revenue				94,299	94,299
Current portion of long-term debt	100,000				100,000
Total current liabilities	1,806,465	5,070	-	203,776	2,015,311
Noncurrent liabilities:					
Accrued compensated absences				9,810	9,810
Noncurrent portion of long-term debt	588,419				588,419
Total noncurrent liabilities	588,419	-	-	9,810	598,229
Total liabilities	2,394,884	5,070	-	213,586	2,613,540
<b>NET ASSETS</b>					
Invested in capital assets, net of related de	891,155				891,155
Restricted for restricted assets	6,391				6,391
Unrestricted (deficit)	4,599,873	19,203	20,152	(1,810)	4,637,418
Total net assets	\$ 5,497,419	\$ 19,203	\$ 20,152	\$ (1,810)	\$ 5,534,964

The notes to the financial statements are an integral part of this statement.



**City of Royal Oak, Michigan  
Statement of Activities  
Component Units  
For the Year Ended June 30, 2004**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	
<b>Tax Increment Financing Authority</b>								
Public works	\$ 1,556,828		\$ 38,477					\$ (1,518,351)
Interest on long-term debt	45,785							(45,785)
Total - Tax Increment Financing Authority	1,602,613		38,477					(1,564,136)
<b>Downtown Development Authority</b>								
General government	56,746				\$ (56,746)			(56,746)
<b>Economic Development Corporation</b>								
<b>Housing Commission</b>								
General government	127,205		134,144				\$ 6,939	6,939
Health and welfare	1,102,716		1,102,716				-	-
Total - Housing Commission	1,229,921		1,236,860				6,939	6,939
Total component units	\$ 2,889,280	\$ -	\$ 1,275,337	\$ -				(1,613,943)
<b>General revenues:</b>								
Taxes				1,535,799	49,884			1,585,683
Unrestricted interest and investment earnings				73,830	101	\$ 59	597	74,587
Gain on sale of capital assets				3,018,675				3,018,675
Miscellaneous				90,435				90,435
Total general revenues				4,718,739	49,985	59	597	4,769,380
Change in net assets				3,154,603	(6,761)	59	7,536	3,155,437
Net assets (deficit) - beginning				2,342,816	25,964	20,093	(9,346)	2,379,527
Net assets (deficit) - ending				\$ 5,497,419	\$ 19,203	\$ 20,152	\$ (1,810)	\$ 5,534,964

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity:**

The City of Royal Oak is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financials to emphasize that they are legally separate from the government (see discussion below for description).

**Blended Component Units:** The individual component units set forth below are included as a part of the primary government due to the significance of their operational and financial relationships with the City.

**Building Authority:** A Board that is appointed by the City Commission governs the Building Authority. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole business activity is acquiring and leasing property to the City. Activity in the fund, at this time, includes the repayment of Ice Arena Bonds issued to construct a second rink, which is combined with the Ice Arena Enterprise Fund for inclusion in the City's financial statements; the repayment of General Obligation Bonds related to the construction of a courthouse; the recognition of bond proceeds and related expenditures for the construction of a parking deck which is combined with the Automobile Parking System Enterprise Fund for inclusion in the City's financial statements; and the recognition of bond proceeds and related expenditures for the construction of two fire stations, the renovation of one fire station, and for the purchase of various fire apparatus and equipment .

**Parking Authority:** A Board that is appointed by the City Commission governs the Parking Authority. Although it is also legally separate from the City, it is reported as part of the primary government because its sole business activity is acquiring and leasing property to the City. The financial statements of the Parking Authority are consolidated with the Automobile Parking System Enterprise Fund for inclusion in the City's financial statements. This authority is scheduled to be dissolved upon the retirement of the 1995 Parking Authority Refunding Bonds. All future activity will be conducted in the Building Authority.

**Discretely Presented Component Units:** The component unit column in the combined financial statements include the financial data of the City's other component units. They are reported in separate columns to emphasize that they are legally separate from the City. The following component units are included in the reporting entity because the officials of the primary government are financially accountable.

Financial accountability is defined as the appointment of a voting majority of the component unit's Board, and either (a) the ability to impose the will of the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**Downtown Development Authority and Tax Increment Financing Authority:** The Downtown Development Authority and Tax Increment Financing Authority were created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authorities share the same governing body, consisting of 11 individuals who are selected by the City Manager and then approved by the City Commission. In addition, the Authorities' budgets are subject to approval by the City Commission. The Authorities use the modified accrual basis of accounting.

**Economic Development Corporation:** The Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of eight individuals, is selected by the City Manager and approved by the City Commission. The Corporation uses the modified accrual basis of accounting.

**Housing Commission:** The Housing Commission is a federally funded program that provides rental assistance for low to moderate-income families. The Commission's governing body, which consists of five individuals, is selected by the City Manager and approved by the City Commission. The Housing Commission uses the modified accrual basis of accounting.

**B. Government-Wide and Fund Financial Statements:**

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

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

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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The government reports the following major governmental funds:

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

The Solid Waste Fund accounts for the collection of a separate tax millage that is used to fund refuse collection and disposal.

The Capital Project Fund is used to account for financial resources used for acquiring or constructing major capital facilities (other than those financed by Proprietary Funds and Trust funds).

The government reports the following major proprietary funds:

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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

The Automobile Parking System Fund accounts for the operation and maintenance of the City-owned parking lots and structures.

Additionally, the government reports the following fund types:

Internal Service Funds are used to account for information systems services, fleet management services and workers' compensation insurance coverage provided to other departments on a cost-reimbursement basis.

The Agency Funds are used to account for monies held by the City in a trustee capacity or as an agent for individuals, private organizations and other governments.

The Pension Trust Fund accounts for the activities of the City of Royal Oak Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The Retiree Health Care Fund accounts for the accumulation and distribution of resources for health benefit payments to qualified retirees.

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 or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of our proprietary funds relate to charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

Cash and cash equivalents are considered to be on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value. The Pension Trust Fund investments are valued in accordance with GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

**2. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property taxes are levied as of July 1<sup>st</sup> on property values assessed as of the same date. The City bills twice a year, on July 1<sup>st</sup> and December 1<sup>st</sup>. The July bill, which contains the school, community college and most of the City levy, is due without interest by July 31<sup>st</sup> although taxpayers may pay the bill in two installments provided half the bill is paid by July 31<sup>st</sup>. The second half is due without penalty by October 31<sup>st</sup>. The December bill, which typically contains the county levy and a small City levy, is payable without interest by the following February 14<sup>th</sup>.

**3. Inventories and Prepaid Items**

All Inventories are valued at cost using the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financials.

**4. Restricted Assets**

Certain revenues and resources of the City are classified as restricted assets on the balance sheet because their use is limited. Proprietary fund restricted assets are held subject to bond covenants and reserved for future capital expenditures.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. During the year, no interest expense was capitalized as part of the cost of assets under construction.

Property plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings and renovations	25
Improvements	20
Infrastructure	15 to 50
Vehicles	8
Equipment	5 to 15
Intangibles	10

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**6. Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay and longevity pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**7. Long-Term Obligations**

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

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 the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. 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.

**9. Restatements**

The City of Royal Oak changed its accounting policy regarding capitalized interest on the George Kuhn drain project. A prior period adjustment was made in the Water & Sewer Fund. The retained earnings were reported as \$33,625,303 and were adjusted by \$997,465, therefore, the restated retained earnings is \$34,622,768.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end, except for those



**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

approved by the City Commission for carry forward. The legal level of budgetary control is the department level.

