



BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

**City of Royal Oak, Michigan
For the Fiscal Year Ended June 30, 2005**

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For the Fiscal Year Ended June 30, 2005**

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INDEPENDENT AUDITORS' REPORT

November 30, 2005

To the Honorable Mayor and City Commission
City of Royal Oak, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Royal Oak, Michigan (the "City")*, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Royal Oak, Michigan*, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund and the solid waste fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 30, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3-12 and the Schedule of Funding Progress on page 52 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 opinions on the financial statements that collectively comprise the **City's** basic financial statements. The combining and individual 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, are 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, 2005. 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 \$191,435,063 (*net assets*). Of this amount, \$17,129,085 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,541,407. The major cause of this is the receipt of \$3,700,000 in bond proceeds for the renovation of the library and a decrease in expenditures due to the reduction in full-time staff.
- As of the close of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$23,521,882, an increase of \$6,144,444 in comparison with the prior year. Approximately 97% of this total amount, \$22,925,852, is unreserved and undesignated in the special revenue, debt and capital project funds.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,634,320, or 23 percent of total general fund expenditures.
- The City of Royal Oak's total debt increased by \$3,398,245 (5 percent) during the current fiscal year. The key factor in this increase was a new bond issue for renovations at the library funded by a special voted millage.

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, public works, health and welfare, community and economic development, and recreation and culture. The business-type activities of the City include a Water and Sewer system and an automobile parking system.

The government-wide financial statements include, not only the City itself (known as the *primary government*), but also a legally separate Tax Increment Financing Authority, a legally separate Downtown Development Authority, a legally separate Economic Development Corporation and a legally separate Housing Commission for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The City of Royal Oak Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore its activities have been included as an integral part of the primary government of the City.

The government-wide financial statements can be found on pages 13-14 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 thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and two other funds that are considered to be major funds. Data from the other ten 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 15-18 of this report.

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

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

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

The basic proprietary fund financial statements can be found on pages 21-23 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 24-25 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 28-51 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 52 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 53-68 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 \$191,435,063 at the close of the most recent fiscal year.

By far the largest portion of the City of Royal Oak's net assets (79 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.

An additional portion of the City of Royal Oak's net assets (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$17,129,085) 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.

CITY OF ROYAL OAK Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$35,404,195	\$28,485,965	\$18,253,871	\$20,751,334	\$53,658,066	\$49,237,299
Capital assets	126,411,847	123,103,604	99,527,645	95,763,970	225,939,492	218,867,574
Total assets	161,816,042	151,589,569	117,781,516	116,515,304	279,597,558	268,104,873
Long-term liabilities outstanding	21,330,667	18,509,508	53,791,491	53,442,869	75,122,158	71,952,377
Other liabilities	8,640,133	7,965,499	4,400,204	4,293,341	13,040,337	12,258,840
Total liabilities	29,970,800	26,475,007	58,191,695	57,736,210	88,162,495	84,211,217
Net assets:						
Investment in capital assets, net of related debt	108,053,412	108,113,604	43,590,309	40,189,816	151,643,721	148,303,420
Restricted	20,087,516	16,080,945	2,574,741	2,496,788	22,662,257	18,577,733
Unrestricted	3,704,314	920,013	13,424,771	16,092,490	17,129,085	17,012,503
Total net assets	\$131,845,242	\$125,114,562	\$59,589,821	\$58,779,094	\$191,435,063	\$183,893,656

The government's net assets increased by \$7,541,407 during the current fiscal year. The major cause of this is the receipt of \$3,700,000 in bond proceeds for the renovation of the library and a decrease in expenditures due to the reduction in full-time staff.

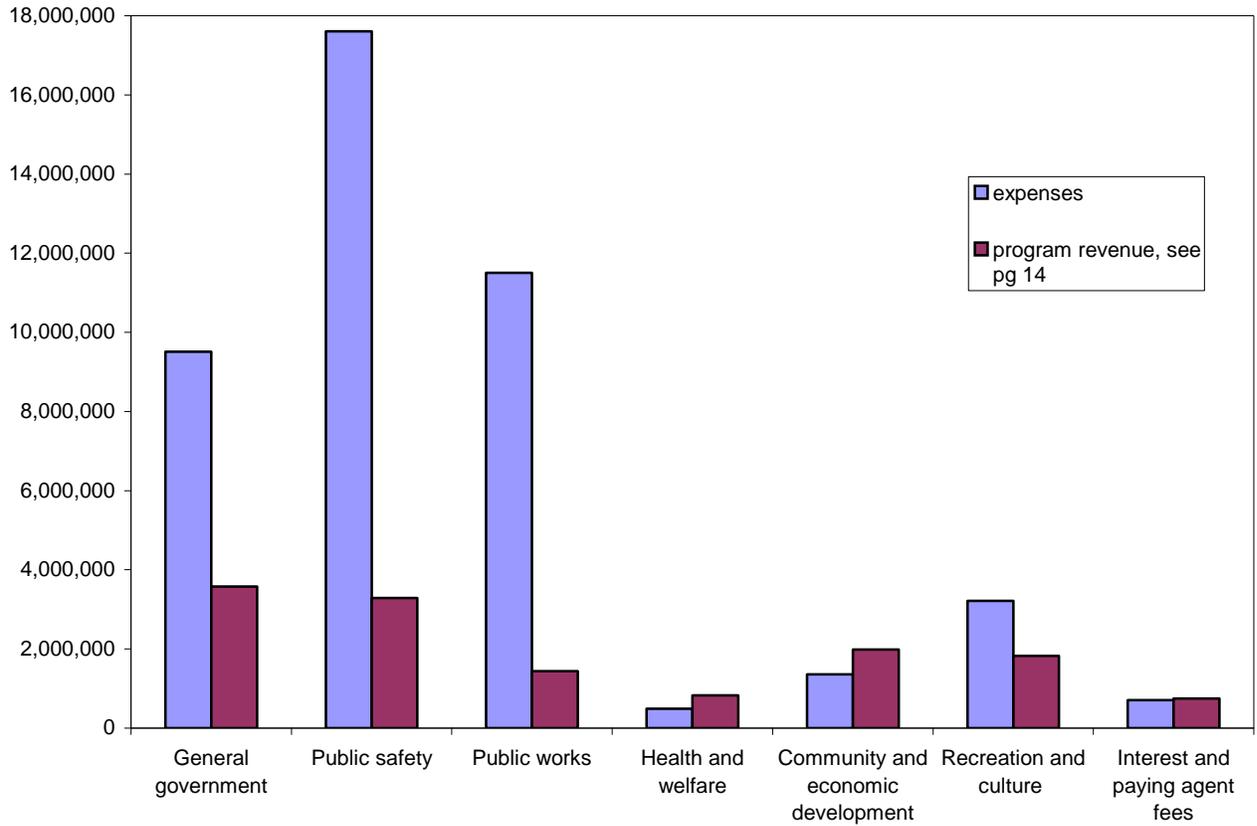
Governmental Activities. Governmental activities increased the City of Royal Oak's net assets by \$6,730,680. Key elements of this increase are as follows:

- Bond proceeds of \$3,700,000 were received for the renovation of the library.
- Property taxes increased by \$1,081,329 (4.67 percent) during the year. This increase is the result of a 4.57% increase in the taxable value of the City.
- Charges for services for governmental activities increased by \$993,637 (10 percent), largely due to an increase in Court revenues and increased rates charged by the Building department.
- Expenditures decreased from the prior fiscal year by \$2,253,823 (4.85%). The decrease in expenditures is mainly the result of a reduction in full-time staff.
- Retiree health care costs and property and casualty insurance costs were below budget estimates by almost \$850,000.

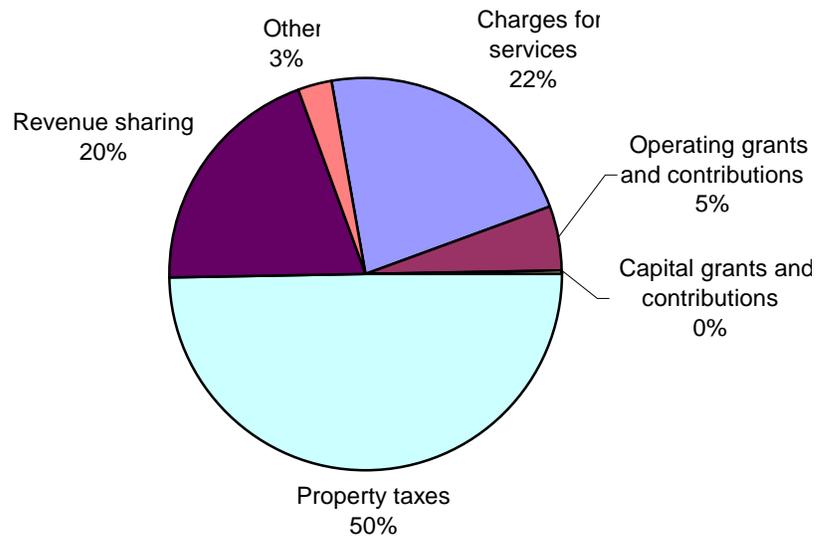
CITY OF ROYAL OAK Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 10,917,828	\$ 9,924,191	\$ 21,230,653	\$ 20,068,572	\$ 32,148,481	\$ 29,992,763
Operating grants and contributions	2,605,739	2,899,089	817,252	695,144	3,422,991	3,594,233
Capital grants and contributions	173,218	682,829	20,490	29,802	193,708	712,631
General revenue:						
Property taxes	24,296,152	23,137,213			24,296,152	23,137,213
Grants and contributions not restricted to specific programs	9,675,450	9,877,965			9,675,450	9,877,965
Other	1,412,254	1,256,643	275,924	162,788	1,688,178	1,419,431
Total revenue	49,080,641	47,777,930	22,344,319	20,956,306	71,424,960	68,734,236
Expenses:						
General government	9,509,493	10,723,060			9,509,493	10,723,060
Public safety	17,608,033	16,542,881			17,608,033	16,542,881
Public works	11,505,812	13,465,346			11,505,812	13,465,346
Health and welfare	489,725	457,109			489,725	457,109
Community and economic development	1,356,084	1,579,285			1,356,084	1,579,285
Recreation and culture	3,216,412	2,977,851			3,216,412	2,977,851
Interest and paying agent fee:	708,760	728,469			708,760	728,469
Water & sewer			14,771,560	14,577,922	14,771,560	14,577,922
Parking			1,966,791	2,019,263	1,966,791	2,019,263
Recreation			2,537,582	2,716,899	2,537,582	2,716,899
Farmers market			213,301	194,120	213,301	194,120
Total expenses	44,394,319	46,474,001	19,489,234	19,508,204	63,883,553	65,982,205
Increase in net assets before						
transfers	4,686,322	1,303,929	2,855,085	1,448,102	7,541,407	2,752,031
Transfers	2,044,358	1,648,495	(2,044,358)	(1,648,495)	0	0
Increase (decrease) in net asset:	6,730,680	2,952,424	810,727	(200,393)	7,541,407	2,752,031
Net assets - beginning	125,114,562	122,162,138	58,779,094	58,979,487	183,893,656	181,141,625
Net assets - ending	\$ 131,845,242	\$ 125,114,562	\$ 59,589,821	\$ 58,779,094	\$ 191,435,063	\$ 183,893,656

