



# BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

**City of Royal Oak, Michigan  
For the Fiscal Year Ended June 30, 2003**

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**For the Fiscal Year Ended June 30, 2003**

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**REHMANN ROBSON**

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

November 14, 2003

City Commission  
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, 2003, 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major Streets, Local Streets, Community Development Block Grant and Solid Waste funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

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As described in Note 1, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003, 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 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion 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 and schedules 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".

## 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, 2003. 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 \$174,479,956 (*net assets*). Of this amount, \$20,770,282 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$2,873,514. This decrease is attributed in part to the transfer to a Trust Fund of \$1,500,000 to provide for a reserve to pre-fund the Retiree Health Care obligation.
- As of the close of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$18,463,029, a decrease of \$7,298,249 in comparison with the prior year. Approximately three-fourths of this total amount, \$14,608,453, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,231,839, or 10 percent of total general fund expenditures.
- The City of Royal Oak's total debt increased by \$3,074,309 (5 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 City of the Primary government.

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 five other funds that are considered to be major funds. Data from the other six 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 seven 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 five 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 26-28 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 29-30 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 33-55 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 56 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 57-70 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 \$174,479,956 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	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$28,375,998	\$34,727,038	\$21,092,003	\$27,468,257	\$49,468,001	\$62,195,295
Capital assets	117,261,491	113,628,878	87,411,866	78,931,644	204,673,357	192,560,522
Total assets	145,637,489	148,355,916	108,503,869	106,399,901	254,141,358	254,755,817
Long-term liabilities outstanding	19,787,091	19,659,968	47,694,096	43,677,293	67,481,187	63,337,261
Other liabilities	9,352,464	7,552,430	2,827,751	6,512,656	12,180,215	14,065,086
Total liabilities	29,139,555	27,212,398	50,521,847	50,189,949	79,661,402	77,402,347
Net assets:						
Investment in capital assets, net of						
related debt	102,083,257	97,909,253	38,726,466	33,820,713	140,809,723	131,729,966
Restricted	15,710,666	21,349,612	1,399,095	1,440,238	17,109,761	22,789,850
Unrestricted	(1,295,989)	1,884,653	17,856,461	20,949,001	16,560,472	22,833,654
Total net assets	\$116,497,934	\$121,143,518	\$57,982,022	\$56,209,952	\$174,479,956	\$177,353,470

An additional portion of the City of Royal Oak’s net assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$20,770,282) 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 decreased by \$2,873,514 during the current fiscal year. The major cause of this decrease (\$1,500,000) was caused by the transfer to fund the Retiree Health Care Fiduciary Fund.

**Governmental Activities.** Governmental activities decreased the City of Royal Oak’s net assets by \$4,645,584. Key elements of this decrease are as follows:

- The increase in retiree health care contribution (\$1,500,000) to establish the Retiree Health Care Fiduciary Fund.
- The use of fund balance to provide for current retiree health care premiums (\$2,289,121).

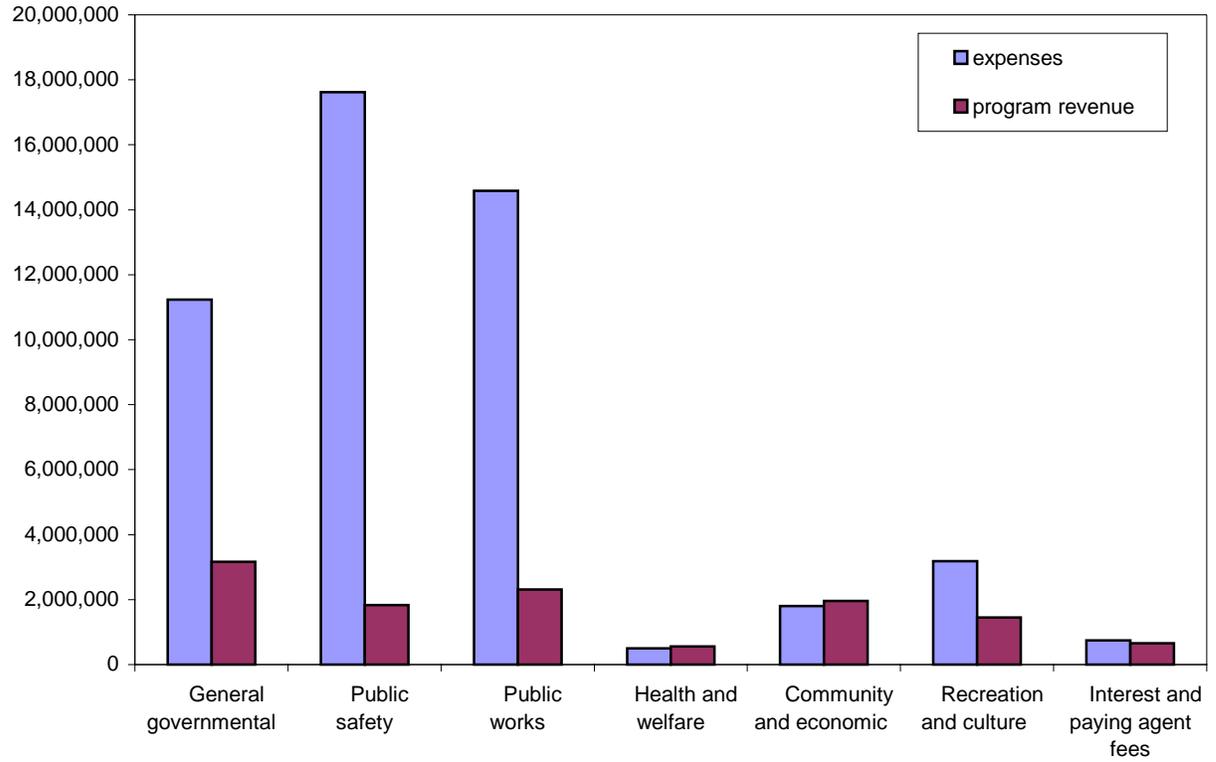
CITY OF ROYAL OAK Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2003	2002	2003	2002	2003	2002
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$8,818,079	\$7,837,576	\$19,519,193	\$18,611,831	\$28,337,272	\$26,449,407
Operating grants and contributions	2,484,230	4,955,554	436,160		2,920,390	4,955,554
Capital grants and contributions	1,127,952	294,859	1,626,280	2,112,452	2,754,232	2,407,311
<b>General revenue:</b>						
Property taxes	20,598,307	18,326,371			20,598,307	18,326,371
<b>Grants and contributions not restricted to specific programs</b>						
Other	1,729,119	1,551,263	288,491	162,843	2,017,610	1,714,106
<b>Total revenue</b>	<b>44,993,216</b>	<b>44,843,493</b>	<b>21,870,124</b>	<b>20,887,126</b>	<b>66,863,340</b>	<b>65,730,619</b>
<b>Expenses:</b>						
General governmental	11,234,438	7,862,084			11,234,438	7,862,084
Public safety	17,619,573	19,242,174			17,619,573	19,242,174
Public works	14,587,704	13,824,819			14,587,704	13,824,819
Health and welfare	499,650	485,359			499,650	485,359
Community and economic development	1,798,736	3,506,516			1,798,736	3,506,516
Recreation and culture	3,186,534	3,422,217			3,186,534	3,422,217
Interest and paying agent fees	747,718	693,943			747,718	693,943
Water & sewer			15,297,697	13,820,788	15,297,697	13,820,788
Parking			1,877,865	1,728,950	1,877,865	1,728,950
Recreation			2,668,982	2,518,074	2,668,982	2,518,074
Farmers market			217,957	280,973	217,957	280,973
<b>Total expenses</b>	<b>49,674,353</b>	<b>49,037,112</b>	<b>20,062,501</b>	<b>18,348,785</b>	<b>69,736,854</b>	<b>67,385,897</b>
Increase in net assets before transfers	(4,681,137)	(4,193,619)	1,807,623	2,538,341	(2,873,514)	(1,655,278)
Transfers	35,553	(436,176)	(35,553)	2,457,054	0	2,020,878
<b>Increase (decrease) in net assets</b>	<b>(4,645,584)</b>	<b>(4,629,795)</b>	<b>1,772,070</b>	<b>4,995,395</b>	<b>(2,873,514)</b>	<b>365,600</b>
<b>Net assets - 7/1/02</b>	<b>121,143,518</b>	<b>125,773,313</b>	<b>56,209,952</b>	<b>51,214,557</b>	<b>177,353,470</b>	<b>176,987,870</b>
<b>Net assets - 6/30/03</b>	<b>\$116,497,934</b>	<b>\$121,143,518</b>	<b>\$57,982,022</b>	<b>\$56,209,952</b>	<b>\$174,479,956</b>	<b>\$177,353,470</b>

- Property taxes increased by \$2,271,936 (12 percent) during the year. This increase is the result of a 4% increase in the taxable value of the City's SEV, the initial levy to provide money for the Fire Bond issue, and a increase in the Solid Waste levy.
- Operating grants for governmental activities decreased by \$2,971,324, with the key factor being a decrease in Community Development Block Grant activity.

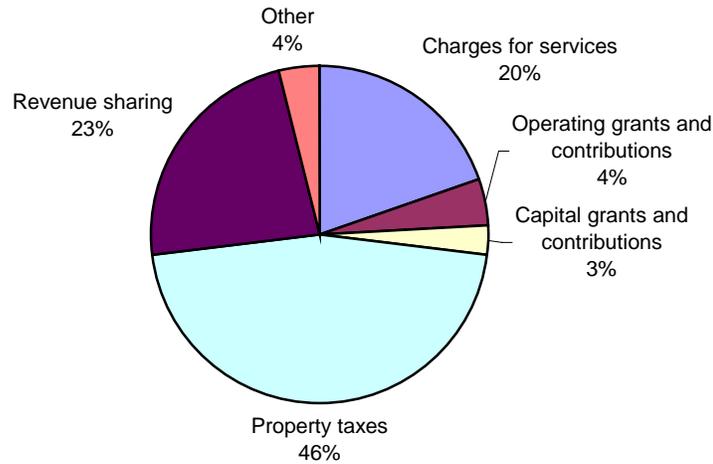
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## Expenses and Program Revenues – Governmental Activities



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## Revenues by Source - Governmental Activities



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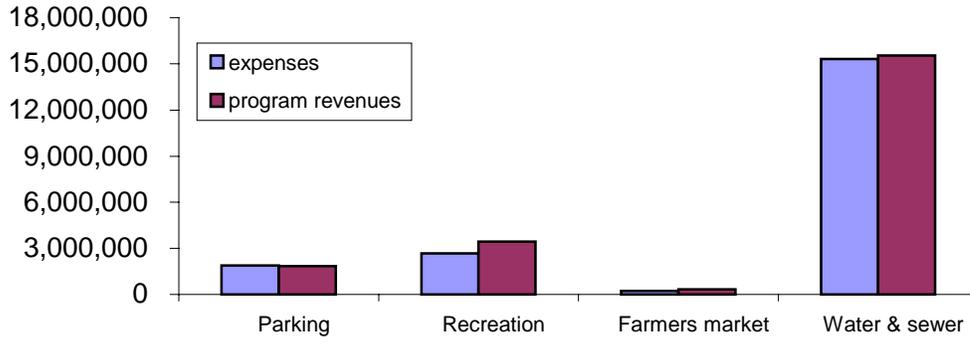
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception, however, is the recognition of retiree health care expenditures (\$2,289,121) as a direct charge to the General Fund for the first time. In the past, these expenditures were paid for out of the City of Royal Oak Retirement System Trust Fund. Additionally, \$1,500,000 was transferred to establish the Retiree Health Care Trust Fund.

**Business-Type Activities.** Business-type activities increased the City of Royal Oak's net assets by \$1,772,070 . Key elements of this increase are as follows:

- Increase due to the opening of new parking deck.
- Recognition of a state grant used for the construction of a recreation center.