Department heads submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than June 30<sup>th</sup>. The appropriated budget is prepared by fund, function, and department. Budget adjustments are submitted for Commission approval on a quarterly basis.

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2004, the City of Royal Oak incurred expenditures in certain budgeted funds which were in excess of the amount appropriated, as follows:

<u>Budget Item</u>	<u>Budget</u> <u>Appropriation</u>	<u>Actual</u> <u>Expenditure</u>
General Fund – Assessor	\$433,040	\$441,350
General Fund – Attorney	549,950	609,050
General Fund – Police Department	9,596,390	9,738,076
General Fund – Street Lighting	565,620	647,997
General Fund – Cable Communications	70,750	75,526
General Fund – Community Promotion	151,060	166,623
General Fund – Retiree Insurance Benefits	3,704,440	3,819,220

**NOTE 3 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At year-end the City of Royal Oak deposits and investments were reported in the basic financial statements in the following categories:

	<b>Governmental</b> <b>Activities</b>	<b>Business-Type</b> <b>Activities</b>	<b>Fiduciary</b> <b>Funds</b>	<b>Total Primary</b> <b>Government</b>	<b>Component</b> <b>Units</b>
Cash and cash equivalents	\$ 2,816,544	\$ 499,180	\$ 760,722	\$ 4,076,446	\$ 24,456
Investments	15,664,313	4,228,753	132,736,399	152,629,465	5,538,536
Restricted assets	1,446,001	2,987,863	-	4,433,864	6,391
<b>Total</b>	<b>\$ 19,926,858</b>	<b>\$ 7,715,796</b>	<b>\$133,497,121</b>	<b>\$ 161,139,775</b>	<b>\$ 5,569,383</b>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings accounts, certificates of deposits)	\$ 4,109,089	\$ 30,847
Investments in Securities, Mutual Funds and Similar Vehicles	156,997,817	5,538,536
Petty Cash and Cash on Hand	32,869	
<b>Total</b>	<b><u>\$ 161,139,775</u></b>	<b><u>\$ 5,569,383</u></b>

The bank balance of the primary government's deposits is \$4,952,867, of which \$1,585,173 is covered by federal depository insurance and \$3,367,694 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$30,847, all of which was covered by federal depository insurance.

The investments shown above are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name;
- (2) Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the government's name;
- (3) Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the government's name.

The City's and its component units' investments at June 30, 2004 were as follows:

	Category			Carrying/ Fair Value
	(1)	(2)	(3)	Total
Commercial paper	\$ 2,948,243			\$ 2,948,243
U.S. government securities		\$ 23,722,593		23,722,593
Corporate bonds		19,738,380		19,738,380
Common stock		84,420,159		84,420,159
Repurchase agreements		2,696,210		2,696,210
	<b><u>\$ 2,948,243</u></b>	<b><u>\$ 130,577,342</u></b>	<b><u>-</u></b>	<b><u>133,525,585</u></b>

Unclassified as to risk:

Bank cash management funds and mutual funds	29,010,768
<b>Total investments</b>	<b><u>\$ 162,536,353</u></b>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**B. Receivables**

Receivables at year end for the government's individual major and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowance for doubtful accounts, are as follows:

	General Fund	Solid Waste	Capital Projects	Water and Sewer	Auto Parking	Nonmajor and Other Funds	Total	Component Units
Taxes Receivable	\$ 348,703	\$ 102,739				\$ 46,065	\$ 497,507	\$ 112,053
Accounts	198,189	43,318	\$ 264,614	\$ 3,975,583	\$ 1,239	1,523,152	6,006,095	75
Special Assessments						787,532	787,532	
Interest and other	2,914	374		4,425,998	2,177	60,836	4,492,299	12,465
Gross Receivables	549,806	146,431	264,614	8,401,581	3,416	2,417,585	11,783,433	124,593
Less: Allowance for uncollectibles	(24,960)	(9,000)	(15,900)				(49,860)	(25,000)
Net receivables, per fund financials	\$ 524,846	\$ 137,431	\$ 248,714	\$ 8,401,581	\$ 3,416	\$ 2,417,585	\$ 11,733,573	\$ 99,593

Of the special assessment receivable, \$210,000 is expected to be collected in the next year.

Receivables at year end at the government-wide level are as follows:

	General Fund	Solid Waste	Capital Projects	Nonmajor Governmental Funds	Total
Taxes Receivable	\$ 348,703	\$ 102,739		\$ 46,065	\$ 497,507
Accounts	198,189	43,318	\$ 264,614	1,500,379	2,006,500
Special Assessments				787,532	787,532
Intergovernmental	2,083,155			846,301	2,929,456
Interest and other	2,914	374		56,074	59,362
Gross Receivables	2,632,961	146,431	264,614	3,236,351	6,280,357
Less: Allowance for uncollectibles	(24,960)	(9,000)	(15,900)		(49,860)
Net receivables, per govt-wide financials	\$ 2,608,001	\$ 137,431	\$ 248,714	\$ 3,236,351	\$ 6,230,497

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

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

	Unavailable	Unearned
Delinquent Property Taxes	\$ 466,007	
Special Assessments	787,532	
Grant Drawdowns Prior to Meeting Eligibility Requirements		\$ 1,275,953
Total - fund financials	<u>1,253,539</u>	<u>1,275,953</u>
less: revenue recognized under full accrual	(1,253,539)	(107,965)
Total - govt-wide financials	<u>\$ -</u>	<u>\$ 1,167,988</u>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**C. Capital Assets:**

Capital asset activity for the current year was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 66,666,407		\$ (181,000)	\$ 66,485,407
Construction in progress	4,573,149	\$ 3,098,503		7,671,652
Total capital assets, not being depreciated	71,239,556	3,098,503	(181,000)	74,157,059
Capital assets, being depreciated				
Buildings	17,835,325			17,835,325
Improvements other than buildings	2,834,892			2,834,892
Machinery and equipment	16,710,610	915,750	(85,080)	17,541,280
Infrastructure	73,248,469			73,248,469
Intangibles	492,404			492,404
Total capital assets being depreciated	111,121,700	915,750	(85,080)	111,952,370
Less accumulated depreciation for:				
Buildings	(7,740,789)	(343,775)		(8,084,564)
Improvements other than buildings	(1,534,198)	(146,062)		(1,680,260)
Machinery and equipment	(9,052,441)	(1,324,503)	77,109	(10,299,835)
Infrastructure	(46,370,124)	(1,779,873)		(48,149,997)
Intangibles	(402,213)	(53,160)		(455,373)
Total accumulated depreciation	(65,099,765)	(3,647,373)	77,109	(68,670,029)
Total capital assets, being depreciated, net	46,021,935	(2,731,623)	(7,971)	43,282,341
Governmental activities capital assets, net	<u>\$ 117,261,491</u>	<u>\$ 366,880</u>	<u>\$ (188,971)</u>	<u>\$ 117,439,400</u>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 5,121,005			\$ 5,121,005
Construction in progress	19,251,403	\$ 8,320,218		27,571,621
Total capital assets, not being depreciated	24,372,408	8,320,218	-	32,692,626
Capital assets, being depreciated				
Buildings	28,005,040	93,110		28,098,150
Improvements other than buildings	1,315,931			1,315,931
Machinery and equipment	2,001,938	83,710	\$ (42,362)	2,043,286
Infrastructure	55,494,013	2,101,770		57,595,783
Intangibles	8,370	13,566		21,936
Total capital assets being depreciated	86,825,292	2,292,156	(42,362)	89,075,086
Less accumulated depreciation for:				
Buildings	(5,949,651)	(694,972)		(6,644,623)
Improvements other than buildings	(819,647)	(65,542)		(885,189)
Machinery and equipment	(1,293,795)	(127,663)	42,362	(1,379,096)
Infrastructure	(15,716,500)	(1,369,307)		(17,085,807)
Intangibles	(6,240)	(2,787)		(9,027)
Total accumulated depreciation	(23,785,833)	(2,260,271)	42,362	(26,003,742)
Total capital assets, being depreciated, net	63,039,459	31,885	-	63,071,344
Business-type activities capital assets, net	<u>\$ 87,411,867</u>	<u>\$ 8,352,103</u>	<u>\$ -</u>	<u>\$ 95,763,970</u>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