Expenses and Program Revenues – Governmental Activities

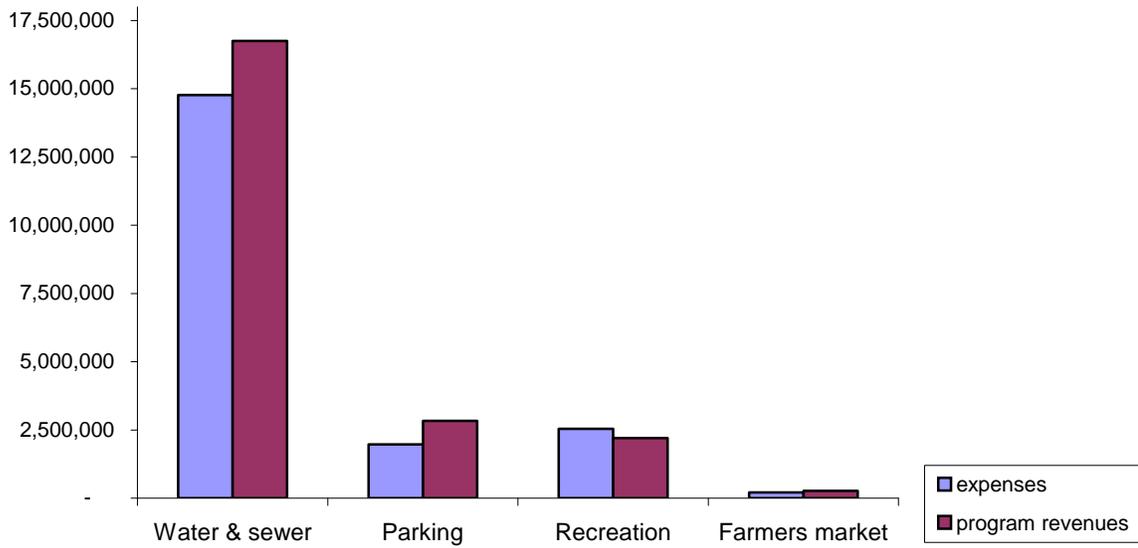


Revenues by Source – Governmental Activities

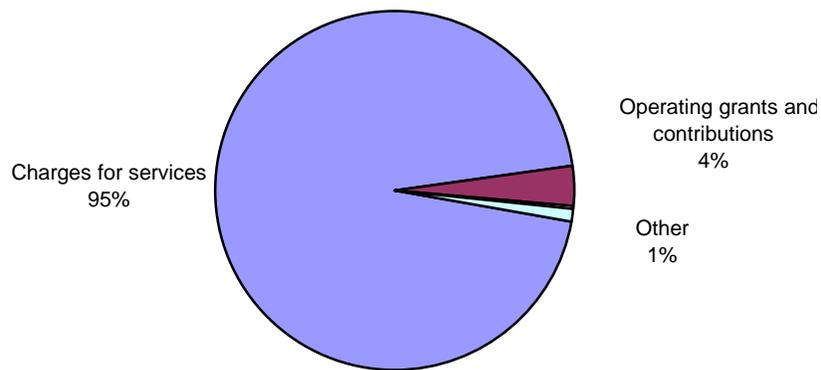


Business-Type Activities. Business-type activities increased the City of Royal Oak's net assets by \$810,727. The major cause of this increase was increased revenues due to the Water & Sewer rate increase of 9.88%.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$23,521,882, and an increase of \$6,144,444 in comparison with the prior year. Approximately 97% of this total amount (\$22,925,852) 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 inventories (\$121,270), for right-of-way expenditures per State law (\$213,583), for senior activities (\$240,108) and for books and capital expenditures per donor requests (\$21,069).

The general fund is the chief operating fund of the City of Royal Oak. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,634,320, while total fund balance was \$6,755,590. 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 23 percent of total general fund expenditures, while total fund balance represents 23.5 percent of that same amount.

The fund balance of the City of Royal Oak's general fund increased by \$2,306,308 during the current fiscal year. The key factors in this were retiree health care costs and property and casualty insurance costs were below budget estimates and there was a decrease in expenditures due to the City's policy regarding attrition.

The solid waste fund has a total fund balance of \$1,126,176, all of which is unreserved and undesignated. The net increase in fund balance during the current year in the solid waste fund was \$677,339, which is due to solid waste collection and disposal costs coming in under budget.

The capital projects fund has a total fund balance of \$3,056,376. The net increase in fund balance during the current year in the capital projects fund was \$1,833,102. The major factor in this increase was caused by the receipt of bond proceeds for the library renovations.

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 \$6,463,875, and those for the Automobile Parking System Fund operation amounted to \$5,356,198. The total increase in net assets for Water and Sewer was \$1,497,169, which was due to a Water & Sewer rate increase of 9.88%. The total decrease in net assets for the Automobile Parking System Fund was \$625,089, which was due to the \$1,613,175 transfer to the General Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$80,000 and can be briefly summarized as follows:

- \$497,200 increase in various revenues
- \$186,800 increase in general government expenditures
- \$161,060 increase in public safety expenditures
- \$69,340 increase in other expenditures

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

Capital Asset and Debt Administration

Capital Assets. The City of Royal Oak's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$225,939,492 (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 3.23 percent (a 2.69 percent increase for governmental activities and a 3.93 percent increase for business-type activities).

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

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

CITY OF ROYAL OAK Capital Assets (net of depreciation)

	Governmental		Business-type		Totals	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$66,485,407	\$66,485,407	\$5,121,005	\$5,121,005	\$71,606,412	\$71,606,412
Buildings	17,133,011	9,750,761	20,772,951	21,453,528	37,905,962	31,204,289
Improvements other than buildings	1,021,563	1,154,632	372,185	430,742	1,393,748	1,585,374
Machinery and equipment	7,262,416	7,241,445	543,568	664,190	7,805,984	7,905,635
Infrastructure	27,295,425	25,098,472	40,543,425	40,509,975	67,838,850	65,608,447
Intangibles	26,217	37,031	9,496	12,909	35,713	49,940
Construction in progress	7,187,808	13,335,856	32,165,015	27,571,621	39,352,823	40,907,477
Total	\$126,411,847	\$123,103,604	\$99,527,645	\$95,763,970	\$225,939,492	\$218,867,574

Additional information on the City of Royal Oak's capital assets can be found on pages 40-43 of this report.

Long-term debt. At the end of the current fiscal year, the City of Royal Oak had total debt outstanding of \$78,350,796. Of this amount, \$21,975,000 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 \$8,085,000 of the debt. Another \$11,437,387 of the debt was obtained through the State Revolving Fund and is an obligation of the City of Royal Oak and five surrounding communities. The City's portion of the debt is \$5,614,702 with the remainder being paid from receipts of the other five communities. Another \$32,744,671 of the 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. The remainder of the debt is composed of vested benefits, general liability claims and unamortized bond discounts and issuance costs.

CITY OF ROYAL OAK Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Limited general obligation bonds	\$10,085,000	\$6,590,000	\$11,890,000	\$12,415,000	\$21,975,000	\$19,005,000
Unlimited general obligation bonds	8,085,000	8,400,000	0	0	8,085,000	8,400,000
State Revolving Fund	0	0	11,437,387	12,022,387	11,437,387	12,022,387
Contractual obligations	0	0	32,744,671	31,280,486	32,744,671	31,280,486
Compensated absences	3,387,670	3,755,165	327,693	293,989	3,715,363	4,049,154
General liability claims	844,900	580,100	80,100	54,900	925,000	635,000
less: unamortized discount and issuance costs	(396,903)	(295,757)	(134,722)	(143,719)	(531,625)	(439,476)
Total	\$22,005,667	\$19,029,508	\$56,345,129	\$55,923,043	\$78,350,796	\$74,952,551

The City of Royal Oak's total debt increased by \$3,398,245 (5 percent) during the current fiscal year. The key factor in this increase was a new bond issue for renovations at the Library funded by a special voted millage.