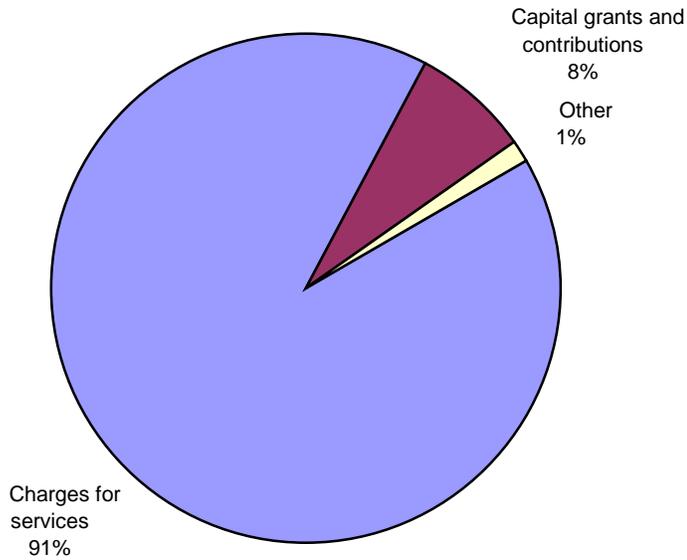
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### Expenses and Program Revenues - Business-type Activities



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### 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 \$18,463,029, and a decrease of \$7,298,249 in comparison with the prior year. Approximately three quarters of this total amount (\$14,608,453) 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 (\$3,771,374) and for inventories (\$83,202).

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 \$3,231,839, while total fund balance was \$3,315,041. 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 10.18 percent of total general fund expenditures, while total fund balance represents 10.44 percent of that same amount.

The fund balance of the City of Royal Oak's general fund decreased by \$2,792,137 during the current fiscal year. The key factor in this decline was the \$1,500,000 contribution to the Retiree Health Care Fiduciary fund.

The debt service fund has a total fund balance of \$544,725, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$148,068. Interest expenditures, however, also increased during the current period (\$218,478) as the result of new indebtedness incurred during the year.

*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 \$9,908,768, and those for the Automobile Parking System Fund operation amounted to \$6,450,227. The total growth in net assets for both funds was \$215,811 and \$520,466, respectively. Other factors concerning the finances of these two funds have 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 \$3,012,082 and can be briefly summarized as follows:

- \$582,876 decrease in state shared revenues
- \$790,360 increases in other revenues
- \$2,872,478 in increases allocated to general government activities

The increase was funded out of fund balance. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw as much use of existing 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, 2003, amounts to \$204,673,357 (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 6 percent (a 3 percent increase for governmental activities and a 11 percent increase for business-type activities).

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

- Completion of parking deck
- The George Kuhn Drain project construction continued
- Fire house replacements and repairs were continued
- Renovation of city hall was completed

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

	Governmental Activities		Business-type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Land	\$66,666,407	\$66,599,528	\$5,121,005	\$5,121,005	\$71,787,412	\$71,720,533
Buildings	10,094,536	10,436,595	22,055,389	10,178,063	32,149,925	20,614,658
Improvements other than buildings	1,300,694	1,399,487	496,283	551,285	1,796,977	1,950,772
Machinery and equipment	7,658,169	6,378,461	708,142	775,064	8,366,311	7,153,525
Infrastructure	26,878,345	28,656,153	39,777,514	40,269,619	66,655,859	68,925,772
Intangibles	90,191	158,654	2,130	3,804	92,321	162,458
Construction in progress	4,573,149		19,251,403	22,032,806	23,824,552	22,032,806
Total	\$117,261,491	\$113,628,878	\$87,411,866	\$78,931,646	\$204,673,357	\$192,560,524

Additional information on the City of Royal Oak's capital assets can be found on pages 45-70 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 \$64,328,116. Of this amount, \$19,705,000 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 \$8,705,000 of the debt. Another \$12,597,387 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 \$6,026,086 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			
	2003	2002	2003	2002	2003	2002
Limited general obligation bonds	\$6,785,000	\$6,975,000	\$ 12,920,000	\$ 14,170,000	\$19,705,000	\$21,145,000
Unlimited general obligation bonds	8,705,000	9,000,000	0	0	8,705,000	9,000,000
State Revolving Fund	0	0	12,597,387	13,242,387	12,597,387	13,242,387
Contractual obligations	0	0	23,320,729	17,866,420	23,320,729	17,866,420
<b>Total</b>	<b>\$15,490,000</b>	<b>\$15,975,000</b>	<b>\$48,838,116</b>	<b>\$45,278,807</b>	<b>\$64,328,116</b>	<b>\$61,253,807</b>

The City of Royal Oak's total debt increased by \$3,074,309 (5 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 \$260,265,408 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 49-51 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 92 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 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$3,231,839. The City budgeted for the transfer of \$1,598,540 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 fiscal year.

The Water and Sewer rates were increased for the 2003 budget year. The water and sewer rates were increased by an average of 9.68 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.

**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, 2003**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 355,439	\$ 426,242	\$ 781,681	\$ 82,265
Investments	12,342,981	5,043,012	17,385,993	2,827,906
Receivables, net	3,126,175	3,812,686	6,938,861	55,930
Deposits and other assets	372,869	152,117	524,986	87,681
Due from other governmental units	3,235,946	1,170,208	4,406,154	
Due from component units	1,125,953	270,712	1,396,665	
Internal balances	3,807,632	(3,807,632)	-	
Inventories	211,629	169,766	381,395	
Total current assets	<u>24,578,624</u>	<u>7,237,111</u>	<u>31,815,735</u>	<u>3,053,782</u>
Noncurrent assets:				
Restricted assets - cash	3,797,374	3,017,624	6,814,998	6,390
Receivables, net		10,837,268	10,837,268	
Capital assets, not being depreciated	71,239,556	24,372,408	95,611,964	1,990,259
Capital assets, being depreciated, net	46,021,935	63,039,458	109,061,393	513,976
Total noncurrent assets	<u>121,058,865</u>	<u>101,266,758</u>	<u>222,325,623</u>	<u>2,510,625</u>
Total assets	<u>145,637,489</u>	<u>108,503,869</u>	<u>254,141,358</u>	<u>5,564,407</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	3,014,700	1,046,885	4,061,585	30,263
Accrued and other liabilities	3,484,900	368,801	3,853,701	85,000
Due to primary government			-	1,396,665
Due to other governmental units	25,872		25,872	794,686
Cash bonds and deposits	997,776		997,776	
Deferred revenue	1,329,216	12,970	1,342,186	112,358
Current portion of long-term debt	500,000	1,399,095	1,899,095	75,000
Total current liabilities	<u>9,352,464</u>	<u>2,827,751</u>	<u>12,180,215</u>	<u>2,493,972</u>
Noncurrent liabilities:				
Accrued compensated absences	4,687,557	369,091	5,056,648	9,346
Other long-term liabilities	421,300	38,700	460,000	
Noncurrent portion of long-term debt	14,678,234	47,286,305	61,964,539	681,560
Total noncurrent liabilities	<u>19,787,091</u>	<u>47,694,096</u>	<u>67,481,187</u>	<u>690,906</u>
Total liabilities	<u>29,139,555</u>	<u>50,521,847</u>	<u>79,661,402</u>	<u>3,184,878</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	102,083,257	38,726,466	140,809,723	1,726,329
Restricted for:				
Highways and streets	7,753,037		7,753,037	
Solid waste	656,852		656,852	
Debt service	392,678	1,399,095	1,791,773	
Capital projects funds	6,240,063		6,240,063	
Permanent fund:				
Expendable	26,000		26,000	
Non-expendable	1,522		1,522	
Other purposes	640,514		640,514	6,390
Unrestricted (deficit)	(1,295,989)	17,856,461	16,560,472	646,810
Total net assets	<u>\$ 116,497,934</u>	<u>\$ 57,982,022</u>	<u>\$ 174,479,956</u>	<u>\$ 2,379,529</u>

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, 2003**

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	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 11,234,438	\$ 3,071,108	\$ 91,448	\$ -	\$ (8,071,882)		\$ (8,071,882)	
Public safety	17,619,573	1,791,440	20,418	20,314	(15,787,401)		(15,787,401)	
Public works	14,587,704	1,204,166	-	1,107,638	(12,275,900)		(12,275,900)	
Health and welfare	499,650	557,306	-	-	57,656		57,656	
Community and economic development	1,798,736	435,552	2,024,046	-	660,862		660,862	
Recreation and culture	3,186,534	1,104,681	348,318	-	(1,733,535)		(1,733,535)	
Interest and paying agent fees	747,718	653,826	-	-	(93,892)		(93,892)	
Total governmental activities	<u>49,674,353</u>	<u>8,818,079</u>	<u>2,484,230</u>	<u>1,127,952</u>	<u>(37,244,092)</u>		<u>(37,244,092)</u>	
Business-type activities:								
Water & sewer	15,297,697	14,676,181	-	863,204		\$ 241,688	241,688	
Parking	1,877,865	1,839,840	436,160	-		398,135	398,135	
Recreation	2,668,982	2,675,818	-	763,076		769,912	769,912	
Farmers Market	217,957	327,354	-	-		109,397	109,397	
Total business-type activities	<u>20,062,501</u>	<u>19,519,193</u>	<u>436,160</u>	<u>1,626,280</u>		<u>1,519,132</u>	<u>1,519,132</u>	
Total primary government	<u>\$ 69,736,854</u>	<u>\$ 28,337,272</u>	<u>\$ 2,920,390</u>	<u>\$ 2,754,232</u>				
<b>Component units:</b>								
Tax Increment Financing Authority	\$ 1,292,174							\$ (1,292,174)
Downtown Development Authority	45,324							(45,324)
Economic Development Corporation	-							-
Housing Commission	1,099,108		\$ 1,094,441					(4,667)
Total component units	<u>\$ 2,436,606</u>	<u>\$ -</u>	<u>\$ 1,094,441</u>	<u>\$ -</u>				<u>(1,342,165)</u>
<b>General revenues:</b>								
Property taxes					20,598,307	-	20,598,307	2,132,728
State-shared revenues					10,235,529	-	10,235,529	
Unrestricted investment earnings					525,365	275,411	800,776	35,488
Gain on sale of capital assets					44,730	2,500	47,230	
Miscellaneous					1,159,023	10,579	1,169,602	45,000
Transfers					35,554	(35,554)	-	
Total general revenues and transfers					<u>32,598,508</u>	<u>252,936</u>	<u>32,851,444</u>	<u>2,213,216</u>
Change in net assets					(4,645,584)	1,772,068	(2,873,516)	871,051
Net assets - beginning, as restated					121,143,518	56,209,954	177,353,472	1,508,478
Net assets - ending					<u>\$ 116,497,934</u>	<u>\$ 57,982,022</u>	<u>\$ 174,479,956</u>	<u>\$ 2,379,529</u>