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

Governmental activities:	
General government	\$ 245,588
Public safety	142,028
Public works	1,761,101
Health and welfare	14,153
Community and economic development	4,283
Recreation and culture	238,974
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,241,246
Total depreciation expense - governmental activities	<u>\$ 3,647,373</u>
Business-type activities:	
Water and sewer	\$ 1,346,605
Parking	548,951
Recreation	355,647
Farmers market	9,068
Total depreciation expense - business-type activities	<u>\$ 2,260,271</u>

**Construction Commitments**

The City has active construction projects as of June 30, 2004. The projects include construction of two new Fire Stations and renovation of another. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Buildings	\$ 6,089,731	\$ 895,922
Street Projects	3,413,792	1,993,806
Water Projects	834,361	843,179
Sidewalks	1,295,448	1,371,652
Total	<u>\$ 11,633,332</u>	<u>\$ 5,104,559</u>

A Building Authority bond issue is financing the Fire Station construction commitment by a special millage. Oakland County has a major contract on the George W. Kuhn project, of which \$27,571,621 has been spent to date and is attributable to the City of Royal Oak.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**Discretely presented component units**

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Component units:</b>				
Capital assets, not being depreciated				
Land	\$ 1,990,259		\$ (905,505)	\$ 1,084,754
Total capital assets, not being depreciated	1,990,259	-	(905,505)	1,084,754
Capital assets, being depreciated				
Improvements other than buildings	191,349	\$ 24,301		215,650
Equipment	-	10,000		10,000
Infrastructure	378,830			378,830
Total capital assets being depreciated	570,179	34,301	-	604,480
Less accumulated depreciation for:				
Improvements other than buildings	(17,268)	(19,994)		(37,262)
Equipment	-	(2,000)		(2,000)
Infrastructure	(38,935)	(10,778)		(49,713)
Total accumulated depreciation	(56,203)	(32,772)	-	(88,975)
Total capital assets, being depreciated, net	513,976	1,529	-	515,505
Component unit capital assets, net	<u>\$ 2,504,235</u>	<u>\$ 1,529</u>	<u>\$ (905,505)</u>	<u>\$ 1,600,259</u>

There was \$32,772 in depreciation expense, \$30,772 of which was charged to the Tax Increment Financing Authority activity and \$2,000 was charged to the Housing Commission.



**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 4,098,977	\$ 4,338,260
Solid Waste Fund	11,223	
Capital Projects Fund	122,953	1,701,293
Nonmajor Governmental Funds	1,081,845	1,299,290
Water & Sewer Fund	2,352,651	
Automobile Parking System Fund		568,707
Nonmajor Enterprise Funds	185,516	26,000
Internal Service Funds		935,889
Fiduciary Funds	1,016,274	
	<u>\$ 8,869,439</u>	<u>\$ 8,869,439</u>

Interfund transfers between the funds within the primary government and between the primary government and its component units were as follows:

<b>Fund</b>	<b>Transfers In</b>	<b>Fund</b>	<b>Transfers Out</b>
General	\$ 1,621,650	General	\$ 26,000
Capital Projects	1,269,593	Nonmajor governmental funds	1,855,966
Nonmajor governmental funds	832,338	Capital Projects	193,120
Water & Sewer	44,820	Water & Sewer	135,475
Nonmajor enterprise funds	40,700	Auto Parking	1,598,540
	<u>\$ 3,809,101</u>		<u>\$ 3,809,101</u>

For the most part, interfund transfers occur during the normal course of operations, for instance to fund capital projects. All interfund balances are expected to be collected within one year.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

**E. 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 are also general obligations of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Maturing Through	Beginning Balance	Additions (Reductions)	Principal Outstanding	Due Within One Year
<b>Governmental activities</b>						
Limited tax court bonds	4.75%-5.2%	2024	\$ 6,785,000	\$ (195,000)	\$ 6,590,000	\$ 205,000
Unlimited tax general obligation bonds	3.75%-5.0%	2021	8,705,000	(305,000)	8,400,000	315,000
Compensated absences			4,687,557	(932,392)	3,755,165	
General liability claims			421,300	158,800	580,100	
			20,598,857	(1,273,592)	19,325,265	520,000
Less: unamortized discount and issuance costs			(311,766)	16,009	(295,757)	
Total governmental activity long-term liabilities			\$ 20,287,091	\$ (1,257,583)	\$ 19,029,508	\$ 520,000
<b>Business-type activities</b>						
Limited tax general obligation-Ice Arena	5.0%	2010	\$ 2,200,000	\$ (225,000)	\$ 1,975,000	\$ 235,000
Limited tax general obligation-Parking	4.5%-5.25%	2026	10,720,000	(280,000)	10,440,000	290,000
Oakland County North Arm Drain Bonds	2.25%	2020	12,597,387	(575,000)	12,022,387	585,000
Contractual obligations	2.5%-5.375%	2024	23,320,729	7,959,757	31,280,486	1,379,171
Compensated absences			369,091	(75,102)	293,989	
General liability claims			38,700	16,200	54,900	
			49,245,907	6,820,855	56,066,762	2,489,171
Less: unamortized discount and issuance costs			(152,716)	8,997	(143,719)	(8,997)
Total business-type activity long-term liabilities			\$ 49,093,191	\$ 6,829,852	\$ 55,923,043	\$ 2,480,174
<b>Component units</b>						
Limited tax development bonds	6.0%	2009	\$ 800,000	\$ (75,000)	\$ 725,000	\$ 100,000
Compensated absences			9,346	464	9,810	
			809,346	(74,536)	734,810	100,000
Less: unamortized discount and issuance costs			(43,440)	6,859	(36,581)	
Total Component Units			\$ 765,906	\$ (67,677)	\$ 698,229	\$ 100,000

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

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

Years Ending June 30	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 520,000	\$ 700,422	\$ 1,177,705	\$ 944,903	\$ 100,000	\$ 40,500
2006	540,000	678,684	1,222,219	902,899	100,000	34,500
2007	560,000	656,003	1,266,733	859,131	100,000	28,500
2008	585,000	632,522	1,316,247	813,599	125,000	21,750
2009	610,000	607,640	1,360,760	766,079	150,000	13,500
2010-2014	3,495,000	2,607,736	6,506,507	3,123,942	150,000	4,500
2015-2019	4,435,000	1,695,176	6,765,534	2,031,221	-	-
2020-2024	4,245,000	519,503	4,732,387	923,563	-	-
2024-2026	-	-	1,475,000	117,076	-	-
Total	<u>\$ 14,990,000</u>	<u>\$ 8,097,686</u>	<u>\$ 25,823,092</u>	<u>\$ 10,482,413</u>	<u>\$ 725,000</u>	<u>\$ 143,250</u>

\*Does not include the obligation for the George W. Kuhn project as project is not complete.