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

Standard & Poor's	Unlimited AA-, Limited AA-
Moody's	Unlimited NR, Limited A2
Fitch	Unlimited AA-, Limited AA-

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The total assessed valuation for the City of Royal Oak is \$2,871,525,690; therefore the current debt limitation for the City of Royal Oak is \$287,152,569 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 45-47 of this report.

Economic Factors and Next Year's Budgets and Rates

During the current fiscal year, unreserved fund balance in the general fund increased to \$6,634,320. The budget plan, as approved in the fiscal year 2005-2006 budget, continues to maintain a minimum of 10 percent of the current year's expenditures be set aside for unforeseen emergencies. The City budgeted for the transfer of \$3,000,000 from the Automobile Parking System fund, a \$551,000 transfer from the Ice Arena and the use of fund balance of \$1,550,000 in the General Fund. It is intended that with this transfers the City will avoid the need to raise taxes or charges during the 2005/06 fiscal year.

The Water and Sewer rates were increased for the 2005 budget year. The water and sewer rates were increased by an average of 15.39 percent for all customers. Also, the flat administrative fee was updated to reflect current costs for reading meters and billing. 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 and to keep up with the increased rates charged by the City of Detroit, our supplier of water and sewer disposal services.

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 Director of Finance, City of Royal Oak, 211 Williams Street, Royal Oak, MI 48067.

City of Royal Oak, Michigan
Statement of Net Assets
June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 1,176,817	\$ 188,458	\$ 1,365,275	\$ 28,190
Investments	20,832,133	3,954,702	24,786,835	7,015,174
Receivables, net	6,081,068	13,643,140	19,724,208	90,527
Deposits and other assets	18,107	120,106	138,213	96,093
Due from primary government			-	116,394
Due from component units	182,597	550,137	732,734	
Internal balances	3,373,451	(3,373,451)	-	
Inventories	254,748	134,322	389,070	
Restricted assets - cash	3,485,274	3,036,457	6,521,731	
Capital assets, not being depreciated	73,673,215	37,286,020	110,959,235	1,084,754
Capital assets, being depreciated, net	52,738,632	62,241,625	114,980,257	611,354
Total assets	161,816,042	117,781,516	279,597,558	9,042,486
LIABILITIES				
Accounts payable	1,973,807	1,466,514	3,440,321	47,441
Accrued and other liabilities	3,448,162	362,486	3,810,648	
Due to primary government			-	732,734
Due to component units	116,394		116,394	
Due to other governmental units			-	1,942,899
Cash bonds and deposits	1,108,527	6,877	1,115,404	
Unearned revenue	1,318,243	10,689	1,328,932	55,644
Noncurrent liabilities:				
Due within one year	675,000	2,553,638	3,228,638	100,000
Due in more than one year	21,330,667	53,791,491	75,122,158	506,576
Total liabilities	29,970,800	58,191,695	88,162,495	3,385,294
NET ASSETS				
Invested in capital assets, net of related debt	108,053,412	43,590,309	151,643,721	1,100,830
Restricted for:				
Highways and streets	8,546,328		8,546,328	
Solid waste	1,252,929		1,252,929	
Recreation and culture		21,103	21,103	
Debt service	899,928	2,553,638	3,453,566	
Capital projects funds	3,056,376		3,056,376	
Permanent fund:				
Expendable	2,353		2,353	
Non-expendable	26,000		26,000	
Other purposes	6,303,602		6,303,602	
Unrestricted	3,704,314	13,424,771	17,129,085	4,556,362
Total net assets	\$ 131,845,242	\$ 59,589,821	\$ 191,435,063	\$ 5,657,192

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, 2005

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	
Primary government:								
Governmental activities:								
General government	\$ 9,509,493	\$ 3,486,523	\$ 90,648		\$ (5,932,322)		\$ (5,932,322)	
Public safety	17,608,033	2,894,001	355,904	\$ 35,696	(14,322,432)		(14,322,432)	
Public works	11,505,812	1,303,489	2,051	136,108	(10,064,164)		(10,064,164)	
Health and welfare	489,725	830,715			340,990		340,990	
Community and economic development	1,356,084	357,520	1,630,135	1,414	632,985		632,985	
Recreation and culture	3,216,412	1,293,974	527,001		(1,395,437)		(1,395,437)	
Interest and paying agent fees	708,760	751,606			42,846		42,846	
Total governmental activities	44,394,319	10,917,828	2,605,739	173,218	(30,697,534)		(30,697,534)	
Business-type activities:								
Water & sewer	14,771,560	16,728,932		20,490		\$ 1,977,862	1,977,862	
Parking	1,966,791	2,028,753	809,874			871,836	871,836	
Recreation	2,537,582	2,200,673	7,378			(329,531)	(329,531)	
Farmers Market	213,301	272,295				58,994	58,994	
Total business-type activities	19,489,234	21,230,653	817,252	20,490		2,579,161	2,579,161	
Total primary government	\$ 63,883,553	\$ 32,148,481	\$ 3,422,991	\$ 193,708				
Component units:								
Tax Increment Financing Authority	\$ 1,806,952		\$ 30,530					\$ (1,776,422)
Downtown Development Authority	53,247							(53,247)
Economic Development Corporation	-							-
Housing Commission	1,235,038		1,235,201					163
Total component units	\$ 3,095,237	\$ -	\$ 1,265,731	\$ -				(1,829,506)
General revenues:								
Property taxes					24,296,152		24,296,152	1,810,422
State-shared revenues					9,675,450		9,675,450	
Unrestricted investment earnings					553,041	237,707	790,748	141,312
Gain on sale of capital assets					38,195		38,195	
Reimbursements					482,231		482,231	
Miscellaneous					338,787	38,217	377,004	
Transfers					2,044,358	(2,044,358)	-	
Total general revenues and transfers					37,428,214	(1,768,434)	35,659,780	1,951,734
Change in net assets					6,730,680	810,727	7,541,407	122,228
Net assets - beginning, as restated					125,114,562	58,779,094	183,893,656	5,534,964
Net assets - ending					\$ 131,845,242	\$ 59,589,821	\$ 191,435,063	\$ 5,657,192

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

City of Royal Oak, Michigan
Balance Sheet
Governmental Funds
June 30, 2005

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 795,105		\$ 365,927	\$ 10,485	\$ 1,171,517
Investments	6,577,300	\$ 1,619,525		12,065,297	20,262,122
Receivables, net	1,329,950	190,464	289,445	2,153,090	3,962,949
Deposits and other assets				18,107	18,107
Due from other governmental units	1,100,460			824,307	1,924,767
Due from other funds	5,118,233		1,987,700	1,522,903	8,628,836
Due from component units	181,183		1,414		182,597
Inventories	121,270				121,270
Restricted assets - cash			3,459,274	26,000	3,485,274
Total assets	<u>\$ 15,223,501</u>	<u>\$ 1,809,989</u>	<u>\$ 6,103,760</u>	<u>\$ 16,620,189</u>	<u>\$ 39,757,439</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 349,870	\$ 373,341	\$ 1,087,137	\$ 97,861	\$ 1,908,209
Accrued and other liabilities	2,294,156	9,567	119,814	135,623	2,559,160
Due to other funds	4,153,174	174,152	1,807,876	1,776,229	7,911,431
Due to component units	83,837		32,557		116,394
Cash bonds and deposits	1,108,527				1,108,527
Deferred revenue	478,347	126,753		2,026,736	2,631,836
Total liabilities	<u>8,467,911</u>	<u>683,813</u>	<u>3,047,384</u>	<u>4,036,449</u>	<u>16,235,557</u>
Fund balances:					
Reserved for inventories	121,270				121,270
Reserved for right of way expenditures				213,583	213,583
Reserved for senior activities				240,108	240,108
Reserved for books and capital expenditures				21,069	21,069
Unreserved, designated, reported in nonmajor special revenue funds				1,094,055	1,094,055
Unreserved, undesignated	6,634,320	1,126,176	3,056,376		10,816,872
Unreserved, undesignated, reported in nonmajor:					
Special revenue funds				9,940,087	9,940,087
Debt service funds				1,046,485	1,046,485
Permanent funds				28,353	28,353
Total fund balances	<u>6,755,590</u>	<u>1,126,176</u>	<u>3,056,376</u>	<u>12,583,740</u>	<u>23,521,882</u>
Total liabilities and fund balances	<u>\$ 15,223,501</u>	<u>\$ 1,809,989</u>	<u>\$ 6,103,760</u>	<u>\$ 16,620,189</u>	<u>\$ 39,757,439</u>

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, 2005**

Total fund balances for governmental funds \$ 23,521,882

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. 119,615,216

- 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. 9,371,068

- Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 1,313,593

- 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, 2005 are:

Accrued interest on bonds		(159,285)
Bonds payable	\$ (18,170,000)	
Unamortized discounts	227,922	
Unamortized issuance costs	168,981	
Noncurrent portion of general liability claims	(844,900)	
Compensated absences	(3,199,235)	
Total long-term liabilities	(21,817,232)	