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

**City of Royal Oak, Michigan  
Balance Sheet  
Governmental Funds  
June 30, 2003**

	<b>General</b>	<b>Major Streets</b>	<b>Local Streets</b>	<b>Community Development Block Grant</b>	<b>Solid Waste</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 272,826			\$ 4,296		\$ 71,922	\$ 1,095	\$ 350,139
Investments	1,878,269	\$ 2,731,211	\$ 4,538,087		\$ 1,014,183		1,157,938	11,319,688
Receivables, net	405,701	22,323	47,002	1,329,216	105,095	568,899	647,742	3,125,978
Deposits and other assets	372,869							372,869
Due from other governmental units	2,552,622	490,746	158,762	33,816				3,235,946
Due from other funds	1,814,975		710,400	31,105		1,598,917	767,587	4,922,984
Due from component units	1,125,953							1,125,953
Inventories	83,202							83,202
Restricted assets - cash						3,771,374	26,000	3,797,374
<b>Total assets</b>	<b>\$ 8,506,417</b>	<b>\$ 3,244,280</b>	<b>\$ 5,454,251</b>	<b>\$ 1,398,433</b>	<b>\$ 1,119,278</b>	<b>\$ 6,011,112</b>	<b>\$ 2,600,362</b>	<b>\$ 28,334,133</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$ 551,225	\$ 49,840	\$ 15,571	\$ 51,042	\$ 367,435	\$ 191,631	\$ 11,610	\$ 1,238,354
Accrued and other liabilities	1,847,693	8,279	9,734	18,175	5,719	100,922	27,568	2,018,090
Due to other funds	1,522,560	810,383	51,687		89,272	95,176	674,522	3,243,600
Due to other governmental units						25,872		25,872
Cash bonds and deposits	997,776							997,776
Deferred revenue	272,122	10,164	10,164	1,329,216	78,107		647,639	2,347,412
<b>Total liabilities</b>	<b>5,191,376</b>	<b>878,666</b>	<b>87,156</b>	<b>1,398,433</b>	<b>540,533</b>	<b>413,601</b>	<b>1,361,339</b>	<b>9,871,104</b>
Fund balances:								
Reserved for inventories	83,202							83,202
Reserved for restricted assets						3,771,374		3,771,374
Unreserved, designated for subsequent years expenditures		869,010	173,890		578,745			1,621,645
Unreserved, designated, reported in nonmajor special revenue funds							199,500	199,500
Unreserved, undesignated	3,231,839	1,496,604	5,193,205			1,826,137		11,747,785
Unreserved, reported in nonmajor:								
Special revenue funds							467,276	467,276
Debt service funds							544,725	544,725
Permanent funds							27,522	27,522
<b>Total fund balances</b>	<b>3,315,041</b>	<b>2,365,614</b>	<b>5,367,095</b>	<b>-</b>	<b>578,745</b>	<b>5,597,511</b>	<b>1,239,023</b>	<b>18,463,029</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,506,417</b>	<b>\$ 3,244,280</b>	<b>\$ 5,454,251</b>	<b>\$ 1,398,433</b>	<b>\$ 1,119,278</b>	<b>\$ 6,011,112</b>	<b>\$ 2,600,362</b>	<b>\$ 28,334,133</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, 2003**

Total fund balances for governmental funds \$ 18,463,029

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. 109,826,243

- 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. 7,408,986

- Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,018,196

- 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, 2003 are:

Accrued interest on bonds		(157,134)
Bonds payable	\$ (15,490,000)	
Unamortized discounts	189,807	
Unamortized issuance costs	121,959	
Noncurrent portion of general liability claims	(421,300)	
Compensated absences	(4,461,852)	
Total long-term liabilities	(20,061,386)	

Total net assets of governmental activities \$ 116,497,934

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, 2003**

	General	Major Streets	Local Streets	Community Development Block Grant	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>								
Taxes	\$ 14,798,077	\$ 29	\$ 29		\$ 4,876,987		\$ 688,347	\$ 20,363,469
Licenses and permits	699,610	40,156					1,198,113	1,937,879
Federal grants	20,314			\$ 1,524,046		\$ 1,093,923		2,638,283
State grants	6,735,815	2,841,706	919,408				108,603	10,605,532
Charges for services	2,008,323			435,552	105,382	870,136	147,744	3,567,137
Fines and forfeitures	2,764,103						653,826	3,417,929
Interest and rentals	360,114	54,437	83,831		46,138	80,568	46,224	671,312
Contributions and donations	45,292	13,715					44,889	103,896
Other revenue	941,371	10,414	4,310	59,224	6,180	611	136,913	1,159,023
Total revenues and other sources	<u>28,373,019</u>	<u>2,960,457</u>	<u>1,007,578</u>	<u>2,018,822</u>	<u>5,034,687</u>	<u>2,045,238</u>	<u>3,024,659</u>	<u>44,464,460</u>
<b>EXPENDITURES</b>								
Current:								
General government	10,516,595							10,516,595
Public safety	16,334,446						1,374,435	17,708,881
Public works	1,452,793	1,394,248	1,438,790		5,371,185	7,926,531		17,583,547
Health and welfare	488,231							488,231
Community and economic development	222,753			1,612,365				1,835,118
Recreation and culture	2,735,366						246,090	2,981,456
Debt service:								
Principal payments							485,000	485,000
Interest and paying agent fees							742,415	742,415
Total expenditures	<u>31,750,184</u>	<u>1,394,248</u>	<u>1,438,790</u>	<u>1,612,365</u>	<u>5,371,185</u>	<u>7,926,531</u>	<u>2,847,940</u>	<u>52,341,243</u>
Excess (deficiency) of revenues over expenditures	(3,377,165)	1,566,209	(431,212)	406,457	(336,498)	(5,881,293)	176,719	(7,876,783)
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	542,048	7,559	753,014			2,189,896	42,900	3,535,417
Transfers from component units				500,000				500,000
Transfers out		(1,790,238)	(46,560)	(906,457)		(83,233)	(673,375)	(3,499,863)
Sale of capital assets	42,980							42,980
Total other financing sources (uses)	<u>585,028</u>	<u>(1,782,679)</u>	<u>706,454</u>	<u>(406,457)</u>	<u>-</u>	<u>2,106,663</u>	<u>(630,475)</u>	<u>578,534</u>
Net change in fund balances	(2,792,137)	(216,470)	275,242	-	(336,498)	(3,774,630)	(453,756)	(7,298,249)
Fund balances - beginning, as restated	6,107,178	2,582,084	5,091,853	-	915,243	9,372,141	1,692,779	25,761,278
Fund balances - ending	<u>\$ 3,315,041</u>	<u>\$ 2,365,614</u>	<u>\$ 5,367,095</u>	<u>\$ -</u>	<u>\$ 578,745</u>	<u>\$ 5,597,511</u>	<u>\$ 1,239,023</u>	<u>\$ 18,463,029</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, 2003**

Net change in fund balances - total governmental funds \$ (7,298,249)

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 (\$4,854,010) exceeded depreciation (\$2,427,146) in the current period. 2,426,864

- The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins) is to increase net assets. 1,750

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 485,000

- 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	\$	4,440	
Amortization of bond discount		(9,743)	
Amortization of bond issuance costs		(6,266)	
Noncurrent portion of general liability claims		(348,900)	
Compensated absences		(36,509)	
Combined adjustment		(396,978)	(396,978)

- Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. 234,838

- 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. (98,809)

Change in net assets of governmental activities \$ (4,645,584)

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, 2003**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 14,890,000	\$ 14,790,000	\$ 14,798,077	\$ 8,077
Licenses and permits	700,000	735,000	699,610	(35,390)
Federal grants	-	20,000	20,314	314
State grants	7,195,500	6,612,624	6,735,815	123,191
Charges for services	1,608,000	1,879,549	2,008,323	128,774
Fines and forfeitures	2,149,000	2,362,450	2,764,103	401,653
Interest and rentals	765,000	369,500	360,114	(9,386)
Contributions and donations	90,000	50,000	45,292	(4,708)
Reimbursements	355,000	355,000	-	(355,000)
Other revenue	150,000	940,360	941,371	1,011
Total revenues	27,902,500	28,114,483	28,373,019	258,536
<b>EXPENDITURES</b>				
General government	7,690,482	10,562,960	10,516,595	46,365
Public safety	15,746,832	16,042,873	16,334,446	(291,573)
Public works	1,625,745	1,629,805	1,452,793	177,012
Health and welfare	572,855	542,572	488,231	54,341
Community and economic development	204,440	234,140	222,753	11,387
Recreation and culture	2,902,969	2,935,038	2,735,366	199,672
Total expenditures	28,743,323	31,947,388	31,750,184	197,204
Excess of revenues over (under) expenditures	(840,823)	(3,832,905)	(3,377,165)	455,740
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	497,488	497,488	542,048	44,560
Transfers out	(132,475)	(152,475)	-	152,475
Sale of capital assets	25,000	25,000	42,980	17,980
Total other financing sources (uses)	390,013	370,013	585,028	215,015
Net change in fund balance	(450,810)	(3,462,892)	(2,792,137)	670,755
Fund balances - beginning	6,107,178	6,107,178	6,107,178	-
Fund balances - ending	\$ 5,656,368	\$ 2,644,286	\$ 3,315,041	\$ 670,755

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**  
**Major Streets Fund**  
**For the Year Ended June 30, 2003**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 29	\$ 29
Licenses and permits	-	40,160	40,156	(4)
State grants	2,800,000	2,800,000	2,841,706	41,706
Interest	75,000	75,000	54,437	(20,563)
Contributions and donations	13,500	13,500	13,715	215
Other revenue	5,000	9,488	10,414	926
Total revenues	2,893,500	2,938,148	2,960,457	22,309
<b>EXPENDITURES</b>				
Public works	2,511,405	2,555,880	1,394,248	1,161,632
Total expenditures	2,511,405	2,555,880	1,394,248	1,161,632
Excess of revenues over expenditures	382,095	382,268	1,566,209	1,183,941
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	7,559	7,559
Transfers out	(1,160,000)	(1,660,000)	(1,790,238)	(130,238)
Total other financing sources (uses)	(1,160,000)	(1,660,000)	(1,782,679)	(122,679)
Net change in fund balance	(777,905)	(1,277,732)	(216,470)	1,061,262
Fund balances - beginning	2,582,084	2,582,084	2,582,084	-
Fund balances - ending	\$ 1,804,179	\$ 1,304,352	\$ 2,365,614	\$ 1,061,262

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**  
**Local Streets Fund**  
**For the Year Ended June 30, 2003**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 29	\$ 29
State grants	800,000	800,000	919,408	119,408
Interest	90,000	90,000	83,831	(6,169)
Other	-	-	4,310	4,310
Total revenues	890,000	890,000	1,007,578	117,578
<b>EXPENDITURES</b>				
Public works	1,650,020	1,651,963	1,438,790	213,173
Total expenditures	1,650,020	1,651,963	1,438,790	213,173
Excess of revenues over (under) expenditures	(760,020)	(761,963)	(431,212)	330,751
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	560,000	560,000	753,014	193,014
Transfers out	(25,000)	(75,000)	(46,560)	28,440
Total other financing sources (uses)	535,000	485,000	706,454	221,454
Net change in fund balance	(225,020)	(276,963)	275,242	552,205
Fund balances - beginning	5,091,853	5,091,853	5,091,853	-
Fund balances - ending	\$ 4,866,833	\$ 4,814,890	\$ 5,367,095	\$ 552,205

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**  
**Community Development Block Grant Fund**  
**For the Year Ended June 30, 2003**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Federal grants	\$ 2,009,135	\$ 2,000,600	\$ 1,524,046	\$ (476,554)
Charges for service	450,000	450,000	435,552	(14,448)
Other	45,000	48,700	59,224	10,524
Total revenues	2,504,135	2,499,300	2,018,822	(480,478)
<b>EXPENDITURES</b>				
Community and economic development	1,842,535	1,837,700	1,612,365	225,335
Total expenditures	1,842,535	1,837,700	1,612,365	225,335
Excess of revenues over expenditures	661,600	661,600	406,457	(255,143)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from component units	500,000	500,000	500,000	-
Transfers out	(1,161,600)	(1,161,600)	(906,457)	255,143
Total other financing sources (uses)	(661,600)	(661,600)	(406,457)	255,143
Net change in fund balance	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

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, 2003**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 4,120,000	\$ 3,447,950	\$ 4,876,987	\$ 1,429,037
Charges for service	95,000	95,000	105,382	10,382
Interest	75,000	75,000	46,138	(28,862)
Other	4,000	4,000	6,180	2,180
Total revenues	4,294,000	3,621,950	5,034,687	1,412,737
<b>EXPENDITURES</b>				
Public works	5,849,240	5,848,260	5,371,185	477,075
Total expenditures	5,849,240	5,848,260	5,371,185	477,075
Excess (deficiency) of revenues over (under) expenditures	(1,555,240)	(2,226,310)	(336,498)	1,889,812
Fund balances - beginning	915,243	915,243	915,243	-
Fund balances (deficit) - ending	\$ (639,997)	\$ (1,311,067)	\$ 578,745	\$ 1,889,812

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, 2003**

	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	\$ 148,720	\$ 91,668	\$ 185,854	\$ 426,242	\$ 5,300
Investments		3,318,265	1,724,747	5,043,012	1,023,293
Receivables, net	3,783,927	14,215	14,544	3,812,686	197
Deposits and other assets		132,117	20,000	152,117	
Due from other governmental units	952,630		217,578	1,170,208	
Due from other funds		284	47,910	48,194	478,368
Due from component units		270,712		270,712	
Inventories	101,067	68,699		169,766	128,427
Total current assets	4,986,344	3,895,960	2,210,633	11,092,937	1,635,585
Noncurrent assets:					
Restricted assets		3,017,584	40	3,017,624	
Receivables, net	10,837,268			10,837,268	
Capital assets	58,731,559	19,822,457	8,857,850	87,411,866	7,435,248
Total noncurrent assets	69,568,827	22,840,041	8,857,890	101,266,758	7,435,248
Total assets	74,555,171	26,736,001	11,068,523	112,359,695	9,070,833
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	745,742	108,545	192,598	1,046,885	76,006
Accrued and other liabilities	322,218	32,374	14,209	368,801	1,309,676
Due to other funds	3,640,122		140,913	3,781,035	125,251
Deferred revenue			12,970	12,970	
Bonds payable	903,092	274,427	221,576	1,399,095	
Total current liabilities	5,611,174	415,346	582,266	6,608,786	1,510,933
Noncurrent liabilities:					
Accrued compensated absences	271,970	44,471	52,650	369,091	225,705
Other long-term liabilities	31,700	3,500	3,500	38,700	
Bonds payable	35,015,024	10,317,394	1,953,887	47,286,305	
Total noncurrent liabilities	35,318,694	10,365,365	2,010,037	47,694,096	225,705
Total liabilities	40,929,868	10,780,711	2,592,303	54,302,882	1,736,638
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	22,813,443	9,230,636	6,682,387	38,726,466	7,435,248
Restricted for debt service	903,092	274,427	221,576	1,399,095	
Unrestricted	9,908,768	6,450,227	1,572,257	17,931,252	(101,053)
Total net assets	\$ 33,625,303	\$ 15,955,290	\$ 8,476,220	58,056,813	\$ 7,334,195

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.