**No Commitment Debt:** Excluded from the governmental activity debt are bonds issued under Act No. 38, Public Acts of Michigan, 1969, as amended, to provide a method to enable nonprofit private hospitals to construct health care facilities. Also, revenue bonds issued by the Economic Development Corporation issued to acquire and lease property to third parties are excluded. The revenue bonds issued are payable solely from the net revenue derived from the hospital operations and the EDC leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

**Obligations for George W. Kuhn Project:** The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local communities are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's obligation at the end of construction will be approximately \$34,650,000 with an interest rate of 2.5%. As of June 30, 2004, the City's obligation is \$28,583,300 in principal. Due to the current construction of the project, the sale of drain bonds and draws from the State of Michigan revolving fund are being incurred on an as needed basis and thus an accurate schedule of principal and interest cannot be determined at this time.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, approximately \$238,900 of internal service funds compensated absences are included in the above amounts. Also, for the

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

**F. Restricted Assets**

The balances of the restricted asset accounts in the enterprise funds are as follows:

Unspent Bond Proceeds	\$ 2,987,823
Lease Revenue restricted for debt repayment	40
Total Restricted Assets	<u>\$ 2,987,863</u>

**NOTE 4 – Other Information**

**A. Risk Management**

The government 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 claims and participates in the Michigan Municipal Risk Management Authority.

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 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.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$500,000.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the reported liability for the fiscal years 2003 and 2004 are as follows:

<u>Fiscal Year</u>	<u>Liability at Beginning of Year</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability at End of Year</u>
2003	\$ 792,735	\$ 1,196,089	\$ (710,330)	\$ 1,278,494
2004	1,278,494	173,366	(542,524)	909,336

**B. Contingent Liabilities**

**Litigation:** Various lawsuits are pending against the City, some of which are for substantial amounts. On the basis of opinions and information furnished by the City Attorney and Risk Manager, it is the judgment of City management that the ultimate liabilities, if any, resulting from such lawsuits would not materially affect the financial position of the City.

**Grants:** Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time although the City expects such amounts to be immaterial.

**C. Joint Ventures**

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which consists of 14 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004 the City expensed approximately \$1,269,000 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

The City is also a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004 the City expensed approximately \$2,803,300 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**D. Other post-employment benefits**

The City provides post-employment health and dental care benefits, as per the requirements of union contracts, for certain retirees and their dependants. The benefits vary depending on a retiree's years of service and the union contract under which they retired. Currently, 421 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$3,174,800. In addition, the City transferred \$644,440 to the Retiree Health Care fund to provide for an accumulation of assets for the required future health care payments. The current balance of the Retiree Health Care Fund is \$2,162,829. State law restricts the use of these assets for retiree health care costs.

**E. Defined Benefit Pension Plan**

**Plan Description:** The City contributes to the City of Royal Oak Retirement System, which is the administrator of a single-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The City's payroll for employees covered for the year ended June 30, 2004 was approximately \$20,598,500. The City's total payroll was approximately \$25,133,000.

At June 30, 2003 (the date of the most recent actuarial report), membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>493</u>
Current full-time employees:	
Fully vested	252
Nonvested	<u>139</u>
Total current employees	<u>391</u>

Regular service retirement benefits are available to employee groups as follows:

**AFSCME employees, executive department heads, department heads and deputies, technical and professional, supervisors and police service aides-** age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

**SEIU 517** - 30 years of service regardless of age, age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**Fire employees, police command, police officers and detectives** - 25 years of service regardless of age or age 55 with 10 years of service.

Benefit payments are calculated as follows:

**General employees** - The sum of 2.5 percent of FAC multiplied by the first 20 years of service plus 2.2 percent for each year thereafter. For the Teamsters hired before 4/29/04: The sum of 2.8 percent of FAC multiplied by the first 20 years of service plus 1.5 percent thereafter. The maximum benefit may not exceed 75 percent of FAC. For police service aides: The maximum benefit may not exceed 80 percent of FAC.

**Police and fire employees** – The sum of 2.8 percent of FAC for all years of service. The maximum benefit may not exceed 75 percent of FAC. The maximum benefit may not exceed 75 percent of FAC.

FAC is the highest two consecutive years out of the last ten for all employees. Deferred retirement benefits vest after five years of service for general employees and ten years of service for police and fire employees. Deferred benefits are not paid until the date retirement would have occurred based on the years already worked qualify for an earlier retirement or age 60.

The obligation to contribute to and maintain the system and benefit provisions for these employees was established, and may be amended, by City ordinance and through negotiation with the police, fire and general employees' competitive bargaining units.

**Significant Accounting Policies:** The system is included in the City's financial statements as a pension trust fund. A stand-alone financial report has not been issued. The assets of the pension trust fund included no securities of or loans to the City or any other related party. At June 30, 2004, there were no investments in any one organization (other than the U.S. government and U.S. government-guaranteed obligations) in excess of five percent of net assets available for benefits.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs are financed through investment earnings.

**Contributions Required and Contributions Made:** The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the entry age-normal cost valuation method. The system also uses the level percentage of payroll method to amortize over a closed 4-year period the plan's full funding credit. For purposes of determining the City's contributions, beginning with the May 31, 1992 actuarial valuation, the system's assets were valued using the smoothed funding method instead of the previously used book value method.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2004**

---

For the year ended June 30, 2004, the City's annual pension cost of \$0 was equal to the City's required and actual contributions. An employee contribution of 1.5 percent to 4 percent of gross wages is required. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.0% to 8.8%.

**THREE YEAR TREND INFORMATION**

---

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	\$0	0%	\$0
6/30/2003	0	0	0
6/30/2004	0	0	0

**F. City of Royal Oak's Downtown Development Authority CDBG Subsidies:**

On November 30, 1990, an agreement was made between the City of Royal Oak ("the City") and the Downtown Development Authority ("D.D.A.") (a component unit of the City of Royal Oak), whereby the City's Community Development Block Grant Program would bear the costs of certain improvements along the Woodward and I-696 corridor. The D.D.A. has agreed to subsidize the CDBG program for these costs. The remaining subsidy obligation at June 30, 2004 was approximately \$500,000. During the year ended June 30, 2004, \$500,000 was transferred from the D.D.A. Each year's payment is being shown as a transfer from the D.D.A. to the CDBG fund. The obligation has not been recognized as an advance from the CDBG fund to the D.D.A. as the original transfer was expensed.