Total net assets of governmental activities \$ 131,845,242

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, 2005

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 15,836,747	\$ 5,866,593		\$ 2,605,067	\$ 24,308,407
Licenses and permits	803,736			2,335,716	3,139,452
Federal grants	83,278		\$ 121,699	1,054,987	1,259,964
State grants	5,893,372			4,168,741	10,062,113
Charges for services	2,385,131	143,954	731,477	597,097	3,857,659
Fines and forfeitures	3,239,804			752,825	3,992,629
Interest and rentals	410,228	62,554	12,584	287,430	772,796
Contributions and donations	138,959		(31,143)	928,993	1,036,809
Reimbursements	482,231				482,231
Other revenue	24,126	4,491	42,606	267,564	338,787
Total revenues and other sources	<u>29,297,612</u>	<u>6,077,592</u>	<u>877,223</u>	<u>12,998,420</u>	<u>49,250,847</u>
EXPENDITURES					
Current:					
General government	9,160,702				9,160,702
Public safety	16,556,424			1,488,933	18,045,357
Public works	1,234,388	5,400,253	5,508,133	3,550,489	15,693,263
Health and welfare	473,915				473,915
Community and economic development	203,238			1,145,863	1,349,101
Recreation and culture	1,135,326			1,819,278	2,954,604
Debt service:					
Principal payments				520,000	520,000
Interest and paying agent fees				692,014	692,014
Total expenditures	<u>28,763,993</u>	<u>5,400,253</u>	<u>5,508,133</u>	<u>9,216,577</u>	<u>48,888,956</u>
Excess (deficiency) of revenues over expenditures	533,619	677,339	(4,630,910)	3,781,843	361,891
OTHER FINANCING SOURCES (USES)					
Bond proceeds			3,700,000		3,700,000
Transfers in	1,846,786		3,226,829	897,694	5,971,309
Transfers out	(112,292)		(462,817)	(3,351,842)	(3,926,951)
Sale of capital assets	38,195				38,195
Total other financing sources (uses)	<u>1,772,689</u>	<u>-</u>	<u>6,464,012</u>	<u>(2,454,148)</u>	<u>5,782,553</u>
Net change in fund balances	2,306,308	677,339	1,833,102	1,327,695	6,144,444
Fund balances - beginning	4,449,282	448,837	1,223,274	11,256,045	17,377,438
Fund balances - ending	<u>\$ 6,755,590</u>	<u>\$ 1,126,176</u>	<u>\$ 3,056,376</u>	<u>\$ 12,583,740</u>	<u>\$ 23,521,882</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, 2005

Net change in fund balances - total governmental funds \$ 6,144,444

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 (\$5,628,685) exceeded depreciation (\$1,999,998) in the current period. 3,628,687

- The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins) is to increase net assets. (174,141)

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 520,000

- 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 eight balances.

Accrued interest on bonds	\$	(6,735)	
Bond proceeds		(3,700,000)	
Bond discount on new debt issue		57,869	
Bond issuance costs on new debt issue		59,831	
Amortization of bond discount		(10,011)	
Amortization of bond issuance costs		(6,543)	
Noncurrent portion of general liability claims		(264,800)	
Compensated absences		317,050	
Combined adjustment		317,050	(3,553,339)

- Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. (47,911)

- 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. 212,940

Change in net assets of governmental activities \$ 6,730,680

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 15,935,000	\$ 15,935,000	\$ 15,836,747	\$ (98,253)
Licenses and permits	772,500	826,340	803,736	(22,604)
Federal grants	10,000	75,190	83,278	8,088
State grants	5,929,500	5,939,000	5,893,372	(45,628)
Charges for services	2,205,000	2,279,670	2,385,131	105,461
Fines and forfeitures	2,675,000	2,720,800	3,239,804	519,004
Interest and rentals	335,000	425,000	410,228	(14,772)
Contributions and donations	140,250	157,450	138,959	(18,491)
Reimbursements	355,000	355,000	482,231	127,231
Other revenue	159,750	300,750	24,126	(276,624)
Total revenues	28,517,000	29,014,200	29,297,612	283,412
EXPENDITURES				
General government	9,727,065	9,913,865	9,160,702	(753,163)
Public safety	16,727,630	16,888,690	16,556,424	(332,266)
Public works	1,591,680	1,594,680	1,234,388	(360,292)
Health and welfare	506,590	506,590	473,915	(32,675)
Community and economic development	162,120	162,120	203,238	41,118
Recreation and culture	1,373,520	1,439,860	1,135,326	(304,534)
Total expenditures	30,088,605	30,505,805	28,763,993	(1,741,812)
Excess of revenues over (under) expenditures	(1,571,605)	(1,491,605)	533,619	2,025,224
OTHER FINANCING SOURCES (USES)				
Transfers in	1,613,175	1,613,175	1,846,786	233,611
Transfers out	(68,570)	(68,570)	(112,292)	(43,722)
Sale of capital assets	27,000	27,000	38,195	11,195
Total other financing sources (uses)	1,571,605	1,571,605	1,772,689	201,084
Net change in fund balance	-	80,000	2,306,308	2,226,308
Fund balances - beginning	4,449,282	4,449,282	4,449,282	-
Fund balances - ending	\$ 4,449,282	\$ 4,529,282	\$ 6,755,590	\$ 2,226,308

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 6,175,450	\$ 6,175,450	\$ 5,866,593	\$ (308,857)
Charges for service	105,500	105,500	143,954	38,454
Interest	30,000	30,000	62,554	32,554
Other	1,000	1,000	4,491	3,491
Total revenues	6,311,950	6,311,950	6,077,592	(234,358)
EXPENDITURES				
Public works	6,311,950	6,311,950	5,400,253	(911,697)
Total expenditures	6,311,950	6,311,950	5,400,253	(911,697)
Net change in fund balance	-	-	677,339	677,339
Fund balances - beginning	448,837	448,837	448,837	-
Fund balances - ending	\$ 448,837	\$ 448,837	\$ 1,126,176	\$ 677,339

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, 2005**

	Business Type Activities - Enterprise Funds			Total	Internal Service Funds
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 78,963	\$ 39,369	\$ 70,126	\$ 188,458	\$ 5,300
Investments		2,069,876	1,884,826	3,954,702	570,011
Receivables, net	4,963,799	7,107	31,278	5,002,184	193,352
Deposits and other assets		120,106		120,106	
Due from other governmental units	305,455			305,455	
Due from other funds		570	81,268	81,838	2,687,403
Due from component units		550,137		550,137	
Inventories	129,817	4,505		134,322	133,478
Total current assets	5,478,034	2,791,670	2,067,498	10,337,202	3,589,544
Noncurrent assets:					
Restricted assets, cash and cash equivalents		3,036,417	40	3,036,457	
Receivables, net	8,335,501			8,335,501	
Capital assets, net	72,391,199	18,781,980	8,354,466	99,527,645	6,796,631
Total noncurrent assets	80,726,700	21,818,397	8,354,506	110,899,603	6,796,631
Total assets	86,204,734	24,610,067	10,422,004	121,236,805	10,386,175
LIABILITIES					
Current liabilities:					
Accounts payable	1,227,677	102,151	136,686	1,466,514	65,598
Accrued and other liabilities	324,389	21,472	16,625	362,486	729,717
Due to other funds	3,474,646		12,000	3,486,646	
Cash bonds and deposits	5,727	1,150		6,877	
Unearned revenue			10,689	10,689	
Bonds payable	2,012,635	294,427	246,576	2,553,638	
Total current liabilities	7,045,074	419,200	422,576	7,886,850	795,315
Noncurrent liabilities:					
Accrued compensated absences	239,986	47,489	40,218	327,693	188,435
Other long-term liabilities	64,600	5,200	10,300	80,100	
Bonds payable	42,169,423	9,738,540	1,475,735	53,383,698	
Total noncurrent liabilities	42,474,009	9,791,229	1,526,253	53,791,491	188,435
Total liabilities	49,519,083	10,210,429	1,948,829	61,678,341	983,750
NET ASSETS					
Invested in capital assets, net of related debt	28,209,141	8,749,013	6,632,155	43,590,309	6,796,631
Restricted for debt service	2,012,635	294,427	246,576	2,553,638	
Restricted for cultural activities			21,103	21,103	
Unrestricted	6,463,875	5,356,198	1,573,341	13,393,414	2,605,794
Total net assets	\$ 36,685,651	\$ 14,399,638	\$ 8,473,175	59,558,464	\$ 9,402,425

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.

31,357

Net assets of business-type activities

\$ 59,589,821

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, 2005

	Business Type Activities - Enterprise Funds			Total	Internal Service Funds
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds		
OPERATING REVENUES					
Charges for services	\$ 16,728,932	\$ 2,028,753	\$ 2,472,968	\$ 21,230,653	\$ 3,956,294
Contributions and donations		809,874	7,378	817,252	
Other	48,489	10,000	218	58,707	43,469
Total operating revenues	<u>16,777,421</u>	<u>2,848,627</u>	<u>2,480,564</u>	<u>22,106,612</u>	<u>3,999,763</u>
OPERATING EXPENSES					
Salaries and benefits	2,227,880	564,241	399,044	3,191,165	1,470,673
Supplies	182,969	74,033	185,183	442,185	544,677
Water purchases	2,949,091			2,949,091	
Sewage disposal services	6,326,598			6,326,598	
Other services and charges	1,606,555	257,938	1,725,777	3,590,270	647,803
Depreciation	1,338,991	549,103	359,476	2,247,570	1,175,904
Total operating expenses	<u>14,632,084</u>	<u>1,445,315</u>	<u>2,669,480</u>	<u>18,746,879</u>	<u>3,839,057</u>
Operating income (loss)	<u>2,145,337</u>	<u>1,403,312</u>	<u>(188,916)</u>	<u>3,359,733</u>	<u>160,706</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	82,577	114,051	41,079	237,707	7,750
Interest expense	(196,159)	(529,277)	(92,782)	(818,218)	
Gain on disposal of capital assets					120,348
Total nonoperating revenue (expenses)	<u>(113,582)</u>	<u>(415,226)</u>	<u>(51,703)</u>	<u>(580,511)</u>	<u>128,098</u>
Income (loss) before transfers	2,031,755	988,086	(240,619)	2,779,222	288,804
TRANSFERS IN	53,631		103,403	157,034	
TRANSFERS OUT	<u>(588,217)</u>	<u>(1,613,175)</u>		<u>(2,201,392)</u>	
Change in net assets	1,497,169	(625,089)	(137,216)	734,864	288,804
Total net assets - beginning, as restated	<u>35,188,482</u>	<u>15,024,727</u>	<u>8,610,391</u>		<u>9,113,621</u>
Total net assets - ending	<u>\$ 36,685,651</u>	<u>\$ 14,399,638</u>	<u>\$ 8,473,175</u>		<u>\$ 9,402,425</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.