(74,791)

Net assets of business-type activities

\$ 57,982,022

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, 2003**

	<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	\$ 14,676,181	\$ 1,839,840	\$ 3,003,172	\$ 19,519,193	\$ 4,574,765
Contributions and donations			13,076	13,076	
Other	273,569	2,640	169	276,378	98,911
Total operating revenues	<u>14,949,750</u>	<u>1,842,480</u>	<u>3,016,417</u>	<u>19,808,647</u>	<u>4,673,676</u>
<b>OPERATING EXPENSES</b>					
Salaries and benefits	1,966,931	493,783	384,803	2,845,517	2,327,522
Supplies	228,420	14,939	243,821	487,180	517,716
Water purchases	2,785,198			2,785,198	
Sewage disposal services	6,399,799			6,399,799	
Other services and charges	1,738,351	241,270	1,766,217	3,745,838	717,433
Depreciation	1,330,483	473,715	358,986	2,163,184	1,364,831
Total operating expenses	<u>14,449,182</u>	<u>1,223,707</u>	<u>2,753,827</u>	<u>18,426,716</u>	<u>4,927,502</u>
Operating income (loss)	<u>500,568</u>	<u>618,773</u>	<u>262,590</u>	<u>1,381,931</u>	<u>(253,826)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal grants	597,405			597,405	
State grants			750,000	750,000	
Interest income	147,785	104,590	23,036	275,411	23,464
Interest expense	(807,551)	(639,057)	(116,380)	(1,562,988)	
Gain (loss) on disposal of capital assets			2,500	2,500	58,756
Total nonoperating revenue (expenses)	<u>(62,361)</u>	<u>(534,467)</u>	<u>659,156</u>	<u>62,328</u>	<u>82,220</u>
Income (loss) before contributions and transfers	438,207	84,306	921,746	1,444,259	(171,606)
<b>TRANSFERS IN</b>	3,064	436,160	4,486,290	4,925,514	
<b>TRANSFERS OUT</b>	<u>(225,460)</u>	<u></u>	<u>(4,299,448)</u>	<u>(4,524,908)</u>	<u></u>
Change in net assets	215,811	520,466	1,108,588	1,844,865	(171,606)
Total net assets - beginning	<u>33,409,492</u>	<u>15,434,824</u>	<u>7,367,632</u>	<u></u>	<u>7,505,801</u>
Total net assets - ending	<u>\$ 33,625,303</u>	<u>\$ 15,955,290</u>	<u>\$ 8,476,220</u>	<u></u>	<u>\$ 7,334,195</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.

(72,797)

Change in net assets of business-type activities

\$ 1,772,068

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, 2003**

	Business Type Activities - Enterprise Funds			Total	Governmental
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds		Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 14,770,481	\$ 1,887,642	\$ 2,774,200	\$ 19,432,323	\$ 68,483
Internal activity - receipts from other funds			13,076	13,076	4,716,451
Other operating receipts			(114)	(114)	101,829
Payments to vendors	(9,550,264)	(111,367)	(1,716,558)	(11,378,189)	(1,093,665)
Payments to employees	(1,182,204)	(395,274)	(257,198)	(1,834,676)	(938,712)
Payments of benefits on behalf of employees	(350,732)	(64,221)	(60,265)	(475,218)	(813,473)
Internal activity - payments to other funds	(1,259,438)	(239,945)	(140,651)	(1,640,034)	(128,441)
Net cash provided by (used in) operating activities	<u>2,427,843</u>	<u>1,076,835</u>	<u>612,490</u>	<u>4,117,168</u>	<u>1,912,472</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	3,064		4,486,290	4,489,354	
Transfers from component units		436,160		436,160	
Transfers to other funds	(225,460)		(4,299,448)	(4,524,908)	
Increase in other long-term liabilities	26,300	2,900	2,900	32,100	
Net cash provided by (used in) noncapital financing activities	<u>(196,096)</u>	<u>439,060</u>	<u>189,742</u>	<u>432,706</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital grant proceeds	597,405		750,000	1,347,405	
Purchase of capital assets	(8,378,050)	(1,332,404)	(932,949)	(10,643,403)	(2,568,830)
Principal paid on capital debt	(964,235)	(1,023,264)	(211,576)	(2,199,075)	
Interest paid on capital debt	(807,551)	(639,057)	(116,380)	(1,562,988)	
Decrease in long-term receivable	1,403,299			1,403,299	
Proceeds from sale of capital assets			2,500	2,500	58,756
Proceeds from sale of bonds	5,773,544			5,773,544	
Net cash provided by (used in) capital and related financing activities	<u>(2,375,588)</u>	<u>(2,994,725)</u>	<u>(508,405)</u>	<u>(5,878,718)</u>	<u>(2,510,074)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments					590,106
Purchase of investment securities					(15,968)
Interest received on investments	147,785	104,590	23,036	275,411	23,464
Net cash provided by (used in) investment activities	<u>147,785</u>	<u>104,590</u>	<u>23,036</u>	<u>275,411</u>	<u>597,602</u>
Net increase (decrease) in cash and cash equivalents	3,944	(1,374,240)	316,863	(1,053,433)	-
Balances - beginning	144,776	7,801,757	1,593,778	9,540,311	5,300
Balances - ending	<u>\$ 148,720</u>	<u>\$ 6,427,517</u>	<u>\$ 1,910,641</u>	<u>\$ 8,486,878</u>	<u>\$ 5,300</u>
Balance sheet classification of cash and cash equivalents:					
Cash and investments	\$ 148,720	\$ 3,409,933	\$ 1,910,601	\$ 5,469,254	\$ 1,028,593
Restricted cash and investments	-	3,017,584	40	3,017,624	
Less investments with original maturities greater than three months					(1,023,293)
	<u>\$ 148,720</u>	<u>\$ 6,427,517</u>	<u>\$ 1,910,641</u>	<u>\$ 8,486,878</u>	<u>\$ 5,300</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 500,568	\$ 618,773	\$ 262,590	\$ 1,381,931	\$ (253,826)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,330,483	473,715	358,986	2,163,184	1,364,831
Changes in assets and liabilities:					
Receivables	436,903	(5,632)	(13,823)	417,448	2,918
Deposits and other assets		50,794		50,794	
Due from other governmental units	(616,172)		(217,578)	(833,750)	
Due from other funds		388,310	360,331	748,641	980,677
Due from component units		(270,712)		(270,712)	
Inventories	11,113	(56,265)		(45,152)	2,813
Accounts payable	(233,878)	9,879	(288,356)	(512,355)	16,049
Accrued and other liabilities	50,575	(24,221)	(34,350)	(7,996)	317,751
Due to other funds	676,281	(13,802)	131,474	793,953	(744,446)
Due to component units		(138,475)		(138,475)	
Deferred revenue			566	566	
Accrued compensated absences	271,970	44,471	52,650	369,091	225,705
Net cash provided by (used in) operating activities	<u>\$ 2,427,843</u>	<u>\$ 1,076,835</u>	<u>\$ 612,490</u>	<u>\$ 4,117,168</u>	<u>\$ 1,912,472</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, 2003**

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,000	\$ 539,042
Investments		1,172,057
Receivables, net	19,955	36
Due from other funds	1,677,780	
Due from other governmental units		22,560
Retirement investments, at fair value		
U.S. government obligations	21,446,984	
Corporate bonds	24,874,719	
Stocks	68,999,716	
Other investments	9,933,098	
Accrued income	517,250	
Total investments	<u>125,771,767</u>	
Total assets	<u>127,472,502</u>	<u>\$ 1,733,695</u>
<b>LIABILITIES</b>		
Accounts payable	357,113	\$ 13,705
Accrued and other liabilities		3,475
Due to other governmental units		655,907
Cash bonds and deposits		1,060,608
Total liabilities	<u>357,113</u>	<u>\$ 1,733,695</u>
<b>NET ASSETS</b>		
Held in trust for pension and other employee benefits	<u>\$ 127,115,389</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, 2003**

	<b>Pension and Other Employee Benefit Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 1,500,000
Plan members	473,995
Plan members' buybacks	152,635
Total contributions	<u>2,126,630</u>
Investment earnings:	
Net increase (decrease) in fair value of investments	(781,346)
Interest	3,182,255
Dividends	1,177,000
Other investment revenues	109,159
Total investment income	<u>3,687,068</u>
Less investment expenses	<u>654,462</u>
Net investment income	<u>3,032,606</u>
Total additions	<u>5,159,236</u>
<b>DEDUCTIONS</b>	
Benefits	8,775,176
Refund of contributions	704,551
Administrative expenses	50,293
Total deductions	<u>9,530,020</u>
Change in net assets	(4,370,784)
Net assets - beginning	<u>131,486,173</u>
Net assets - ending	<u>\$ 127,115,389</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, 2003**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Housing Commission</b>	<b>Total</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents		\$ 28,271	\$ 20,093	\$ 33,901	\$ 82,265
Investments	\$ 2,827,906				2,827,906
Receivables, net	53,895	2,035			55,930
Deposits and other assets				87,681	87,681
Total current assets	<u>2,881,801</u>	<u>30,306</u>	<u>20,093</u>	<u>121,582</u>	<u>3,053,782</u>
Noncurrent assets:					
Restricted assets	6,390				6,390
Capital assets	<u>2,504,235</u>				<u>2,504,235</u>
Total noncurrent assets	<u>2,510,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,510,625</u>
Total assets	<u>5,392,426</u>	<u>30,306</u>	<u>20,093</u>	<u>121,582</u>	<u>5,564,407</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	25,058	2,086		3,119	30,263
Accrued and other liabilities	85,000				85,000
Due to primary government	1,388,305	2,255		6,105	1,396,665
Due to other governmental units	794,686				794,686
Deferred revenue				112,358	112,358
Current portion of long-term debt	<u>75,000</u>				<u>75,000</u>
Total current liabilities	<u>2,368,049</u>	<u>4,341</u>	<u>-</u>	<u>121,582</u>	<u>2,493,972</u>
Noncurrent liabilities:					
Accrued compensated absences				9,346	9,346
Noncurrent portion of long-term debt	<u>681,560</u>				<u>681,560</u>
Total noncurrent liabilities	<u>681,560</u>	<u>-</u>	<u>-</u>	<u>9,346</u>	<u>690,906</u>
Total liabilities	<u>3,049,609</u>	<u>4,341</u>	<u>-</u>	<u>130,928</u>	<u>3,184,878</u>
<b>NET ASSETS</b>					
Restricted for restricted assets	6,390				6,390
Unrestricted (deficit)	<u>2,336,427</u>	<u>25,965</u>	<u>20,093</u>	<u>(9,346)</u>	<u>2,373,139</u>
Total net assets	<u>\$ 2,342,817</u>	<u>\$ 25,965</u>	<u>\$ 20,093</u>	<u>\$ (9,346)</u>	<u>\$ 2,379,529</u>