**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Royal Oak, Michigan**  
**City of Royal Oak Retirement System**  
**Supplementary Information**  
*(dollar amounts in thousands)*

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL") Entry Age</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/96	\$ 105,572	\$ 94,730	\$ (10,842)	111.4%	\$ 14,991	0.0%
6/30/97	116,317	97,622	(18,695)	119.2%	15,949	-
6/30/98	132,289	102,995	(29,294)	128.4%	17,182	-
6/30/99	147,433	107,934	(39,499)	136.6%	17,501	-
6/30/00	159,268	113,215	(46,053)	140.7%	18,130	-
6/30/01	162,586	121,589	(40,997)	133.7%	18,962	-
6/30/02	156,403	128,303	(28,100)	121.9%	19,368	-
6/30/03	146,739	136,529	(10,210)	107.5%	20,138	-

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
1997	\$ 1,400	\$ 1,400	100%
1998	543	543	100%
1999	85	85	100%
2000	0	0	100%
2001	0	0	100%
2002	0	0	100%
2003	0	0	100%
2004	0	0	100%

Notes to Schedule of Funding Progress:

1. All trend information has been calculated using entry age normal actuarial method.
2. For information regarding contribution percentage rates, assumption, amortization method, etc., see Note 4(E) on pages 50, 51 and 52.

## **ADDITIONAL INFORMATION**

**City of Royal Oak, Michigan  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

	<b>Special Revenue</b>						<b>Total Nonmajor Special Revenue Funds</b>
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Community Development Block Grant</b>	<b>Senior Citizens Program</b>	<b>Library Millage</b>	<b>State Construction Code</b>	
<b>ASSETS</b>							
Cash and cash equivalents			\$ 95,360	\$ 250			\$ 95,610
Investments	\$ 3,405,851	\$ 4,907,594		500,000	\$ 901,716		9,715,161
Receivables, net	35,381	50,413	1,188,161	1,468	22,332	\$ 71,968	1,369,723
Due from other governmental units	519,842	168,811	91,938				780,591
Due from other funds	121,802	797,683		308,982			1,228,467
Total assets	<u>\$ 4,082,876</u>	<u>\$ 5,924,501</u>	<u>\$ 1,375,459</u>	<u>\$ 810,700</u>	<u>\$ 924,048</u>	<u>\$ 71,968</u>	<u>\$ 13,189,552</u>
<b>LIABILITIES</b>							
Accounts payable	\$ 29,490	\$ 3,547	\$ 106,799	\$ 7,131	\$ 23,574	\$ 8,520	\$ 179,061
Accrued and other liabilities	13,580	10,957	18,865	4,280	36,047	37,508	121,237
Due to other funds	726,508	159,009	61,634		117,303	17,391	1,081,845
Deferred revenue	9,030	9,030	1,188,161	15,466	38,325		1,260,012
Total liabilities	<u>778,608</u>	<u>182,543</u>	<u>1,375,459</u>	<u>26,877</u>	<u>215,249</u>	<u>63,419</u>	<u>2,642,155</u>
<b>FUND BALANCES</b>							
Reserved for right of way expenditures	40,156						40,156
Reserved for senior activities				240,108			240,108
Reserved for books and capital expenditures					21,069		21,069
Unreserved, designated for subsequent years expenditures	621,565	213,583			510,981	8,549	1,354,678
Unreserved, undesignated	2,642,547	5,528,375	-	543,715	176,749	-	8,891,386
Total fund balances	<u>3,304,268</u>	<u>5,741,958</u>	<u>-</u>	<u>783,823</u>	<u>708,799</u>	<u>8,549</u>	<u>10,547,397</u>
Total liabilities and fund balances	<u>\$ 4,082,876</u>	<u>\$ 5,924,501</u>	<u>\$ 1,375,459</u>	<u>\$ 810,700</u>	<u>\$ 924,048</u>	<u>\$ 71,968</u>	<u>\$ 13,189,552</u>

**City of Royal Oak, Michigan  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

	<b>Total Nonmajor Special Revenue Funds</b>	<b>Debt Service Fund</b>	<u><b>Capital Projects</b></u> <b>Special Assessments</b>	<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 95,610	\$ 69,074			\$ 164,684
Investments	9,715,161	541,000			10,256,161
Receivables, net	1,369,723	9,576	\$ 787,532	\$ 7	2,166,838
Due from other governmental units	780,591				780,591
Due from other funds	1,228,467	69,005		1,818	1,299,290
Restricted assets	-			26,000	26,000
Total assets	<u>\$ 13,189,552</u>	<u>\$ 688,655</u>	<u>\$ 787,532</u>	<u>\$ 27,825</u>	<u>\$ 14,693,564</u>
<b>LIABILITIES</b>					
Accounts payable	179,061				\$ 179,061
Accrued and other liabilities	121,237				121,237
Due to other funds	1,081,845				1,081,845
Deferred revenue	<u>1,260,012</u>	<u>\$ 7,832</u>	<u>\$ 787,532</u>		<u>2,055,376</u>
Total liabilities	<u>2,642,155</u>	<u>7,832</u>	<u>787,532</u>		<u>3,437,519</u>
<b>FUND BALANCES</b>					
Reserved for right of way expenditures	40,156				40,156
Reserved for senior activities	240,108				240,108
Reserved for books and capital expenditures	21,069				21,069
Unreserved, designated for subsequent years expenditures	1,354,678				1,354,678
Unreserved, undesignated	<u>8,891,386</u>	<u>680,823</u>	<u>-</u>	<u>\$ 27,825</u>	<u>9,600,034</u>
Total fund balances	<u>10,547,397</u>	<u>680,823</u>	<u>-</u>	<u>27,825</u>	<u>11,256,045</u>
Total liabilities and fund balances	<u>\$ 13,189,552</u>	<u>\$ 688,655</u>	<u>\$ 787,532</u>	<u>\$ 27,825</u>	<u>\$ 14,693,564</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Special Revenue						Total Nonmajor Special Revenue Funds
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	
<b>REVENUES</b>							
Taxes	\$ 15	\$ 15			\$ 1,852,250		\$ 1,852,280
Licenses and permits	173,428					\$ 1,251,243	1,424,671
Federal grants			\$ 1,128,057				1,128,057
State grants	3,061,964	993,288		\$ 116,386	158,873		4,330,511
Charges for services			568,002	155,444	55,871	129,097	908,414
Fines and forfeitures					2,841		2,841
Interest	35,573	80,063		6,933	3,875		126,444
Contributions and donations	14,127			290,081	90,231		394,439
Other revenue	30,501	1,711	16,983	250	63		49,508
Total revenues and other sources	<u>3,315,608</u>	<u>1,075,077</u>	<u>1,713,042</u>	<u>569,094</u>	<u>2,164,004</u>	<u>1,380,340</u>	<u>10,217,165</u>
<b>EXPENDITURES</b>							
Public safety						1,517,488	1,517,488
Public works	1,712,052	1,253,126					2,965,178
Community and economic development			1,463,040				1,463,040
Recreation and culture				306,350	1,412,883		1,719,233
Total expenditures/expenses	<u>1,712,052</u>	<u>1,253,126</u>	<u>1,463,040</u>	<u>306,350</u>	<u>1,412,883</u>	<u>1,517,488</u>	<u>7,664,939</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,603,556</u>	<u>(178,049)</u>	<u>250,002</u>	<u>262,744</u>	<u>751,121</u>	<u>(137,148)</u>	<u>2,552,226</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	7,865	782,558					790,423
Transfers from component units			500,000				500,000
Transfers out	(672,768)	(229,647)	(750,002)		(42,322)		(1,694,739)
Total other financing sources (uses)	<u>(664,903)</u>	<u>552,911</u>	<u>(250,002)</u>	<u>-</u>	<u>(42,322)</u>	<u>-</u>	<u>(404,316)</u>
Net change in fund balances	938,653	374,862	-	262,744	708,799	(137,148)	2,147,910
Fund balances - beginning	2,365,615	5,367,096	-	521,079	-	145,697	8,399,487
Fund balances - ending	<u>\$ 3,304,268</u>	<u>\$ 5,741,958</u>	<u>\$ -</u>	<u>\$ 783,823</u>	<u>\$ 708,799</u>	<u>\$ 8,549</u>	<u>\$ 10,547,397</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Nonmajor Governmental Funds
			Special Assessments	Permanent Fund	
<b>REVENUES</b>					
Taxes	\$ 1,852,280	\$ 686,141			\$ 2,538,421
Licenses and permits	1,424,671				1,424,671
Federal grants	1,128,057				1,128,057
State grants	4,330,511				4,330,511
Charges for services	908,414				908,414
Fines and forfeitures	2,841	663,647			666,488
Interest	126,444	9,572	\$ 24,231	\$ 303	160,550
Contributions and donations	394,439				394,439
Other revenue	49,508	48	136,996		186,552
Total revenues and other sources	10,217,165	1,359,408	161,227	303	11,738,103
<b>EXPENDITURES</b>					
Public safety	1,517,488				1,517,488
Public works	2,965,178				2,965,178
Community and economic development	1,463,040				1,463,040
Recreation and culture	1,719,233				1,719,233
Debt service:					
Principal payments		500,000			500,000
Interest and paying agent fees		723,310			723,310
Total expenditures/expenses	7,664,939	1,223,310			8,888,249
Excess (deficiency) of revenues over (under) expenditures	2,552,226	136,098	161,227	303	2,849,854
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	790,423				790,423
Transfers from component units	500,000				500,000
Transfers out	(1,694,739)		(161,227)		(1,855,966)
Total other financing sources (uses)	(404,316)		(161,227)		(565,543)
Net change in fund balances	2,147,910	136,098	-	303	2,284,311
Fund balances - beginning	8,399,487	544,725	-	27,522	8,971,734
Fund balances - ending	\$ 10,547,397	\$ 680,823	\$ -	\$ 27,825	\$ 11,256,045