75,863

Change in net assets of business-type activities

\$ 810,727

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, 2005

	Business Type Activities - Enterprise Funds			Total	Governmental
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds		Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 19,860,801	\$ 2,841,741	\$ 2,686,665	\$ 25,389,207	\$ 93,710
Internal activity - receipts from other funds					3,709,920
Other operating receipts	48,489	10,000	93	58,582	73,329
Payments to vendors	(8,795,682)	(252,067)	(2,085,283)	(11,133,032)	(1,097,853)
Payments to employees	(1,490,327)	(428,038)	(307,994)	(2,226,359)	(958,713)
Payments of benefits on behalf of employees	(483,526)	(94,790)	(66,513)	(644,829)	(770,873)
Internal activity - payments to other funds	(1,320,176)	(85,022)	(111,820)	(1,517,018)	(117,839)
Net cash provided by (used in) operating activities	<u>7,819,579</u>	<u>1,991,824</u>	<u>115,148</u>	<u>9,926,551</u>	<u>931,681</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	53,631		103,403	157,034	
Transfers from component units		-		-	
Transfers to other funds	(588,217)	(1,613,175)		(2,201,392)	
Increase in other long-term liabilities	20,300	1,700	3,200	25,200	
Net cash provided by (used in) noncapital financing activities	<u>(514,286)</u>	<u>(1,611,475)</u>	<u>106,603</u>	<u>(2,019,158)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(5,932,477)	(11,600)	(67,169)	(6,011,246)	(1,029,601)
Principal paid on capital debt	(1,964,171)	(284,427)	(231,576)	(2,480,174)	
Interest paid on capital debt	(196,159)	(529,277)	(92,782)	(818,218)	
Increase in long-term receivable	(2,214,997)			(2,214,997)	
Proceeds from sale of capital assets					120,348
Proceeds from sale of bonds	2,843,356			2,843,356	
Net cash provided by (used in) capital and related financing activities	<u>(7,464,448)</u>	<u>(825,304)</u>	<u>(391,527)</u>	<u>(8,681,279)</u>	<u>(909,253)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities					(7,111)
Interest received on investments	82,577	114,051	41,079	237,707	7,750
Net cash provided by investment activities	<u>82,577</u>	<u>114,051</u>	<u>41,079</u>	<u>237,707</u>	<u>639</u>
Net increase (decrease) in cash and cash equivalents	<u>(76,578)</u>	<u>(330,904)</u>	<u>(128,697)</u>	<u>(536,179)</u>	<u>23,067</u>
Balances - beginning	155,541	5,476,566	2,083,689	7,715,796	5,320
Balances - ending	<u>\$ 78,963</u>	<u>\$ 5,145,662</u>	<u>\$ 1,954,992</u>	<u>\$ 7,179,617</u>	<u>\$ 28,387</u>
Statement of net assets classification of cash and cash equivalents:					
Cash and cash equivalents	\$ 78,963	\$ 2,109,245	\$ 1,954,952	\$ 4,143,160	\$ 5,300
Investments					570,011
Restricted assets, cash and equivalents		3,036,417	40	3,036,457	
Less investments with original maturities greater than three months					(546,924)
	<u>\$ 78,963</u>	<u>\$ 5,145,662</u>	<u>\$ 1,954,992</u>	<u>\$ 7,179,617</u>	<u>\$ 28,387</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 2,145,337	\$ 1,403,312	\$ (188,916)	\$ 3,359,733	\$ 160,706
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,338,991	549,103	359,476	2,247,570	1,175,904
Changes in assets and liabilities:					
Receivables	3,437,782	(3,691)	(7,665)	3,426,426	29,860
Deposits and other assets		6,005		6,005	16,700
Due from other governmental units	(305,455)		217,578	(87,877)	
Due from other funds		568,137	(55,268)	512,869	(152,664)
Due from component units		(550,137)		(550,137)	
Inventories	(15,726)	12,106		(3,620)	(21,974)
Accounts payable	61,524	368	(43,490)	18,402	(8,749)
Accrued and other liabilities	9,071	2,280	549	11,900	(217,658)
Due to other funds	1,121,995		(173,516)	948,479	
Cash bonds and deposits	(458)	800		342	
Unearned revenue			2,755	2,755	
Accrued compensated absences	26,518	3,541	3,645	33,704	(50,444)
Net cash provided by (used in) operating activities	<u>\$ 7,819,579</u>	<u>\$ 1,991,824</u>	<u>\$ 115,148</u>	<u>\$ 9,926,551</u>	<u>\$ 931,681</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, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 3,000	\$ 753,265
Receivables, net	67,304	46,762
Retirement investments, at fair value		
U.S. government obligations	18,528,897	
Corporate bonds	22,201,410	
Stocks	86,952,069	
Other investments	6,001,972	
Accrued income	380,747	
Total investments	<u>134,065,095</u>	
Total assets	<u>134,135,399</u>	<u>\$ 800,027</u>
LIABILITIES		
Accounts payable	637,323	\$ 394,650
Due to other governmental units		106,669
Cash bonds and deposits		298,708
Total liabilities	<u>637,323</u>	<u>\$ 800,027</u>
NET ASSETS		
Held in trust for pension and other employee benefits	<u>\$ 133,498,076</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, 2005

	Pension and Other Employee Benefit Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 1,340,215
Plan members	420,775
Plan members' buybacks	1,226,504
Total contributions	<u>2,987,494</u>
Investment earnings:	
Net increase in fair value of investments	7,758,106
Interest	1,856,237
Dividends	1,474,964
Other investment revenues	21,591
Total investment income	<u>11,110,898</u>
Less investment expenses	<u>855,186</u>
Net investment income	<u>10,255,712</u>
Total additions	<u>13,243,206</u>
DEDUCTIONS	
Benefits	11,127,551
Refund of contributions	618,586
Administrative expenses	62,815
Total deductions	<u>11,808,952</u>
Change in net assets	1,434,254
Net assets - beginning	<u>132,063,822</u>
Net assets - ending	<u><u>\$ 133,498,076</u></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, 2005

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission	Total
ASSETS					
Current assets:					
Cash and cash equivalents			\$ 20,202	\$ 7,988	\$ 28,190
Investments	\$ 7,015,174				7,015,174
Receivables, net	88,120	\$ 2,407			90,527
Deposits and other assets				96,093	96,093
Due from primary government	101,832	14,562			116,394
Total current assets	<u>7,205,126</u>	<u>16,969</u>	<u>20,202</u>	<u>104,081</u>	<u>7,346,378</u>
Noncurrent assets:					
Capital assets, not being depreciated	1,084,754				1,084,754
Capital assets, being depreciated, net	601,156			10,198	611,354
Total noncurrent assets	<u>1,685,910</u>			<u>10,198</u>	<u>1,696,108</u>
Total assets	<u>8,891,036</u>	<u>16,969</u>	<u>20,202</u>	<u>114,279</u>	<u>9,042,486</u>
LIABILITIES					
Current liabilities:					
Accounts payable	38,564	1,112		7,765	47,441
Due to primary government	692,062			40,672	732,734
Due to other governmental units	1,942,899				1,942,899
Deferred revenue				55,644	55,644
Current portion of long-term debt	100,000				100,000
Total current liabilities	<u>2,773,525</u>	<u>1,112</u>		<u>104,081</u>	<u>2,878,718</u>
Noncurrent liabilities:					
Accrued compensated absences				11,298	11,298
Noncurrent portion of long-term debt	495,278				495,278
Total noncurrent liabilities	<u>495,278</u>			<u>11,298</u>	<u>506,576</u>
Total liabilities	<u>3,268,803</u>	<u>1,112</u>		<u>115,379</u>	<u>3,385,294</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,100,830				1,100,830
Unrestricted (deficit)	4,521,403	15,857	20,202	(1,100)	4,556,362
Total net assets	<u>\$ 5,622,233</u>	<u>\$ 15,857</u>	<u>\$ 20,202</u>	<u>\$ (1,100)</u>	<u>\$ 5,657,192</u>

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

**City of Royal Oak, Michigan
Statement of Activities
Component Units
For the Year Ended June 30, 2005**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	
Tax Increment Financing Authority								
Public works	\$ 1,766,792		\$ 30,530					\$ (1,736,262)
Interest on long-term debt	40,160							(40,160)
Total - Tax Increment Financing Authority	1,806,952		30,530					(1,776,422)
Downtown Development Authority								
General government	53,247				\$ (53,247)			(53,247)
Economic Development Corporation								
Housing Commission								
General government	129,790		129,953				\$ 163	163
Health and welfare	1,105,248		1,105,248				-	-
Total - Housing Commission	1,235,038		1,235,201				163	163
Total component units	\$ 3,095,237	\$ -	\$ 1,265,731	\$ -				(1,829,506)
General revenues:								
Taxes				1,760,521	49,901			1,810,422
Unrestricted interest and investment earnings				140,715		\$ 50	547	141,312
Total general revenues				1,901,236	49,901	50	547	1,951,734
Change in net assets				124,814	(3,346)	50	710	122,228
Net assets (deficit) - beginning				5,497,419	19,203	20,152	(1,810)	5,534,964
Net assets (deficit) - ending				\$ 5,622,233	\$ 15,857	\$ 20,202	\$ (1,100)	\$ 5,657,192

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

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

The City of Royal Oak operates under the City Manager form of government. The City of Royal Oak is governed by an elected seven-member Commission, including an elected mayor, which appoints the City Manager who oversees the administration and operations of the City.