**City of Royal Oak, Michigan  
Statement of Activities  
Component Units  
For the Year Ended June 30, 2003**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission	Totals
<b>Tax Increment Financing Authority</b>									
Public works	\$ 1,239,477		\$ 100		\$ (1,239,377)				\$ (1,239,377)
Interest on long-term debt	52,697				(52,697)				(52,697)
Total - Tax Increment Financing Authority	1,292,174		100		(1,292,074)				(1,292,074)
<b>Downtown Development Authority</b>									
General government	45,324					\$ (45,324)			(45,324)
<b>Economic Development Corporation</b>									
<b>Housing Commission</b>									
General government	102,569		97,802				\$ (4,767)		(4,767)
Health and welfare	996,539		996,539				-		-
Total - Housing Commission	1,099,108		1,094,341				(4,767)		(4,767)
Total component units	\$ 2,436,606	\$ -	\$ 1,094,441	\$ -					(1,342,165)
<b>General revenues:</b>									
Taxes					2,081,642	51,086			2,132,728
Unrestricted interest and investment earnings					33,819	228	\$ 117	1,324	35,488
Miscellaneous					45,000				45,000
Total general revenues					2,160,461	51,314	117	1,324	2,213,216
Change in net assets					868,387	5,990	117	(3,443)	871,051
Net assets - beginning					1,474,430	19,975	19,976	(5,903)	1,508,478
Net assets - ending					\$ 2,342,817	\$ 25,965	\$ 20,093	\$ (9,346)	\$ 2,379,529

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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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**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.

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**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

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governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

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The Community Development Block Grant Fund accounts for grants under the Housing and Community Development Act of 1974, as amended. The Act provides for a series of grants over a period of years to be used for various community development activities.

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.

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

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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 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**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between

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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 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. Restricted assets that are not available for current operations are not considered cash equivalents.

**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

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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:

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

**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.

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**9. Restatements**

The beginning net assets of the Water & Sewer fund were derived by aggregating the previously reported retained earnings and contributed capital in the amounts of \$30,875,674 and \$2,567,572 respectively. The beginning net assets of the Municipal Golf Course fund were derived by aggregating the previously reported retained earnings and contributed capital in the amounts of \$1,240,475 and \$31,938 respectively. The beginning net assets of the Automobile Parking System fund were derived by aggregating the previously reported retained earnings and contributed capital in the amounts of \$14,113,114 and \$250,348 respectively.

In addition, for the year ended June 30, 2003, the City implemented the following Governmental Accounting Standards Board pronouncements:

**Statements**

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

**Interpretation**

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City is required to implement the new requirements for the fiscal year ending June 30, 2003.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include;
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

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As a result of implementing these pronouncements for the fiscal year ended June 30, 2003, the following restatements were made to beginning fund balance and net asset accounts:

*Fund financial statements.* The City of Royal Oak changed its accounting policy in regard to state-shared revenue accrual and general liability for claims during the year. A prior period adjustment was done so that the current year would not be overstated. The City had an asset valuation completed in order to conform to the new GASB 34 standards for capital assets. Prior period adjustments were necessary to update the capital asset records in many of the enterprise funds. The new beginning balances are as follows:

	Fund equity 6/30/02, as previously stated	State shared revenue	Interest payable	General liability claims	Capital assets	Fund equity as restated
General Fund	\$ 5,104,271	\$ 1,002,907				\$ 6,107,178
Water & Sewer	33,443,246		\$ (176,022)	\$ (5,400)	\$ 147,668	33,409,492
Auto Parking	14,363,492		(90,475)	(600)	1,162,407	15,434,824
Golf Course	1,272,413				95,086	1,367,499
Recreation	19,650			(600)		19,050
Ice Arena	1,518,592		(40,178)			1,478,414
Motor Pool	6,581,778				2,025	6,583,803

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue, debt service, capital projects and non-expendable trust funds as of 6/30/02 (including General Fund restated balance per above)	\$ 25,761,278
Add: governmental capital assets, including infrastructure as of 6/30/02	162,348,719
Deduct: accumulated depreciation as of 6/30/02 on above governmental capital assets	(54,951,090)
Add: governmental internal service fund net assets as of 6/30/02	7,724,576
Add: special assessments receivable as of 6/30/02	783,358
Deduct: general obligation bonds and general liability claims as of 6/30/02	(15,719,625)
Deduct: accrued interest payable on general obligation bonds as of 6/30/02	(161,574)
Deduct: governmental compensated absences payable as of 6/30/02	(4,642,124)
Governmental net assets, restated, as of 7/1/02	<u>\$ 121,143,518</u>

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Beginning net assets for business-type activities was determined as follows:

Total fund equity of enterprise funds as of 6/30/02 (including prior period adjustments stated above)	\$ 56,211,948
Deduct: internal balances with governmental activities as of 6/30/02	<u>(1,994)</u>
Business-type net assets, restated, as of 7/1/02	<u><u>\$ 56,209,954</u></u>

**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 approved by the City Commission for carry forward. The legal level of budgetary control is the fund 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, 2003, 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>Actual</u>
	<u>Appropriation</u>	<u>Expenditure</u>
General Fund – 44 <sup>th</sup> District Court	\$1,641,360	\$1,647,462
General Fund – Police Department	9,880,192	9,982,552
General Fund – Fire Department	6,132,456	6,221,946
General Fund – Animal Protection	130,225	139,948
General Fund – Dream Cruise	106,538	109,527
General Fund – Retiree Insurance Benefits	4,671,480	4,856,771
Major Streets – Winter Maintenance	340,780	424,454
Major Streets – Streets Administration	681,030	832,329
Local Streets – Streets Traffic Control	148,230	176,661
Local Streets – Streets Administration	41,120	41,301

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**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 Activities</b>	<b>Business-Type Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>	<b>Component Units</b>
Cash and Cash Equivalents	\$ 355,439	\$ 426,242	\$ 542,042	\$ 1,323,723	\$ 82,265
Investments	12,342,981	5,043,012	126,426,574	143,812,567	2,827,906
Restricted Assets	3,797,374	3,017,624	-	6,814,998	6,390
<b>Total</b>	<b>\$ 16,495,794</b>	<b>\$ 8,486,878</b>	<b>\$ 126,968,616</b>	<b>\$ 151,951,288</b>	<b>\$ 2,916,561</b>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposits)	\$ 1,416,136	\$ 88,655
Investments in Securities, Mutual Funds and Similar Vehicles	150,502,448	2,827,906
Petty Cash and Cash on Hand	32,704	
<b>Total</b>	<b>\$ 151,951,288</b>	<b>\$ 2,916,561</b>

The bank balance of the primary government's deposits is \$2,417,042, of which \$1,148,567 is covered by federal depository insurance and \$1,268,475 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$88,655, 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.

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The City's and its component units' deposits and investments at June 30, 2003 were as follows:

	Category*			Carrying/ Fair Value
	(1)	(2)	(3)	Total
Commercial paper	\$ 2,204,000			\$ 2,204,000
U.S. government securities		\$ 21,446,984		21,446,984
Corporate bonds		24,874,719		24,874,719
Common stock		68,999,716		68,999,716
Repurchase agreements		9,933,098		9,933,098
	<u>\$ 2,204,000</u>	<u>\$ 125,254,517</u>	<u>-</u>	<u>127,458,517</u>
Unclassified as to risk:				
Bank cash management funds and mutual funds				25,871,837
Total investments				<u>\$ 153,330,354</u>

\*See descriptions of categories on previous page.

**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	Major	Local	Community	Solid	Capital	Water and	Auto	Nonmajor	Total	Component Units
	Fund	Streets	Streets	Development Block Grant	Waste	Projects	Sewer	Parking	and Other Funds		
Taxes Receivable	\$ 294,622	\$ 10,164	\$ 10,163		\$ 87,107				\$ 5,087	\$ 407,143	\$ 78,690
Accounts	134,142	1,347	427	\$ 1,329,216	26,115	\$ 584,799	\$ 3,783,927	\$ 5,510	14,064	5,879,547	
Special Assessments									642,552	642,552	
Interest and other	1,897	10,812	36,412		873			8,705	780	59,479	2,240
Gross Receivables	430,661	22,323	47,002	1,329,216	114,095	584,799	3,783,927	14,215	662,483	6,988,721	80,930.00
Less: Allowance for uncollectibles	(24,960)				(9,000)	(15,900)				(49,860)	(25,000)
Net receivables, per fund financials	<u>\$ 405,701</u>	<u>\$ 22,323</u>	<u>\$ 47,002</u>	<u>\$ 1,329,216</u>	<u>\$ 105,095</u>	<u>\$ 568,899</u>	<u>\$ 3,783,927</u>	<u>\$ 14,215</u>	<u>\$ 662,483</u>	<u>\$ 6,938,861</u>	<u>\$ 55,930</u>

Of the special assessment receivable, \$145,000 is expected to be collected in the next year.

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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:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes	\$ 375,644	
Special Assessments	642,552	
Grant Drawdowns Prior to Meeting Eligibility Requirements		1,329,216
Total	<u>\$ 1,018,196</u>	<u>\$ 1,329,216</u>

**C. Capital Assets:**

Capital asset activity for the current year was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 66,599,528	\$ 66,879		\$ 66,666,407
Construction in progress	-	4,573,149		4,573,149
Total capital assets, not being depreciated	<u>66,599,528</u>	<u>4,640,028</u>	-	<u>71,239,556</u>
Capital assets, being depreciated				
Buildings	17,825,255	10,070		17,835,325
Improvements other than buildings	2,787,847	47,045		2,834,892
Machinery and equipment	14,820,161	2,795,533	\$ (905,084)	16,710,610
Infrastructure	73,248,469			73,248,469
Intangibles	467,641	24,763		492,404
Total capital assets being depreciated	<u>109,149,373</u>	<u>2,877,411</u>	<u>(905,084)</u>	<u>111,121,700</u>
Less accumulated depreciation for:				
Buildings	(7,388,660)	(352,129)		(7,740,789)
Improvements other than buildings	(1,388,360)	(145,838)		(1,534,198)
Machinery and equipment	(8,441,700)	(1,424,704)	813,963	(9,052,441)
Infrastructure	(44,592,316)	(1,777,808)		(46,370,124)
Intangibles	(308,987)	(93,226)		(402,213)
Total accumulated depreciation	<u>(62,120,023)</u>	<u>(3,793,705)</u>	<u>813,963</u>	<u>(65,099,765)</u>
Total capital assets, being depreciated, net	47,029,350	(916,294)	(91,121)	46,021,935
Governmental activities capital assets, net	<u>\$ 113,628,878</u>	<u>\$ 3,723,734</u>	<u>\$ (91,121)</u>	<u>\$ 117,261,491</u>

**City of Royal Oak, Michigan**  
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**Business-type activities:**

Capital assets, not being depreciated

Land	\$ 5,121,005			\$ 5,121,005
Construction in progress	22,032,806	\$ 7,878,804	\$ (10,660,207)	19,251,403
Total capital assets, not being depreciated	27,153,811	7,878,804	(10,660,207)	24,372,408

Capital assets, being depreciated

Buildings	15,469,734	12,535,306		28,005,040
Improvements other than buildings	1,313,249	2,682		1,315,931
Machinery and equipment	1,951,649	61,916	11,627	2,025,192
Infrastructure	54,719,349	824,903	(50,239)	55,494,013
Intangibles	8,370			8,370
Total capital assets being depreciated	73,462,351	13,424,807	(38,612)	86,848,546

Less accumulated depreciation for:

Buildings	(5,291,671)	(657,980)		(5,949,651)
Improvements other than buildings	(761,964)	(57,684)		(819,648)
Machinery and equipment	(1,176,585)	(128,838)	(11,627)	(1,317,050)
Infrastructure	(14,449,730)	(1,317,008)	50,239	(15,716,499)
Intangibles	(4,566)	(1,674)		(6,240)
Total accumulated depreciation	(21,684,516)	(2,163,184)	38,612	(23,809,088)

Total capital assets, being depreciated, net 51,777,835 11,261,623 - 63,039,458

Business-type activities capital assets, net \$ 78,931,646 \$ 19,140,427 \$ (10,660,207) \$ 87,411,866

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

Governmental activities:

General government	\$ 237,964
Public safety	146,551
Health and welfare	14,153
Community and economic development	8,022
Public works	1,763,255
Recreation and culture	257,201
Capital asset held by the government's internal service funds are charged to the various functions based on their usage of the usage	1,364,831
Total depreciation expense - governmental activities	<u>\$ 3,791,977</u>

Business-type activities:

Parking	\$ 473,715
Recreation	349,918
Farmers market	9,068
Water	1,330,483
Total depreciation expense - business-type activities	<u>\$ 2,163,184</u>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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**Construction Commitments**

The City has active construction projects as of June 30, 2003. The projects include construction of a 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	\$ 3,736,488	\$ 3,051,182
Street Projects	5,887,793	1,420,299
Water Projects	1,736,637	227,458
Sidewalks	1,483,752	1,224,190
<b>Total</b>	<b><u>\$ 12,844,670</u></b>	<b><u>\$ 5,923,129</u></b>

A Building Authority bond issue is financing the Fire Station construction commitment by a special millage.