**City of Royal Oak, Michigan**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2004**

	<b>Municipal Golf Course</b>	<b>Recreation Administration</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 74,816		\$ 62,464	\$ 6,369	\$ 143,649
Investments	94,000		932,000	914,000	1,940,000
Receivables, net	24	\$ 22,598	615	376	23,613
Due from other funds		26,000			26,000
Due from other governmental units		217,578			217,578
Total current assets	168,840	266,176	995,079	920,745	2,350,840
Noncurrent assets:					
Restricted assets			40		40
Capital assets	1,084,956	4,163,726	2,908,073	490,018	8,646,773
Total noncurrent assets	1,084,956	4,163,726	2,908,113	490,018	8,646,813
Total assets	1,253,796	4,429,902	3,903,192	1,410,763	10,997,653
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	9,643	74,608	86,179	9,746	180,176
Accrued and other liabilities		10,208	4,288	1,580	16,076
Due to other funds	46,153	134,402	3,805	1,156	185,516
Deferred revenue			7,934		7,934
Bonds payable			231,576		231,576
Total current liabilities	55,796	219,218	333,782	12,482	621,278
Noncurrent liabilities:					
Accrued compensated absences		19,262	13,636	3,675	36,573
Other long-term liabilities		7,100			7,100
Bonds payable			1,722,311		1,722,311
Total noncurrent liabilities		26,362	1,735,947	3,675	1,765,984
Total liabilities	55,796	245,580	2,069,729	16,157	2,387,262
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,084,956	4,163,726	954,186	490,018	6,692,886
Restricted for debt service			231,576		231,576
Restricted for cultural activities		16,614			16,614
Unrestricted	113,044	3,982	647,701	904,588	1,669,315
Total net assets	\$ 1,198,000	\$ 4,184,322	\$ 1,833,463	\$ 1,394,606	\$ 8,610,391



**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2004**

	<b>Municipal Golf Courses</b>	<b>Recreation Administration</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 715,104	\$ 526,655	\$ 1,379,381	\$ 319,241	\$ 2,940,381
Contributions and donations		46,416			46,416
Other	41			1,258	1,299
Total operating revenues	<u>715,145</u>	<u>573,071</u>	<u>1,379,381</u>	<u>320,499</u>	<u>2,988,096</u>
<b>OPERATING EXPENSES</b>					
Salaries and benefits	2,122	279,679	81,104	36,016	398,921
Supplies	90,909	30,526	99,886	9,323	230,644
Other services and charges	599,128	264,745	814,129	140,272	1,818,274
Depreciation	133,663	86,960	135,024	9,068	364,715
Total operating expenses	<u>825,822</u>	<u>661,910</u>	<u>1,130,143</u>	<u>194,679</u>	<u>2,812,554</u>
Operating income (loss)	<u>(110,677)</u>	<u>(88,839)</u>	<u>249,238</u>	<u>125,820</u>	<u>175,542</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	1,634		9,720	9,024	20,378
Interest expense			(104,049)		(104,049)
Gain on disposal of assets	1,600				1,600
Total nonoperating revenue (expenses)	<u>3,234</u>		<u>(94,329)</u>	<u>9,024</u>	<u>(82,071)</u>
Income (loss) before transfers	<u>(107,443)</u>	<u>(88,839)</u>	<u>154,909</u>	<u>134,844</u>	<u>93,471</u>
<b>TRANSFERS IN</b>		<u>40,700</u>			<u>40,700</u>
Change in net assets	<u>(107,443)</u>	<u>(48,139)</u>	<u>154,909</u>	<u>134,844</u>	<u>134,171</u>
Total net assets - beginning	<u>1,305,443</u>	<u>4,232,461</u>	<u>1,678,554</u>	<u>1,259,762</u>	<u>8,476,220</u>
Total net assets - ending	<u>\$ 1,198,000</u>	<u>\$ 4,184,322</u>	<u>\$ 1,833,463</u>	<u>\$ 1,394,606</u>	<u>\$ 8,610,391</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2004**