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.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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.

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 Housing 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.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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

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

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

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

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

The government reports the following major governmental funds:

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

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

The Capital Projects 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).

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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 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.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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

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

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

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

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

31st. The December bill, which typically contains the county levy and a small City levy, is payable without interest by the following February 14th.

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 statement of net assets because their use is limited. Proprietary fund restricted assets are held subject to bond covenants and reserved for future capital expenditures.

5. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. During the year, \$903,545 of 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

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

6. Compensated Absences

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

7. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

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

9. Restatements

A prior period adjustment was made in the Motor Pool Fund to properly record a transfer for fire trucks and equipment that were capitalized in the Motor Pool Fund. The net assets were reported as \$6,653,765 and were adjusted by \$1,598,850; therefore, the restated net assets are \$8,252,615. A prior period adjustment was made at the government-wide level for governmental activities for completed construction projects that should have been capitalized in prior years. The net assets were reported as \$119,450,358 and were adjusted by \$5,664,204; therefore, the restated net assets are \$125,114,562.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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 department level.

Department heads submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than June 30th. 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, 2005, 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 Appropriation</u>	<u>Actual Expenditure</u>
General Fund – District Court	\$1,771,440	\$1,788,001
General Fund – Probation	431,260	444,148
General Fund – Manager	227,010	230,044
General Fund – Finance	552,220	552,544
General Fund – Attorney	577,380	581,850
General Fund – Purchasing	26,090	49,135
General Fund – Planning & Zoning	162,120	203,238
General Fund – Electrical	89,420	90,849
General Fund – Street Lighting	671,040	681,084
General Fund – Transfers To Other Funds	42,400	112,292
Major Streets Fund – Administration	627,610	860,372
Local Streets Fund – Streets Maintenance	751,770	1,197,254
Local Streets Fund – Parkway Maintenance	364,120	396,714
Block Grant Fund – Community and Economic Develop.	54,290	100,558
Block Grant Fund – L & M Street Resurfacing	150,000	153,438
Block Grant Fund – City Buildings Improvements	90,000	135,675
Acorn Fund	0	43,906
Debt Service Fund	1,017,450	1,212,014

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City of Royal Oak's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

State of Michigan statutes authorize the City of Royal Oak to invest in bonds and other direct and certain indirect obligations of the US Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration; and in commercial paper of corporations located in the State rated prime by at least one of the standard rating services. The City of Royal Oak is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The City of Royal Oak Retirement System is allowed to invest in corporate stocks and bonds.

The City of Royal Oak's investment policy allows for all of these types of investments. Investments of the City of Royal Oak Retirement System are subject to a number of restrictions as to type, quality and concentration of investments. Retirement System investments are held in a trust fund administered by Merrill Lynch.

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

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 1,176,817	\$ 188,458	\$ 756,265	\$ 2,121,540	\$ 28,190
Investments	20,832,133	3,954,702	133,684,348	158,471,183	7,015,174
Restricted assets	3,485,274	3,036,457	-	6,521,731	-
Total	\$ 25,494,224	\$ 7,179,617	\$ 134,440,613	\$ 167,114,454	\$ 7,043,364

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings accounts, certificates of deposits)	\$ 36,425,231	\$ 7,043,364
Investments in Debt Securities	43,730,271	
Investments in Equity Securities	86,952,069	
Petty Cash and Cash on Hand	6,883	
Total	\$ 167,114,454	\$ 7,043,364

Investment and deposit risk

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City of Royal Oak's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest. The City had the following debt securities and maturities as of June 30, 2005:

	Investment Maturities (in Years)					Credit Ratings Range	
	Fair Value	Less than 1	1 - 5	6 -10	>10	Standard & Poors	Moody's Investor Service
U.S. agencies	\$ 19,028,896	\$ 1,234,242	\$ 4,428,749	\$ 3,699,155	\$ 9,666,750	AAA	Aaa
Commercial paper	2,499,965	2,499,965				A1/P1	n/a
Corporate bonds	22,201,410	1,415,126	10,382,866	4,562,247	5,841,171	AAA to BB+	Aaa to Baa3

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments. The City of Royal Oak's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings range for each investment type is identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City of Royal Oak's deposits may not be returned. State law does not require and the City of Royal Oak does not have a policy for deposit custodial credit risk. As of June 30, 2005, \$35,736,317 of the City of Royal Oak's bank balance of \$36,894,453 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of year end, \$6,848,156 of the component unit's bank balance of \$7,176,346 was exposed to custodial credit risk because it was uninsured and uncollateralized.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Royal Oak will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City of Royal Oak does not have a policy for investment custodial credit risk. Of the above \$43,730,271 in investments, the City of Royal Oak has a custodial credit risk exposure of \$24,701,375 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City of Royal Oak's investment policy does not have specific limits in excess of state law on concentration of credit risk. At June 30, 2005, there were no individual investments with a fair value that represents 5% or more of the City's investments.

B. Receivables

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

	General Fund	Solid Waste	Capital Projects	Water and Sewer	Auto Parking	Nonmajor and Other Funds	Total	Component Units
Taxes Receivable	\$ 444,004	\$ 135,753				\$ 56,356	\$ 636,113	\$ 81,930
Accounts	254,964	48,677	\$ 289,445	\$ 4,963,799	\$ 761	1,625,140	7,182,786	
Special Assessments						636,671	636,671	
Intergovernmental	648,813					118,809	767,622	
Interest and other	7,129	15,034			6,346	54,810	83,319	33,597
Gross Receivables	1,354,910	199,464	289,445	4,963,799	7,107	2,491,786	9,306,511	115,527
Less: Allowance for uncollectibles	(24,960)	(9,000)					(33,960)	(25,000)
Net receivables, per fund financials	\$ 1,329,950	\$ 190,464	\$ 289,445	\$ 4,963,799	\$ 7,107	\$ 2,491,786	\$ 9,272,551	\$ 90,527

Of the special assessment receivable, \$130,000 is expected to be collected in the next year.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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

	General Fund	Solid Waste	Capital Projects	Nonmajor Governmental Funds	Total
Taxes Receivable	\$ 444,004	\$135,753		\$ 56,356	\$ 636,113
Accounts	254,964	48,677	\$289,445	1,532,382	2,125,468
Special Assessments				636,671	636,671
Intergovernmental	1,749,273			897,174	2,646,447
Interest and other	7,129	15,034		48,166	70,329
Gross Receivables	2,455,370	199,464	289,445	3,170,749	6,115,028
Less: Allowance for uncollectibles	(24,960)	(9,000)			(33,960)
Net receivables, per govt-wide financials	\$2,430,410	\$190,464	\$289,445	\$ 3,170,749	\$6,081,068

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

	Unavailable	Unearned
Delinquent Personal Property Taxes	\$ 604,613	
Special Assessments	636,671	
Grant Drawdowns Prior to Meeting Eligibility Requirements		\$ 1,390,552
Total - fund financials	1,241,284	1,390,552
less: revenue recognized under full accrual	(1,241,284)	(72,309)
Total - govt-wide financials	\$ -	\$ 1,318,243

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

C. Capital Assets:

Capital asset activity for the current year was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 66,485,407			\$ 66,485,407
Construction in progress	13,335,856	\$ 4,037,621	(10,185,669)	7,187,808
Total capital assets, not being depreciated	79,821,263	4,037,621	(10,185,669)	73,673,215
Capital assets, being depreciated				
Buildings	17,835,325	7,720,275	(130,601)	25,424,999
Improvements other than buildings	2,834,892			2,834,892
Machinery and equipment	17,541,280	1,505,493	(1,082,502)	17,964,271
Infrastructure	73,248,469	3,618,238		76,866,707
Intangibles	492,404	13,162		505,566
Total capital assets being depreciated	111,952,370	12,857,168	(1,213,103)	123,596,435
Less accumulated depreciation for:				
Buildings	(8,084,564)	(338,024)	130,600	(8,291,988)
Improvements other than buildings	(1,680,260)	(133,069)		(1,813,329)
Machinery and equipment	(10,299,835)	(1,259,548)	857,528	(10,701,855)
Infrastructure	(48,149,997)	(1,421,285)		(49,571,282)
Intangibles	(455,373)	(23,976)		(479,349)
Total accumulated depreciation	(68,670,029)	(3,175,902)	988,128	(70,857,803)
Total capital assets, being depreciated, net	43,282,341	9,681,266	(224,975)	52,738,632
Governmental activities capital assets, net	<u>\$ 123,103,604</u>	<u>\$ 13,718,887</u>	<u>\$ (10,410,644)</u>	<u>\$ 126,411,847</u>

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 5,121,005			\$ 5,121,005
Construction in progress	27,571,621	\$ 4,593,394		32,165,015
Total capital assets, not being depreciated	32,692,626	4,593,394	-	37,286,020
Capital assets, being depreciated				
Buildings	28,098,151	16,670		28,114,821
Improvements other than buildings	1,315,931			1,315,931
Machinery and equipment	2,043,286	3,250		2,046,536
Infrastructure	57,595,782	1,480,114	(82,183)	58,993,713
Intangibles	21,936			21,936
Total capital assets being depreciated	89,075,086	1,500,034	(82,183)	90,492,937
Less accumulated depreciation for:				
Buildings	(6,644,623)	(697,247)		(7,341,870)
Improvements other than buildings	(885,189)	(58,557)		(943,746)
Machinery and equipment	(1,379,096)	(123,872)		(1,502,968)
Infrastructure	(17,085,807)	(1,364,481)		(18,450,288)
Intangibles	(9,027)	(3,413)		(12,440)
Total accumulated depreciation	(26,003,742)	(2,247,570)	-	(28,251,312)
Total capital assets, being depreciated, net	63,071,344	(747,536)	(82,183)	62,241,625
Business-type activities capital assets, net	<u>\$ 95,763,970</u>	<u>\$ 5,345,892</u>	<u>\$ (82,183)</u>	<u>\$ 99,527,645</u>