**Discretely presented component units**

Capital asset activity for the current year was as follows:

**Component units:**

Capital assets, not being depreciated				
Land	\$ 1,990,259			\$ 1,990,259
Total capital assets, not being depreciated	1,990,259	-	-	1,990,259
Capital assets, being depreciated				
Improvements other than buildings	175,147	\$ 16,202		191,349
Infrastructure	378,830			378,830
Total capital assets being depreciated	553,977	16,202	-	570,179
Less accumulated depreciation for:				
Improvements other than buildings	(7,706)	(9,562)		(17,268)
Infrastructure	(18,941)	(19,994)		(38,935)
Total accumulated depreciation	(26,647)	(29,556)	-	(56,203)
Total capital assets, being depreciated, net	527,330	(13,354)	-	513,976
Component unit capital assets, net	<u>\$ 2,517,589</u>	<u>\$ (13,354)</u>	<u>\$ -</u>	<u>\$ 2,504,235</u>

There was \$29,556 in depreciation expense, all of which was charged to the Tax Increment Financing Authority activity.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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**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	\$ 1,522,560	\$ 2,940,928
Major Streets Fund	810,383	
Local Streets Fund	51,687	710,400
Community Development Block Grant Fund		31,105
Solid Waste Fund	89,272	
Capital Projects Fund	95,176	1,598,917
Nonmajor Governmental Funds	674,522	767,587
Water & Sewer Fund	3,640,122	
Automobile Parking System Fund		270,996
Nonmajor Enterprise Funds	140,913	47,910
Internal Service Funds	125,251	478,368
Fiduciary Funds		1,700,340
Component Units	1,396,665	
	<u>\$ 8,546,551</u>	<u>\$ 8,546,551</u>

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

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 542,048	Major Streets	\$ 1,790,238
Major Streets	7,559	Local Streets	46,560
Local Streets	753,014	Community Development	
Community Development		Block Grant	906,457
Block Grant	500,000	Nonmajor governmental funds	670,380
Capital Projects	2,189,896	Capital Projects	86,228
Nonmajor governmental funds	42,900	Water & Sewer	225,460
Water & Sewer	3,064	Nonmajor enterprise funds	4,299,448
Auto Parking	436,160		
Nonmajor enterprise funds	4,486,290	Component Units	936,160
	<u>\$ 8,960,931</u>		<u>\$ 8,960,931</u>

For the most part, interfund transfers occur during the normal course of operations, for instance to fund capital projects. In order to consolidate two nonmajor enterprise funds, this year the City transferred \$4,299,448 from the Salter Center to Recreation administration. All interfund balances are expected to be collected within one year.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

**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	\$ 6,975,000	\$ (190,000)	\$ 6,785,000	\$ 195,000
Unlimited tax general obligation bonds	3.75%-5.0%	2021	9,000,000	(295,000)	8,705,000	305,000
Compensated absences			4,642,124	45,433	4,687,557	
General liability claims			72,400	348,900	421,300	
			20,689,524	(90,667)	20,598,857	500,000
Less: unamortized discount and issuance costs			(327,775)	16,009	(311,766)	
Total governmental activity long-term liabilities			\$ 20,361,749	\$ (74,658)	\$ 20,287,091	\$ 500,000
<b>Business-type activities</b>						
Limited tax general obligation-Ice Arena	5.0%	2010	\$ 2,415,000	(215,000)	\$ 2,200,000	\$ 225,000
Limited tax general obligation-Parking	4.25%-5.25%	2026	11,755,000	(1,035,000)	10,720,000	280,000
Oakland County North Arm Drain Bonds	2.25%	2020	13,242,387	(645,000)	12,597,387	575,000
Contractual obligations	2.5%-5.375%	2024	17,866,420	5,454,309	23,320,729	328,092
Compensated absences			310,708	58,383	369,091	
General liability claims			6,600	32,100	38,700	
			45,596,115	3,649,792	49,245,907	1,408,092
Less: unamortized discount and issuance costs			(167,876)	15,160	(152,716)	(8,997)
Total business-type activity long-term liabilities			\$ 45,428,239	\$ 3,664,952	\$ 49,093,191	\$ 1,399,095
<b>Component units</b>						
Limited tax development bonds	6.0%	2009	\$ 1,575,000	\$ (775,000)	\$ 800,000	\$ 75,000
Compensated absences			5,903	3,443	9,346	
			1,580,903	(771,557)	809,346	75,000
Less: unamortized discount and issuance costs			(50,299)	6,859	(43,440)	
Total Component Units			\$ 1,530,604	\$ (764,698)	\$ 765,906	\$ 75,000

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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
2004	\$ 500,000	\$ 721,309	\$ 850,464	\$ 843,620	\$ 75,000	\$ 45,750
2005	520,000	700,422	879,886	810,541	100,000	40,500
2006	540,000	678,684	916,764	775,324	100,000	34,500
2007	560,000	656,003	953,641	738,515	100,000	28,500
2008	585,000	632,522	995,519	700,114	125,000	21,750
2009-2013	3,340,000	2,757,172	4,905,751	2,894,581	300,000	18,000
2014-2018	4,225,000	1,902,611	4,757,132	2,010,488		
2019-2023	4,710,000	746,752	4,138,896	1,079,704		
2024-2026	510,000	26,520	2,155,000	230,214		
Total	<u>\$ 15,490,000</u>	<u>\$ 8,821,995</u>	<u>\$ 20,553,053</u>	<u>\$ 10,083,101</u>	<u>\$ 800,000</u>	<u>\$ 189,000</u>

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

**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, 2003, the City's obligation is \$21,871,800 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 \$225,700 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, 2003**

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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	\$ 3,017,584
Lease Revenue restricted for debt repayment	40
Total Restricted Assets	<u>\$ 3,017,624</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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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estimate. An excess coverage insurance policy covers individual claims in excess of \$500,000. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the reported liability for the fiscal years 2002 and 2003 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>
2002	\$ 1,050,553	\$ 38,277	\$ (296,095)	\$ 792,735
2003	792,735	1,196,089	(710,330)	1,278,494

**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, 2003 the City expensed approximately \$1,320,400 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, 2003 the City expensed approximately \$2,785,200 of payments made to the Authority. Complete financial statements for the Southeastern

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

**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, 394 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 \$3,285,000. In addition, the City created a new fund to provide for an accumulation of assets for the required future health care payments. In the current year, the General Fund transferred \$1,500,000 to establish the new fund. 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, 2003 was approximately \$20,890,800. The City's total payroll was approximately \$25,843,600.

At June 30, 2002 (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><u>494</u></u>
Current full-time employees:	
Fully vested	248
Nonvested	<u>146</u>
Total current employees	<u><u>394</u></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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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**Local 270M** - 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.

**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. 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** – For police command and officers: The sum of 2.8 percent of FAC for all years of service. The maximum benefit may not exceed 75 percent of FAC. For detectives: The sum of 2.5 percent of FAC multiplied by the first 20 years of service plus 2.2 percent for each year thereafter. 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, 2003, 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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2003**

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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.

For the year ended June 30, 2003, 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 5 percent and 2 percent to 5 percent of gross wages is required for general employees and police and fire employees, respectively. 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**

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Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	\$0	0%	\$0
6/30/02	0	0	0
6/30/03	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, 2003 was approximately \$1 million. During the year ended June 30, 2003, \$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	-

**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	-
2001	0	0	-
2002	0	0	-
2003	0	0	-

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 49, 50 and 51.

## **ADDITIONAL INFORMATION**

**City of Royal Oak, Michigan  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2003**

	Special Revenue		Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Nonmajor Capital Projects Funds	Permanent Fund	Total Nonmajor Governmental Funds
	Senior Citizens Program	State Construction Code			Capital Improvements	Special Assessments			
<b>ASSETS</b>									
Cash and cash equivalents	\$ 250		\$ 250	\$ 845			\$ -		\$ 1,095
Investments			-	1,000,000		\$ 157,938	157,938		1,157,938
Receivables, net			-	5,175		642,565	642,565	\$ 2	647,742
Due from other funds	531,520	\$ 174,184	705,704	60,363	\$ -		-	1,520	767,587
Restricted assets			-				-	26,000	26,000
Total assets	<u>\$ 531,770</u>	<u>\$ 174,184</u>	<u>\$ 705,954</u>	<u>\$ 1,066,383</u>	<u>\$ -</u>	<u>\$ 800,503</u>	<u>\$ 800,503</u>	<u>\$ 27,522</u>	<u>\$ 2,600,362</u>
<b>LIABILITIES</b>									
Liabilities:									
Accounts payable	\$ 7,416	\$ 4,194	\$ 11,610						\$ 11,610
Accrued and other liabilities	3,275	24,293	27,568						27,568
Due to other funds			-	\$ 516,571		\$ 157,951	\$ 157,951	\$ -	674,522
Deferred revenue			-	5,087		642,552	642,552		647,639
Total liabilities	<u>10,691</u>	<u>28,487</u>	<u>39,178</u>	<u>521,658</u>		<u>800,503</u>	<u>800,503</u>	<u>-</u>	<u>1,361,339</u>
<b>FUND BALANCES</b>									
Unreserved, designated for subsequent years expenditures		199,500	199,500				-		199,500
Unreserved, undesignated	521,079	(53,803)	467,276	544,725	\$ -		-	27,522	1,039,523
Total fund balances	<u>521,079</u>	<u>145,697</u>	<u>666,776</u>	<u>544,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,522</u>	<u>1,239,023</u>
Total liabilities and fund balances	<u>\$ 531,770</u>	<u>\$ 174,184</u>	<u>\$ 705,954</u>	<u>\$ 1,066,383</u>	<u>\$ -</u>	<u>\$ 800,503</u>	<u>\$ 800,503</u>	<u>\$ 27,522</u>	<u>\$ 2,600,362</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, 2003**