	<b>Municipal Golf Course</b>	<b>Recreation Administration</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 715,104	\$ 564,116	\$ 1,374,384	\$ 320,357	\$ 2,973,961
Payments to vendors	(640,209)	(315,594)	(840,534)	(138,209)	(1,934,546)
Payments to employees	(1,920)	(197,549)	(102,221)	(33,061)	(334,751)
Payments of benefits on behalf of employees	(202)	(39,646)	(7,815)	(5,476)	(53,139)
Internal activity - payments to other funds	(35,328)	(14,751)	(54,170)	38,727	(65,522)
Other operating payments	30				30
Net cash provided by (used in) operating activities	<u>37,475</u>	<u>(3,424)</u>	<u>369,644</u>	<u>182,338</u>	<u>586,033</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds		40,700			40,700
Increase in other long-term liabilities		3,600			3,600
Net cash provided by (used in) noncapital financing activities		<u>44,300</u>			<u>44,300</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	(89,029)	(40,876)	(23,733)		(153,638)
Proceeds from sale of capital assets	1,600				1,600
Principal paid on capital debt			(221,576)		(221,576)
Interest paid on capital debt			(104,049)		(104,049)
Net cash provided by (used in) capital and related financing activities	<u>(87,429)</u>	<u>(40,876)</u>	<u>(349,358)</u>		<u>(477,663)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on investments	1,634		9,720	9,024	20,378
Net increase (decrease) in cash and cash equivalents	(48,320)	-	30,006	191,362	173,048
Balances - beginning of the year	217,136	-	964,498	729,007	1,910,641
Balances - end of the year	<u>\$ 168,816</u>	<u>\$ -</u>	<u>\$ 994,504</u>	<u>\$ 920,369</u>	<u>\$ 2,083,689</u>
Balance sheet classification of cash and cash equivalents:					
Cash and investments	\$ 168,816	\$ -	\$ 994,464	\$ 920,369	\$ 2,083,649
Restricted cash and investments			40		40
	<u>\$ 168,816</u>	<u>\$ -</u>	<u>\$ 994,504</u>	<u>\$ 920,369</u>	<u>\$ 2,083,689</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ (110,677)	\$ (88,839)	\$ 249,238	\$ 125,820	\$ 175,542
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	133,663	86,960	135,024	9,068	364,715
Changes in assets and liabilities:					
Receivables	(11)	(8,955)	39	(142)	(9,069)
Deposit and other assets			20,000		20,000
Due from other funds		(26,000)		47,910	21,910
Accounts payable	(31,580)	16,552	1,481	1,125	(12,422)
Accrued and other liabilities		888	673	306	1,867
Due to other funds	46,080	21,122	(23,755)	1,156	44,603
Deferred revenue			(5,036)		(5,036)
Accrued compensated absences		(5,152)	(8,020)	(2,905)	(16,077)
Net cash provided by (used in) operating activities	<u>\$ 37,475</u>	<u>\$ (3,424)</u>	<u>\$ 369,644</u>	<u>\$ 182,338</u>	<u>\$ 586,033</u>

The notes to the financial statements are an integral part of this statement.

**City of Royal Oak, Michigan**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2004**

	<b>Information Systems</b>	<b>Motor Pool</b>	<b>Insurance</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments		\$ 300	\$ 5,020	\$ 5,320
Investments			539,813	539,813
Receivables, net		223,201	11	223,212
Deposits and other assets		16,700		16,700
Due from other funds	\$ 216,509	285,848	433,532	935,889
Inventories		111,504		111,504
Total current assets	216,509	637,553	978,376	1,832,438
Noncurrent assets:				
Capital assets	2,238,257	13,611,561		15,849,818
Less accumulated depreciation	(1,547,853)	(7,359,031)		(8,906,884)
Total capital assets (net of accumulated depreciation)	690,404	6,252,530		6,942,934
Total assets	906,913	6,890,083	978,376	8,775,372
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	2,180	72,167		74,347
Accrued and other liabilities	17,651	20,388	909,336	947,375
Total current liabilities	19,831	92,555	909,336	1,021,722
Noncurrent liabilities:				
Accrued compensated absences	95,116	143,763		238,879
Total noncurrent liabilities	95,116	143,763		238,879
Total liabilities	114,947	236,318	909,336	1,260,601
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	690,404	6,252,530		6,942,934
Unrestricted	101,562	401,235	69,040	571,837
Total net assets	\$ 791,966	\$ 6,653,765	\$ 69,040	\$ 7,514,771

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2004**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Insurance</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 916,530	\$ 2,350,934	\$ 332,773	\$ 3,600,237
Other revenue		328,953		328,953
Total operating revenues	<u>916,530</u>	<u>2,679,887</u>	<u>332,773</u>	<u>3,929,190</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	415,670	915,783	173,366	1,504,819
Supplies	5,588	485,724		491,312
Other services and charges	129,602	358,909	125,724	614,235
Depreciation	213,135	1,028,111		1,241,246
Total operating expenses	<u>763,995</u>	<u>2,788,527</u>	<u>299,090</u>	<u>3,851,612</u>
Operating income (loss)	<u>152,535</u>	<u>(108,640)</u>	<u>33,683</u>	<u>77,578</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income			5,150	5,150
Gain (loss) on sale of capital assets		55,933		55,933
Total nonoperating revenue (expenses)	<u>-</u>	<u>55,933</u>	<u>5,150</u>	<u>61,083</u>
Income (loss) before transfers	152,535	(52,707)	38,833	138,661
<b>TRANSFERS IN</b>	<u>41,915</u>			<u>41,915</u>
Changes in net assets	194,450	(52,707)	38,833	180,576
Total net assets - beginning	<u>597,516</u>	<u>6,706,472</u>	<u>30,207</u>	<u>7,334,195</u>
Total net assets - ending	<u>\$ 791,966</u>	<u>\$ 6,653,765</u>	<u>\$ 69,040</u>	<u>\$ 7,514,771</u>

**City of Royal Oak, Michigan**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2004**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Insurance</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users		\$ 72,418		\$ 72,418
Internal activity - receipts from other funds	\$ 700,021	2,190,825	\$ 179,452	3,070,298
Other operating receipts		105,752	186	105,938
Payments to suppliers	(280,716)	(727,354)	(113,074)	(1,121,144)
Payments to employees	(328,882)	(596,770)		(925,652)
Payments of benefits on behalf of employees	(87,456)	(288,833)	(542,524)	(918,813)
Internal activity - payments to other funds	(548)	(107,373)	(12,650)	(120,571)
Net cash provided by (used in) operating activities	<u>2,419</u>	<u>648,665</u>	<u>(488,610)</u>	<u>162,474</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers from other funds	41,915			41,915
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(44,334)	(704,598)		(748,932)
Proceeds from sale of capital assets		55,933		55,933
Net cash provided by (used in) capital and related financing activities	<u>(44,334)</u>	<u>(648,665)</u>		<u>(692,999)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments			499,399	499,399
Purchase of investment securities			(15,919)	(15,919)
Interest received on investments			5,150	5,150
Net cash provided by (used in) investment activities	<u>-</u>	<u>-</u>	<u>488,630</u>	<u>488,630</u>
Net increase (decrease) in cash and cash equivalents	<u>-</u>	<u>-</u>	<u>20</u>	<u>20</u>
Balances - beginning	-	300	5,000	5,300
Balances - ending	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 5,020</u>	<u>\$ 5,320</u>
Balance sheet classification of cash and cash equivalents:				
Cash and investments	\$ -	\$ 300	\$ 544,833	\$ 545,133
Less investments with original maturities greater than three months			(539,813)	(539,813)
	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 5,020</u>	<u>\$ 5,320</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ 152,535	\$ (108,640)	\$ 33,683	\$ 77,578
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	213,135	1,028,111		1,241,246
Changes in assets and liabilities:				
Receivables		(223,201)	186	(223,015)
Deposits and other assets		(16,700)		(16,700)
Due from other funds	(216,509)	(87,691)	(153,321)	(457,521)
Inventories		16,923		16,923
Accounts payable	(20,275)	18,616		(1,659)
Accrued and other liabilities	3,758	3,099	(369,158)	(362,301)
Due to other funds	(125,251)			(125,251)
Accrued compensated absences	(4,974)	18,148		13,174
Net cash provided by (used in) operating activities	<u>\$ 2,419</u>	<u>\$ 648,665</u>	<u>\$ (488,610)</u>	<u>\$ 162,474</u>

**City of Royal Oak, Michigan  
Combining Statement of Net Assets  
Pension and Other Employee Trust Funds  
For the Year Ended June 30, 2004**