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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

Governmental activities:	
General government	\$ 239,914
Public safety	111,798
Public works	1,397,453
Health and welfare	14,153
Community and economic development	2,864
Recreation and culture	233,816
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>1,175,904</u>
Total depreciation expense - governmental activities	<u><u>\$ 3,175,902</u></u>
Business-type activities:	
Water and sewer	\$ 1,338,991
Parking	549,103
Recreation	350,408
Farmers market	9,068
Total depreciation expense - business-type activities	<u><u>\$ 2,247,570</u></u>

Construction Commitments

The City has active construction projects as of June 30, 2005. The projects include infrastructure improvements as well as the renovation of the Library. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Buildings	\$ 658,680	\$ 3,998,268
Street Projects	3,513,160	1,637,699
Water Projects	890,323	718,464
Sidewalks	988,115	1,653,431
Total	<u><u>\$ 6,050,278</u></u>	<u><u>\$ 8,007,862</u></u>

A Building Authority bond issue is financing the Library construction commitment by a special millage. Oakland County has a major contract on the George W. Kuhn project, of which \$32,102,918 has been spent to date and is attributable to the City of Royal Oak.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

Discretely presented component units

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Component units:				
Capital assets, not being depreciated				
Land	\$ 1,084,754		\$ -	\$ 1,084,754
Total capital assets, not being depreciated	1,084,754	-	-	1,084,754
Capital assets, being depreciated				
Improvements other than buildings	215,650	\$ 131,869		347,519
Equipment	10,000	5,247		15,247
Infrastructure	378,830			378,830
Total capital assets being depreciated	604,480	137,116	-	741,596
Less accumulated depreciation for:				
Improvements other than buildings	(37,262)	(18,224)		(55,486)
Equipment	(2,000)	(3,049)		(5,049)
Infrastructure	(49,713)	(19,994)		(69,707)
Total accumulated depreciation	(88,975)	(41,267)	-	(130,242)
Total capital assets, being depreciated, net	515,505	95,849	-	611,354
Component unit capital assets, net	<u>\$ 1,600,259</u>	<u>\$ 95,849</u>	<u>\$ -</u>	<u>\$ 1,696,108</u>

There was \$41,267 in depreciation expense, \$38,218 of which was charged to the Tax Increment Financing Authority activity and \$3,049 was charged to the Housing Commission.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 4,153,174	\$ 5,118,233
Solid Waste Fund	174,152	
Capital Projects Fund	1,807,876	1,987,700
Nonmajor Governmental Funds	1,776,229	1,522,903
Water & Sewer Fund	3,474,646	
Automobile Parking System Fund		570
Nonmajor Enterprise Funds	12,000	81,268
Internal Service Funds		2,687,403
	<u>\$ 11,398,077</u>	<u>\$ 11,398,077</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	\$ 1,846,786	General	\$ 112,292
Capital Projects	3,226,829	Nonmajor governmental funds	3,351,842
Nonmajor governmental funds	897,694	Capital Projects	462,817
Water & Sewer	53,631	Water & Sewer	588,217
Nonmajor enterprise funds	103,403	Auto Parking	1,613,175
	<u>\$ 6,128,343</u>		<u>\$ 6,128,343</u>

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

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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
Governmental activities						
Limited tax court bonds	4.75%-5.2%	2024	\$ 6,590,000	\$ (205,000)	\$ 6,385,000	\$ 215,000
Limited tax general obligation bonds	3.00%-4.250%	2023	-	3,700,000	3,700,000	135,000
Unlimited tax general obligation bonds	3.75%-5.0%	2021	8,400,000	(315,000)	8,085,000	325,000
Compensated absences			3,755,165	(367,495)	3,387,670	
General liability claims			580,100	264,800	844,900	
			19,325,265	3,077,305	22,402,570	675,000
Less: unamortized discount and issuance costs			(295,757)	(101,146)	(396,903)	
Total governmental activity long-term liabilities			\$ 19,029,508	\$ 2,976,159	\$ 22,005,667	\$ 675,000
Business-type activities						
Limited tax general obligation-Ice Arena	5.0%	2010	\$ 1,975,000	\$ (235,000)	\$ 1,740,000	\$ 250,000
Limited tax general obligation-Parking	4.5%-5.25%	2026	10,440,000	(290,000)	10,150,000	300,000
Oakland County North Arm Drain Bonds	2.25%	2020	12,022,387	(585,000)	11,437,387	600,000
Contractual obligations	2.5%-5.375%	2024	31,280,486	1,464,185	32,744,671	1,412,635
Compensated absences			293,989	33,704	327,693	
General liability claims			54,900	25,200	80,100	
			56,066,762	413,089	56,479,851	2,562,635
Less: unamortized discount and issuance costs			(143,719)	8,997	(134,722)	(8,997)
Total business-type activity long-term liabilities			\$ 55,923,043	\$ 422,086	\$ 56,345,129	\$ 2,553,638
Component units						
Limited tax development bonds	6.0%	2009	\$ 725,000	\$ (100,000)	\$ 625,000	\$ 100,000
Compensated absences			9,810	1,488	11,298	
			734,810	(98,512)	636,298	100,000
Less: unamortized discount and issuance costs			(36,581)	6,859	(29,722)	
Total Component Units			\$ 698,229	\$ (91,653)	\$ 606,576	\$ 100,000

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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
2006	\$ 675,000	\$ 816,496	\$ 1,222,219	\$ 902,899	\$ 100,000	\$ 34,500
2007	715,000	789,765	1,266,733	859,132	100,000	28,500
2008	740,000	761,634	1,316,247	813,599	125,000	21,750
2009	770,000	732,102	1,360,760	766,079	150,000	13,500
2010	810,000	700,664	1,415,274	716,673	150,000	4,500
2011-2015	4,600,000	2,960,276	6,383,589	2,906,141	-	-
2016-2020	5,815,000	1,793,153	6,853,178	1,798,332	-	-
2021-2025	4,045,000	389,932	4,072,387	735,018	-	-
2026			755,000	39,638		
Total	<u>\$ 18,170,000</u>	<u>\$ 8,944,022</u>	<u>\$ 24,645,387</u>	<u>\$ 9,537,511</u>	<u>\$ 625,000</u>	<u>\$ 102,750</u>

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

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

Obligations for George W. Kuhn Project: The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local communities are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's obligation at the end of construction will be approximately \$34,650,000 with an interest rate of 2.5%. As of June 30, 2005, the City's obligation is \$30,086,255 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 \$188,435 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

F. Restricted Assets

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

Unspent Bond Proceeds	\$ 3,036,417
Lease Revenue restricted for debt repayment	40
Total Restricted Assets	<u>\$ 3,036,457</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 participates in the Michigan Municipal Risk Management Authority.

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

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

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$883,000. Settlements have not exceeded coverages for each of the past three fiscal years.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

Changes in the reported liability for the fiscal years 2004 and 2005 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>
2004	\$ 1,278,494	\$ 173,366	\$ (542,524)	\$ 909,336
2005	909,336	173,314	(396,717)	685,933

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, 2005 the City expensed approximately \$1,254,000 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

The City is also a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2005 the City expensed approximately \$2,949,100 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

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, 419 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 \$4,413,600.

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, 2005 was approximately \$20,320,400. The City's total payroll was approximately \$24,398,500.

At June 30, 2004 (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	510
Current full-time employees:	
Fully vested	247
Nonvested	131
Total current employees	378

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

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

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

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

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

Benefit payments are calculated as follows:

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

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

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

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

Significant Accounting Policies: The system is included in the City's financial statements as a pension trust fund. A stand-alone financial report has not been issued. The assets of the pension trust fund included no securities of or loans to the City or any other related party. At June 30, 2005, there were no investments in any one organization (other than the U.S. government and U.S. government-guaranteed obligations) in excess of five percent of net assets available for benefits.

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

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

For the year ended June 30, 2005, the City's annual pension cost of \$1,340,215 was equal to the City's required and actual contributions. An employee contribution of 1.5 percent to 4 percent of gross wages is

City of Royal Oak, Michigan
Notes to Financial Statements
June 30, 2005

required. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.0% to 8.8%.

THREE YEAR TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$0	0%	\$0
6/30/2004	0	0	0
6/30/2005	1,340	100%	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 Tax Increment Financing Authority ("T.I.F.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 T.I.F.A. has agreed to subsidize the CDBG program for these costs. The subsidy obligation was repaid in full as of June 30, 2005. During the year ending June 30, 2005, \$491,813 was transferred from the T.I.F.A. Each year's payment is being shown as a transfer from the T.I.F.A. to the CDBG fund. The obligation has not been recognized as an advance from the CDBG fund to the T.I.F.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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Entry Age	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/1996	\$ 105,572	\$ 94,730	\$ (10,842)	111.4%	\$ 14,991	0.0%
6/30/1997	116,317	97,622	(18,695)	119.2%	15,949	-
6/30/1998	132,289	102,995	(29,294)	128.4%	17,182	-
6/30/1999	147,433	107,934	(39,499)	136.6%	17,501	-
6/30/2000	159,268	113,215	(46,053)	140.7%	18,130	-
6/30/2001	162,586	121,589	(40,997)	133.7%	18,962	-
6/30/2002	156,403	128,303	(28,100)	121.9%	19,368	-
6/30/2003	146,739	136,529	(10,210)	107.5%	20,138	-
6/30/2004	137,851	146,386	8,535	94.2%	20,569	41.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Pension Cost	Actual Contribution	Percentage Contributed
1997	\$ 1,400	\$ 1,400	100%
1998	543	543	100%
1999	85	85	100%
2000	0	0	100%
2001	0	0	100%
2002	0	0	100%
2003	0	0	100%
2004	1,340	1,340	100%

Notes to Schedule of Funding Progress:

1. All trend information has been calculated using entry age normal actuarial method.
2. For information regarding contribution percentage rates, assumption, amortization method, etc., see Note 4(E) on pages 49, 50 and 51.