	Special Revenue		Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Nonmajor Capital Projects Funds	Permanent Fund	Total Nonmajor Governmental Funds
	Senior Citizens Program	State Construction Code			Capital Improvements	Special Assessments			
<b>REVENUES</b>									
Taxes				\$ 688,347					\$ 688,347
Licenses and permits		\$ 1,198,113	\$ 1,198,113						1,198,113
State grants	\$ 108,603		108,603						108,603
Charges for services	108,907	38,837	147,744						147,744
Fines and forfeitures			-	653,826					653,826
Interest	9,297		9,297	9,370		\$ 26,062	\$ 26,062	\$ 1,495	46,224
Contributions and donations	44,889		44,889						44,889
Other revenue		150	150	2		136,761	136,761		136,913
Total revenues and other sources	271,696	1,237,100	1,508,796	1,351,545		162,823	162,823	1,495	3,024,659
<b>EXPENDITURES</b>									
Current:									
Public safety		1,374,435	1,374,435						1,374,435
Recreation and culture	246,090		246,090						246,090
Debt service:									
Principal payments			-	485,000					485,000
Interest and paying agent fees			-	742,415					742,415
Total expenditures/expenses	246,090	1,374,435	1,620,525	1,227,415		-	-	-	2,847,940
Excess (deficiency) of revenues over (under) expenditures	25,606	(137,335)	(111,729)	124,130		162,823	162,823	1,495	176,719
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	5,898		5,898	37,002			-		42,900
Transfers out			-	(13,064)	\$ (497,488)	(162,823)	(660,311)	-	(673,375)
Total other financing sources (uses)	5,898	-	5,898	23,938	(497,488)	(162,823)	(660,311)	-	(630,475)
Net change in fund balances	31,504	(137,335)	(105,831)	148,068	(497,488)	-	(497,488)	1,495	(453,756)
Fund balances - beginning	489,575	283,032	772,607	396,657	497,488	-	497,488	26,027	1,692,779
Fund balances - ending	\$ 521,079	\$ 145,697	\$ 666,776	\$ 544,725	\$ -	\$ -	\$ -	\$ 27,522	\$ 1,239,023

**City of Royal Oak, Michigan  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2003**

	<b>Municipal Golf Course</b>	<b>Recreation Administration</b>	<b>Salter Community Center</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 50,136		\$ -	\$ 124,711	\$ 11,007	\$ 185,854
Investments	167,000			839,747	718,000	1,724,747
Receivables, net	13	\$ 13,643		654	234	14,544
Deposits and other assets				20,000		20,000
Due from other funds					47,910	47,910
Due from other governmental units		217,578				217,578
Total current assets	217,149	231,221	-	985,112	777,151	2,210,633
Noncurrent assets:						
Restricted assets				40		40
Capital assets	1,129,590	4,209,810	-	3,019,364	499,086	8,857,850
Total noncurrent assets	1,129,590	4,209,810	-	3,019,404	499,086	8,857,890
Total assets	1,346,739	4,441,031	-	4,004,516	1,276,237	11,068,523
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 41,223	\$ 58,056	\$ -	\$ 84,698	\$ 8,621	\$ 192,598
Accrued and other liabilities		9,320		3,615	1,274	14,209
Due to other funds	73	113,280		27,560		140,913
Deferred revenue				12,970		12,970
Bonds payable				221,576		221,576
Total current liabilities	41,296	180,656	-	350,419	9,895	582,266
Noncurrent liabilities:						
Accrued compensated absences		24,414		21,656	6,580	52,650
Other long-term liabilities		3,500				3,500
Bonds payable				1,953,887		1,953,887
Total noncurrent liabilities		27,914		1,975,543	6,580	2,010,037
Total liabilities	41,296	208,570	-	2,325,962	16,475	2,592,303
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	1,129,590	4,209,810	-	843,901	499,086	6,682,387
Restricted for debt service				221,576		221,576
Unrestricted	175,853	22,651	-	613,077	760,676	1,572,257
Total net assets	\$ 1,305,443	\$ 4,232,461	\$ -	\$ 1,678,554	\$ 1,259,762	\$ 8,476,220

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2003**

	<u>Municipal Golf Courses</u>	<u>Recreation Administration</u>	<u>Salter Community Center</u>	<u>Ice Arena</u>	<u>Farmers Market</u>	<u>Total</u>
<b>OPERATING REVENUES</b>						
Charges for services	\$ 766,490	\$ 475,019		\$ 1,434,309	\$ 327,354	\$ 3,003,172
Contributions and donations			\$ 13,076			13,076
Other	(147)				316	169
Total operating revenues	<u>766,343</u>	<u>475,019</u>	<u>13,076</u>	<u>1,434,309</u>	<u>327,670</u>	<u>3,016,417</u>
<b>OPERATING EXPENSES</b>						
Salaries and benefits	6,310	240,167		98,223	40,103	384,803
Supplies	98,343	27,327	920	99,340	17,891	243,821
Other services and charges	598,011	207,429	13,379	798,175	149,223	1,766,217
Depreciation	131,016	86,133		132,769	9,068	358,986
Total operating expenses	<u>833,680</u>	<u>561,056</u>	<u>14,299</u>	<u>1,128,507</u>	<u>216,285</u>	<u>2,753,827</u>
Operating income (loss)	<u>(67,337)</u>	<u>(86,037)</u>	<u>(1,223)</u>	<u>305,802</u>	<u>111,385</u>	<u>262,590</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State grants			750,000			750,000
Interest income	2,781			10,718	9,537	23,036
Interest expense				(116,380)		(116,380)
Gain (loss) on disposal of assets	2,500					2,500
Total nonoperating revenue (expenses)	<u>5,281</u>		<u>750,000</u>	<u>(105,662)</u>	<u>9,537</u>	<u>659,156</u>
Income (loss) before transfers	(62,056)	(86,037)	748,777	200,140	120,922	921,746
<b>TRANSFERS IN</b>		4,299,448	137,616		49,226	4,486,290
<b>TRANSFERS OUT</b>			<u>(4,299,448)</u>			<u>(4,299,448)</u>
Change in net assets	(62,056)	4,213,411	(3,413,055)	200,140	170,148	1,108,588
Total net assets - beginning	1,367,499	19,050	3,413,055	1,478,414	1,089,614	7,367,632
Total net assets - ending	<u>\$ 1,305,443</u>	<u>\$ 4,232,461</u>	<u>\$ -</u>	<u>\$ 1,678,554</u>	<u>\$ 1,259,762</u>	<u>\$ 8,476,220</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2003**

	<b>Municipal Golf Course</b>	<b>Recreation Administration</b>	<b>Salter Community Center</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	\$ 768,070	\$ 243,798		\$ 1,434,646	\$ 327,686	\$ 2,774,200
Internal activity - receipts from other funds			\$ 13,076			13,076
Payments to vendors	(663,890)	(46,757)	(14,299)	(824,291)	(167,321)	(1,716,558)
Payments to employees	(4,766)	(158,241)		(62,772)	(31,419)	(257,198)
Payments of benefits on behalf of employees	(1,544)	(36,565)		(15,329)	(6,827)	(60,265)
Internal activity - payments to other funds	(29,714)	(8,640)		(46,750)	(55,547)	(140,651)
Other operating payments	(114)					(114)
Net cash provided by (used in) operating activities	<u>68,042</u>	<u>(6,405)</u>	<u>(1,223)</u>	<u>485,504</u>	<u>66,572</u>	<u>612,490</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers from other funds		4,299,448	137,616		49,226	4,486,290
Transfers to other funds			(4,299,448)			(4,299,448)
Increase in other long-term liabilities		2,900				2,900
Net cash provided by (used in) noncapital financing activities		<u>4,302,348</u>	<u>(4,161,832)</u>		<u>49,226</u>	<u>189,742</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Capital grant proceeds			750,000			750,000
Purchase of capital assets	(39,261)	(4,295,943)	3,413,055	(10,800)		(932,949)
Proceeds from sale of capital assets	2,500					2,500
Principal paid on capital debt				(211,576)		(211,576)
Interest paid on capital debt				(116,380)		(116,380)
Net cash provided by (used in) capital and related financing activities	<u>(36,761)</u>	<u>(4,295,943)</u>	<u>4,163,055</u>	<u>(338,756)</u>		<u>(508,405)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest received on investments	2,781			10,718	9,537	23,036
Net increase (decrease) in cash and cash equivalents	<u>34,062</u>	<u>-</u>	<u>-</u>	<u>157,466</u>	<u>125,335</u>	<u>316,863</u>
Balances - beginning of the year	183,074	-	-	807,032	603,672	1,593,778
Balances - end of the year	<u>\$ 217,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 964,498</u>	<u>\$ 729,007</u>	<u>\$ 1,910,641</u>
Balance sheet classification of cash and cash equivalents:						
Cash and investments	\$ 50,136	\$ -	\$ -	\$ 124,711	\$ 11,007	\$ 185,854
Restricted cash and investments	-	-	-	40	-	40
	<u>\$ 50,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,751</u>	<u>\$ 11,007</u>	<u>\$ 185,894</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>						
Operating income (loss)	\$ (67,337)	\$ (86,037)	\$ (1,223)	\$ 305,802	\$ 111,385	\$ 262,590
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	131,016	86,133		132,769	9,068	358,986
Changes in assets and liabilities:						
Receivables	33	(13,643)		(229)	16	(13,823)
Due from other funds	1,580	64,099	337,205	5,357	(47,910)	360,331
Due from other governmental units		(217,578)				(217,578)
Accounts payable	2,899	38,442	(337,205)	7,659	(151)	(288,356)
Accrued and other liabilities		(15,515)		(14,056)	(4,779)	(34,350)
Due to other funds	(149)	113,280		25,980	(7,637)	131,474
Deferred revenue				566		566
Accrued compensated absences		24,414		21,656	6,580	52,650
Net cash provided by (used in) operating activities	<u>\$ 68,042</u>	<u>\$ (6,405)</u>	<u>\$ (1,223)</u>	<u>\$ 485,504</u>	<u>\$ 66,572</u>	<u>\$ 612,490</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, 2003**

	<b>Information Systems</b>	<b>Motor Pool</b>	<b>Insurance</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and investments		\$ 300	\$ 5,000	\$ 5,300
Investments			1,023,293	1,023,293
Receivables, net			197	197
Due from other funds		198,157	280,211	478,368
Inventories		128,427		128,427
Total current assets		326,884	1,308,701	1,635,585
Noncurrent assets:				
Capital assets:				
Buildings		1,821,321		1,821,321
Improvements other than buildings		53,359		53,359
Machinery and equipment	\$ 1,429,487	11,098,183		12,527,670
Infrastructure	391,883			391,883
Intangibles	372,552			372,552
Less accumulated depreciation	(1,334,717)	(6,396,820)		(7,731,537)
Total capital assets (net of accumulated depreciation)	859,205	6,576,043		7,435,248
Total assets	859,205	6,902,927	1,308,701	9,070,833
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	22,455	53,551		76,006
Accrued and other liabilities	13,893	17,289	1,278,494	1,309,676
Due to other funds	125,251			125,251
Total current liabilities	161,599	70,840	1,278,494	1,510,933
Noncurrent liabilities:				
Accrued compensated absences	100,090	125,615		225,705
Total noncurrent liabilities	100,090	125,615		225,705
Total liabilities	261,689	196,455	1,278,494	1,736,638
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	859,205	6,576,043		7,435,248
Unrestricted (deficit)	(261,689)	130,429	30,207	(101,053)
Total net assets	\$ 597,516	\$ 6,706,472	\$ 30,207	\$ 7,334,195

**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, 2003**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Insurance</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 750,000	\$ 2,687,992	\$ 1,136,773	\$ 4,574,765
Other revenue		98,911		98,911
Total operating revenues	<u>750,000</u>	<u>2,786,903</u>	<u>1,136,773</u>	<u>4,673,676</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	446,097	846,768	1,034,657	2,327,522
Supplies	19,958	497,758		517,716
Other services and charges	248,147	341,336	127,950	717,433
Depreciation	327,703	1,037,128		1,364,831
Total operating expenses	<u>1,041,905</u>	<u>2,722,990</u>	<u>1,162,607</u>	<u>4,927,502</u>
Operating income (loss)	<u>(291,905)</u>	<u>63,913</u>	<u>(25,834)</u>	<u>(253,826)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income			23,464	23,464
Gain (loss) on sale of capital assets		58,756		58,756
Total nonoperating revenue (expenses)		<u>58,756</u>	<u>23,464</u>	<u>82,220</u>
Changes in net assets	(291,905)	122,669	(2,370)	(171,606)
Total net assets - beginning	<u>889,421</u>	<u>6,583,803</u>	<u>32,577</u>	<u>7,505,801</u>
Total net assets - ending	<u>\$ 597,516</u>	<u>\$ 6,706,472</u>	<u>\$ 30,207</u>	<u>\$ 7,334,195</u>