	<u>Pension Trust</u>	<u>Retiree Health Care</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,000		\$ 3,000
Investments		\$ 2,159,057	2,159,057
Receivables, net		3,772	3,772
Retirement investments, at fair value			
U.S. government obligations	23,722,593		23,722,593
Corporate bonds	19,738,380		19,738,380
Stocks	84,420,159		84,420,159
Other investments	2,696,210		2,696,210
Accrued income	422,618		422,618
Total investments	<u>130,999,960</u>		<u>130,999,960</u>
Total assets	<u>131,002,960</u>	<u>2,162,829</u>	<u>133,165,789</u>
<b>LIABILITIES</b>			
Accounts payable	414,576		414,576
Due to other funds	687,394		687,394
Total liabilities	<u>1,101,970</u>		<u>1,101,970</u>
<b>NET ASSETS</b>			
Held in trust for pension and health benefits	<u>\$ 129,900,990</u>	<u>\$ 2,162,829</u>	<u>\$ 132,063,819</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Changes in Net Assets**  
**Pension and Other Employee Benefit Trust Funds**  
**For the Year Ended June 30, 2004**

	<b>Pension Trust</b>	<b>Retiree Health Care</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions:			
Employer		\$ 644,440	\$ 644,440
Plan members	\$ 433,059		433,059
Plan members' buybacks	422,226		422,226
Total contributions	<u>855,285</u>	<u>644,440</u>	<u>1,499,725</u>
Investment earnings:			
Net increase (decrease) in fair value of investments	10,543,447		10,543,447
Interest	2,173,944	18,389	2,192,333
Dividends	1,343,577		1,343,577
Other investment revenues	234		234
Total investment income	<u>14,061,202</u>	<u>18,389</u>	<u>14,079,591</u>
Less investment expenses	<u>722,247</u>		<u>722,247</u>
Net investment income	<u>13,338,955</u>	<u>18,389</u>	<u>13,357,344</u>
Total additions	<u>14,194,240</u>	<u>662,829</u>	<u>14,857,069</u>
<b>DEDUCTIONS</b>			
Benefits	8,450,953		8,450,953
Refund of contributions	1,411,033		1,411,033
Administrative expenses	46,653		46,653
Total deductions	<u>9,908,639</u>		<u>9,908,639</u>
Change in net assets	4,285,601	662,829	4,948,430
Net assets - beginning	<u>125,615,389</u>	<u>1,500,000</u>	<u>127,115,389</u>
Net assets - ending	<u>\$ 129,900,990</u>	<u>\$ 2,162,829</u>	<u>\$ 132,063,819</u>

**City of Royal Oak, Michigan**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2004**

	<u>Agency</u>	<u>44th District Court</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 215,205	\$ 542,517	\$ 757,722
Receivables, net	150		150
Total assets	<u>\$ 215,355</u>	<u>\$ 542,517</u>	<u>\$ 757,872</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 28,695		\$ 28,695
Due to other funds	5,463	\$ 323,417	328,880
Due to other governmental units		110,874	110,874
Cash bonds and deposits	181,197	108,226	289,423
Total liabilities	<u>\$ 215,355</u>	<u>\$ 542,517</u>	<u>\$ 757,872</u>



**City of Royal Oak, Michigan**  
**Balance Sheet**  
**Component Units**  
**June 30, 2004**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Housing Commission</b>
<b>ASSETS</b>				
Cash and investments		\$ 4,288	\$ 20,152	\$ 16
Investments	\$ 5,432,036			106,500
Receivables, net	97,308	2,285		
Deposits and other assets				97,260
Due from other funds		17,700		
Due from primary government	764,309			
Restricted assets	6,391			
Total assets	<u>6,300,044</u>	<u>24,273</u>	<u>20,152</u>	<u>203,776</u>
<b>LIABILITIES</b>				
Accounts payable	8,344	2,508		8,618
Due to other funds	17,700			
Due to primary government		2,562		100,859
Due to other governmental units	1,669,546			
Deferred revenue	84,843	2,210		94,299
Total liabilities	<u>1,780,433</u>	<u>7,280</u>		<u>203,776</u>
<b>NET ASSETS</b>				
Reserved for restricted assets	6,391			
Unrestricted	4,513,220	16,993	20,152	
Total net assets	<u>4,519,611</u>	<u>16,993</u>	<u>20,152</u>	<u>-</u>

Amounts reported for component units in the statement of net assets are different because:

- Capital assets used in governmental activities are not financial resources, and are not reported at the fund level	1,592,259			8,000
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	84,843	2,210		
- Long-term liabilities are not due and payable in the current period and are not reported at the fund level	(688,419)			
- Interest on long-term debt is not accrued at fund level, but rather is recognized as an expenditure when due	(10,875)			
- Compensated absences are included as a liability				(9,810)
Total net assets for component units	<u>\$ 5,497,419</u>	<u>\$ 19,203</u>	<u>\$ 20,152</u>	<u>\$ (1,810)</u>

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Component Units**  
**For the Year Ended June 30, 2004**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Housing Commission</b>
<b>REVENUES</b>				
Taxes	\$ 1,502,611	\$ 49,708		
Federal grants				\$ 1,236,860
Interest and rentals	73,830	101	\$ 59	597
Contributions and donations	38,477			
Other revenues	90,435			
Total revenues	<u>1,705,353</u>	<u>49,809</u>	<u>59</u>	<u>1,237,457</u>
<b>EXPENDITURES</b>				
Salaries and benefits		45,702		98,030
Supplies		8,509		3,279
Other services and charges		2,535		33,432
Housing assistance payments				1,102,716
Community and economic development	366,128			
Debt service:				
Principal payments	75,000			
Interest expense	45,750			
Total expenditures	<u>486,878</u>	<u>56,746</u>	<u>-</u>	<u>1,237,457</u>
Excess of revenues over expenditures	1,218,475	(6,937)	59	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers to primary government	(1,178,530)			
Gain on disposal of assets	3,924,180			
Total other financing sources (uses)	<u>2,745,650</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	3,964,125	(6,937)	59	-
Net assets - beginning	555,486	23,930	20,093	-
Net assets - ending	<u>\$ 4,519,611</u>	<u>\$ 16,993</u>	<u>\$ 20,152</u>	<u>\$ -</u>

**City of Royal Oak, Michigan**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Component Units**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**

	<u>Tax Increment Financing Authority</u>	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Housing Commission</u>
Net change in fund balances - component units	\$ 3,964,125	\$ (6,937)	\$ 59	\$ -
Amounts reported for component units in the statement of net assets are different because:				
- Capital outlays are reported as expenditures at the fund level. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	(6,471)			8,000
-The sale of land is recognized as revenue at the fund level. In the statement of activities, the sale is recognized net of the lands book value.	(905,505)			
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	33,188	176		
- Repayments of bond principal is an expenditure at the fund level, but not in the statement of activities (where it reduces long-term debt).	75,000			
- Under the modified accrual basis of accounting , expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than when it accrues.				
The adjustment combines the net changes of three balances.				
Accrued interest on bonds	(5,699)			
Amortization of bond discount	(35)			
Compensated absences				(464)
Combined adjustment	<u>(5,734)</u>			<u>(464)</u>
Change in net assets of component units	<u>\$ 3,154,603</u>	<u>\$ (6,761)</u>	<u>\$ 59</u>	<u>\$ 7,536</u>