**City of Royal Oak, Michigan**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2003**

	<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		\$ 68,483		\$ 68,483
Internal activity - receipts from other funds	\$ 750,000	3,880,397	\$ 86,054	4,716,451
Other operating receipts	412	98,911	2,506	101,829
Payments to suppliers	(233,991)	(733,330)	(126,344)	(1,093,665)
Payments to employees	(329,843)	(608,869)		(938,712)
Payments of benefits on behalf of employees	(82,780)	(181,795)	(548,898)	(813,473)
Internal activity - payments to other funds	(1,874)	(115,647)	(10,920)	(128,441)
Net cash provided by (used in) operating activities	<u>101,924</u>	<u>2,408,150</u>	<u>(597,602)</u>	<u>1,912,472</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(101,924)	(2,466,906)		(2,568,830)
Proceeds from sale of capital assets		58,756		58,756
Net cash provided by (used in) capital and related financing activities	<u>(101,924)</u>	<u>(2,408,150)</u>		<u>(2,510,074)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments			590,106	590,106
Purchase of investment securities			(15,968)	(15,968)
Interest received on investments			23,464	23,464
Net cash provided by (used in) investment activities	<u>-</u>	<u>-</u>	<u>597,602</u>	<u>597,602</u>
Net increase (decrease) in cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances - beginning	<u>-</u>	<u>300</u>	<u>5,000</u>	<u>5,300</u>
Balances - ending	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 5,000</u>	<u>\$ 5,300</u>
Balance sheet classification of cash and cash equivalents:				
Cash and investments	\$ -	\$ 300	\$ 1,028,293	\$ 1,028,593
Less investments with original maturities greater than three months			(1,023,293)	(1,023,293)
	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 5,000</u>	<u>\$ 5,300</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ (291,905)	\$ 63,913	\$ (25,834)	\$ (253,826)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	327,703	1,037,128		1,364,831
Changes in assets and liabilities:				
Receivables	412		2,506	2,918
Due from other funds		1,260,888	(280,211)	980,677
Inventories		2,813		2,813
Accounts payable	8,052	17,311	(9,314)	16,049
Accrued and other liabilities	(68,490)	(99,518)	485,759	317,751
Due to other funds	26,062		(770,508)	(744,446)
Accrued compensated absences	100,090	125,615		225,705
Net cash provided by (used in) operating activities	<u>\$ 101,924</u>	<u>\$ 2,408,150</u>	<u>\$ (597,602)</u>	<u>\$ 1,912,472</u>

**City of Royal Oak, Michigan  
Combining Statement of Net Assets  
Pension and Other Employee Trust Funds  
For the Year Ended June 30, 2003**

	<u>Pension Trust</u>	<u>Retiree Health Care</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,000		\$ 3,000
Receivables, net	19,955		19,955
Due from other funds	177,780	\$ 1,500,000	1,677,780
Retirement investments, at fair value			
U.S. government obligations	21,446,984		21,446,984
Corporate bonds	24,874,719		24,874,719
Stocks	68,999,716		68,999,716
Other investments	9,933,098		9,933,098
Accrued income	517,250		517,250
Total investments	<u>125,771,767</u>		<u>125,771,767</u>
Total assets	<u>125,972,502</u>	<u>1,500,000</u>	<u>127,472,502</u>
<b>LIABILITIES</b>			
Accounts payable	<u>357,113</u>		<u>357,113</u>
Total liabilities	<u>357,113</u>	<u>-</u>	<u>357,113</u>
<b>NET ASSETS</b>			
Held in trust for pension and health benefits	<u>\$ 125,615,389</u>	<u>\$ 1,500,000</u>	<u>\$ 127,115,389</u>

**City of Royal Oak, Michigan**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension and Other Employee Trust Funds**  
**For the Year Ended June 30, 2003**

	<b>Pension Trust</b>	<b>Retiree Health Care</b>	<b>Total</b>
<b>ADDITIONS</b>			
Contributions:			
Employer		\$ 1,500,000	\$ 1,500,000
Plan members	\$ 473,995		473,995
Plan members' buybacks	152,635		152,635
Total contributions	<u>626,630</u>	<u>1,500,000</u>	<u>2,126,630</u>
Investment earnings:			
Net increase (decrease) in fair value of investments	(781,346)		(781,346)
Interest	3,182,255		3,182,255
Dividends	1,177,000		1,177,000
Other investment revenues	109,159		109,159
Total investment income	<u>3,687,068</u>		<u>3,687,068</u>
Less investment expenses	<u>654,462</u>		<u>654,462</u>
Net investment income	<u>3,032,606</u>		<u>3,032,606</u>
Total additions	<u>3,659,236</u>	<u>1,500,000</u>	<u>5,159,236</u>
<b>DEDUCTIONS</b>			
Benefits	8,775,176		8,775,176
Refund of contributions	704,551		704,551
Administrative expenses	50,293		50,293
Total deductions	<u>9,530,020</u>		<u>9,530,020</u>
Change in net assets	<u>(5,870,784)</u>	1,500,000	<u>(4,370,784)</u>
Net assets - beginning	<u>131,486,173</u>	-	<u>131,486,173</u>
Net assets - ending	<u>\$ 125,615,389</u>	<u>\$ 1,500,000</u>	<u>\$ 127,115,389</u>

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

**City of Royal Oak, Michigan**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2003**

	<u>Agency</u>	<u>44th District Court</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 65,453	\$ 473,589	\$ 539,042
Investments	1,172,057		1,172,057
Receivables, net	36		36
Due from other governmental units	22,560		22,560
Total assets	<u>\$ 1,260,106</u>	<u>\$ 473,589</u>	<u>\$ 1,733,695</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 13,705		\$ 13,705
Accrued and other liabilities		\$ 3,475	3,475
Due to other governmental units	278,017	377,890	655,907
Cash bonds and deposits	968,384	92,224	1,060,608
Total liabilities	<u>\$ 1,260,106</u>	<u>\$ 473,589</u>	<u>\$ 1,733,695</u>

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

**City of Royal Oak, Michigan**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2003**

<b>AGENCY FUND</b>	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2003</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 195,545	\$ 75,762,423	\$ 75,892,515	\$ 65,453
Investments	730,428	19,721,420	19,279,791	1,172,057
Accrued interest	206	36	206	36
Due from other governmental units	8,946	2,198,937	2,185,323	22,560
Total assets	<u>\$ 935,125</u>	<u>\$ 97,682,816</u>	<u>\$ 97,357,835</u>	<u>\$ 1,260,106</u>
<b>Liabilities:</b>				
Accounts payable	\$ 2,864	\$ 2,059,526	\$ 2,048,685	\$ 13,705
Due to other governmental units	35,764	51,703,992	51,461,740	278,016
Cash bonds and deposits	896,497	96,861,797	96,789,909	968,385
Total liabilities	<u>\$ 935,125</u>	<u>\$ 150,625,315</u>	<u>\$ 150,300,334</u>	<u>\$ 1,260,106</u>
 <b>44TH DISTRICT COURT</b>				
Assets, cash and cash equivalents	<u>\$ 430,106</u>	<u>\$ 4,969,001</u>	<u>\$ 4,925,518</u>	<u>\$ 473,589</u>
<b>Liabilities:</b>				
Accrued and other liabilities	\$ 16,652	\$ 31,367	\$ 44,544	\$ 3,475
Due to other governmental units	311,018	4,409,580	4,342,708	377,890
Cash bonds and deposits	102,436	528,054	538,266	92,224
Total liabilities	<u>\$ 430,106</u>	<u>\$ 4,969,001</u>	<u>\$ 4,925,518</u>	<u>\$ 473,589</u>
 <b>TOTALS - ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 625,651	\$ 80,731,424	\$ 80,818,033	\$ 539,042
Investments	730,428	19,721,420	19,279,791	1,172,057
Accrued interest	206	36	206	36
Due from other funds	8,946	2,198,937	2,185,323	22,560
Total assets	<u>\$ 1,365,231</u>	<u>\$ 102,651,817</u>	<u>\$ 102,283,353</u>	<u>\$ 1,733,695</u>
<b>Liabilities:</b>				
Accounts payable	\$ 2,864	\$ 2,059,526	\$ 2,048,685	\$ 13,705
Accrued and other liabilities	16,652	31,367	44,544	3,475
Due to other governmental units	346,782	56,113,572	55,804,448	655,906
Cash bonds and deposits	998,933	97,389,851	97,328,175	1,060,609
Total liabilities	<u>\$ 1,365,231</u>	<u>\$ 155,594,316</u>	<u>\$ 155,225,852</u>	<u>\$ 1,733,695</u>

**City of Royal Oak, Michigan**  
**Combining Balance Sheet**  
**Component Units**  
**June 30, 2003**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Housing Commission</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and investments		\$ 28,271	\$ 20,093	\$ 33,901	\$ 82,265
Investments	\$ 2,827,906				2,827,906
Receivables, net	53,895	2,035			55,930
Deposits and other assets				87,681	87,681
Restricted assets	6,390				6,390
Total assets	<u>2,888,191</u>	<u>30,306</u>	<u>20,093</u>	<u>121,582</u>	<u>3,060,172</u>
<b>LIABILITIES</b>					
Accounts payable	13,058	2,086		3,119	18,263
Accrued and other liabilities	85,000				85,000
Due to primary government	1,388,305	2,255		6,105	1,396,665
Due to other governmental units	794,686				794,686
Deferred revenue	51,655	2,034		112,358	166,047
Total liabilities	<u>2,332,704</u>	<u>6,375</u>		<u>121,582</u>	<u>2,460,661</u>
<b>NET ASSETS</b>					
Reserved for restricted assets	6,390				6,390
Unrestricted	549,097	23,931	20,093		593,121
Total net assets	<u>555,487</u>	<u>23,931</u>	<u>20,093</u>	<u>-</u>	<u>599,511</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	2,504,235				2,504,235
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	51,655	2,034			53,689
- Long-term liabilities are not due and payable in the current period and are not reported at the fund level	(756,560)				(756,560)
- Interest on long-term debt is not accrued at fund level, but rather is recognized as an expenditure when due	(12,000)				(12,000)
- Compensated absences are included as a liability				(9,346)	(9,346)
Total net assets for component units	<u>\$ 2,342,817</u>	<u>\$ 25,965</u>	<u>\$ 20,093</u>	<u>\$ (9,346)</u>	<u>\$ 2,379,529</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Component Units**  
**For the Year Ended June 30, 2003**

	Tax Increment Financing Authority	DDA Operating Fund	Economic Development Corporation	Housing Commission	Total
<b>REVENUES</b>					
Taxes	\$ 2,087,724	\$ 49,610			\$ 2,137,334
Federal grants				\$ 1,094,341	1,094,341
Interest and rentals	33,819	228	\$ 117	1,324	35,488
Contributions and donations	100				100
Other revenues	45,000				45,000
Total revenues	2,166,643	49,838	117	1,095,665	3,312,263
<b>EXPENDITURES</b>					
Salaries and benefits		35,757		76,343	112,100
Supplies		3,251		1,227	4,478
Other services and charges		6,316		21,556	27,872
Housing assistance payments				996,539	996,539
Community and economic development	286,544				286,544
Debt service:					
Principal payments	775,000				775,000
Interest expense	50,513				50,513
Total expenditures	1,112,057	45,324	-	1,095,665	2,253,046
Excess of revenues over expenditures	1,054,586	4,514	117	-	1,059,217
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers to primary government	(936,160)				(936,160)
Total other financing sources (uses)	(936,160)	-	-	-	(936,160)
Net change in fund balance	118,426	4,514	117	-	123,057
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	(13,354)				(13,354)
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	(6,082)	1,476			(4,606)
- Repayments of bond principal is an expenditure at the fund level, but not in the statement of activities (where it reduces long-term debt).	775,000				775,000
- 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	(3,419)				(3,419)
Amortization of bond discount	(2,184)				(2,184)
Compensated absences				(3,443)	(3,443)
Combined adjustment	(5,603)			(3,443)	(9,046)
Change in net assets of component units	\$ 868,387	\$ 5,990	\$ 117	\$ (3,443)	\$ 871,051