ADDITIONAL INFORMATION

**City of Royal Oak, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

	Special Revenue						Total Nonmajor Special Revenue Funds
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	
ASSETS							
Cash and cash equivalents			\$ 4,595	\$ 250			\$ 4,845
Investments	\$ 3,358,073	\$ 5,401,647		798,415	\$ 1,398,442		\$ 297,720
Receivables, net	21,440	34,442	1,305,800	1,691	38,124	\$ 28,500	
Deposits and other assets			18,107				18,107
Due from other governmental units	668,942	155,365					824,307
Due from other funds		474,426	59,028	80,039	4,544	732,058	13,904
Total assets	<u>\$ 4,048,455</u>	<u>\$ 6,065,880</u>	<u>\$ 1,387,530</u>	<u>\$ 880,395</u>	<u>\$ 1,441,110</u>	<u>\$ 760,558</u>	<u>\$ 311,624</u>
LIABILITIES							
Accounts payable	\$ 14,125	\$ 2,615	\$ 48,310	\$ 3,419	\$ 16,460	\$ 12,532	\$ 97,461
Accrued and other liabilities	11,289	8,310	20,977	4,441	34,125	56,481	135,623
Due to other funds	1,053,183	478,485			230,965		\$ 13,596
Deferred revenue	6,663	6,664	1,318,243	15,466	30,301		1,377,337
Total liabilities	<u>1,085,260</u>	<u>496,074</u>	<u>1,387,530</u>	<u>23,326</u>	<u>311,851</u>	<u>69,013</u>	<u>13,596</u>
FUND BALANCES							
Reserved for right of way expenditures	213,583						213,583
Reserved for senior activities				240,108			240,108
Reserved for books and capital expenditures					21,069		21,069
Unreserved, designated for subsequent years expenditures	516,660	494,640			67,500	15,255	1,094,055
Unreserved, undesignated	2,232,952	5,075,166	-	616,961	1,040,690	676,290	298,028
Total fund balances	<u>2,963,195</u>	<u>5,569,806</u>	<u>-</u>	<u>857,069</u>	<u>1,129,259</u>	<u>691,545</u>	<u>298,028</u>
Total liabilities and fund balances	<u>\$ 4,048,455</u>	<u>\$ 6,065,880</u>	<u>\$ 1,387,530</u>	<u>\$ 880,395</u>	<u>\$ 1,441,110</u>	<u>\$ 760,558</u>	<u>\$ 311,624</u>

**City of Royal Oak, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Nonmajor Governmental Funds
			Special Assessments	Permanent Fund	
ASSETS					
Cash and cash equivalents	\$ 4,845	\$ 5,640			\$ 10,485
Investments	11,254,297	811,000			12,065,297
Receivables, net	1,429,997	86,399	\$ 636,671	\$ 23	2,153,090
Deposits and other assets	18,107				18,107
Due from other governmental units	824,307				824,307
Due from other funds	1,363,999	156,574		2,330	1,522,903
Restricted assets				26,000	26,000
Total assets	<u>\$ 14,895,552</u>	<u>\$ 1,059,613</u>	<u>\$ 636,671</u>	<u>\$ 28,353</u>	<u>\$ 16,620,189</u>
LIABILITIES					
Accounts payable	\$ 97,461	\$ 400			\$ 97,861
Accrued and other liabilities	135,623				135,623
Due to other funds	1,776,229				1,776,229
Deferred revenue	<u>1,377,337</u>	<u>12,728</u>	<u>\$ 636,671</u>		<u>2,026,736</u>
Total liabilities	<u>3,386,650</u>	<u>13,128</u>	<u>636,671</u>		<u>4,036,449</u>
FUND BALANCES					
Reserved for right of way expenditures	213,583				213,583
Reserved for senior activities	240,108				240,108
Reserved for books and capital expenditures years expenditures	21,069				21,069
	1,094,055				1,094,055
Unreserved, undesignated	<u>9,940,087</u>	<u>1,046,485</u>	<u>-</u>	<u>\$ 28,353</u>	<u>11,014,925</u>
Total fund balances	<u>11,508,902</u>	<u>1,046,485</u>	<u>-</u>	<u>28,353</u>	<u>12,583,740</u>
Total liabilities and fund balances	<u>\$ 14,895,552</u>	<u>\$ 1,059,613</u>	<u>\$ 636,671</u>	<u>\$ 28,353</u>	<u>\$ 16,620,189</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, 2005

	Special Revenue						Total Nonmajor Special Revenue Funds	
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code		Acorn Fund
REVENUES								
Taxes	\$ 79	\$ 79			\$ 1,914,463		\$ 1,914,621	
Licenses and permits	191,224					\$ 2,144,492	2,335,716	
Federal grants			\$ 1,054,987				1,054,987	
State grants	2,955,703	960,417		\$ 133,564	119,057		4,168,741	
Charges for services			357,520	166,409	46,718	26,450	597,097	
Fines and forfeitures					1,219		1,219	
Interest	71,479	111,295		14,472	40,613	\$ 5,141	243,000	
Contributions and donations	14,409		491,813	49,917	49,965	322,889	928,993	
Other revenue	21,560	1,768	17,021		7,552	60	47,961	
Total revenues	<u>3,254,454</u>	<u>1,073,559</u>	<u>1,921,341</u>	<u>364,362</u>	<u>2,179,587</u>	<u>2,171,002</u>	<u>328,030</u>	<u>11,292,335</u>
EXPENDITURES								
Public safety						1,488,006	927	1,488,933
Public works	2,073,097	1,477,392						3,550,489
Community and economic development			1,145,863					1,145,863
Recreation and culture				291,116	1,528,162			1,819,278
Total expenditures	<u>2,073,097</u>	<u>1,477,392</u>	<u>1,145,863</u>	<u>291,116</u>	<u>1,528,162</u>	<u>1,488,006</u>	<u>927</u>	<u>8,004,563</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,181,357</u>	<u>(403,833)</u>	<u>775,478</u>	<u>73,246</u>	<u>651,425</u>	<u>682,996</u>	<u>327,103</u>	<u>3,287,772</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	8,255	751,552					13,904	773,711
Transfers out	(1,530,685)	(519,871)	(775,478)		(230,965)		(42,979)	(3,099,978)
Total other financing sources (uses)	<u>(1,522,430)</u>	<u>231,681</u>	<u>(775,478)</u>		<u>(230,965)</u>		<u>(29,075)</u>	<u>(2,326,267)</u>
Net change in fund balances	(341,073)	(172,152)	-	73,246	420,460	682,996	298,028	961,505
Fund balances - beginning	3,304,268	5,741,958	-	783,823	708,799	8,549	-	10,547,397
Fund balances - ending	<u>\$ 2,963,195</u>	<u>\$ 5,569,806</u>	<u>\$ -</u>	<u>\$ 857,069</u>	<u>\$ 1,129,259</u>	<u>\$ 691,545</u>	<u>\$ 298,028</u>	<u>\$ 11,508,902</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, 2005

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects Special Assessments	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ 1,914,621	\$ 690,446			\$ 2,605,067
Licenses and permits	2,335,716				2,335,716
Federal grants	1,054,987				1,054,987
State grants	4,168,741				4,168,741
Charges for services	597,097				597,097
Fines and forfeitures	1,219	751,606			752,825
Interest	243,000	11,633	\$ 32,269	\$ 528	287,430
Contributions and donations	928,993				928,993
Other revenue	47,961	8	219,595		267,564
Total revenues	<u>11,292,335</u>	<u>1,453,693</u>	<u>251,864</u>	<u>528</u>	<u>12,998,420</u>
EXPENDITURES					
Public safety	1,488,933				1,488,933
Public works	3,550,489				3,550,489
Community and economic development	1,145,863				1,145,863
Recreation and culture	1,819,278				1,819,278
Debt service:					
Principal payments		520,000			520,000
Interest and paying agent fees		692,014			692,014
Total expenditures	<u>8,004,563</u>	<u>1,212,014</u>			<u>9,216,577</u>
Excess of revenues over expenditures	<u>3,287,772</u>	<u>241,679</u>	<u>251,864</u>	<u>528</u>	<u>3,781,843</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	773,711	123,983			897,694
Transfers out	(3,099,978)		(251,864)		(3,351,842)
Total other financing sources (uses)	<u>(2,326,267)</u>	<u>123,983</u>	<u>(251,864)</u>		<u>(2,454,148)</u>
Net change in fund balances	961,505	365,662	-	528	1,327,695
Fund balances - beginning	10,547,397	680,823	-	27,825	11,256,045
Fund balances - ending	<u>\$ 11,508,902</u>	<u>\$ 1,046,485</u>	<u>\$ -</u>	<u>\$ 28,353</u>	<u>\$ 12,583,740</u>

City of Royal Oak, Michigan
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2005

	Municipal Golf Course	Recreation Administration	Ice Arena	Farmers Market	Total
ASSETS					
Current assets:					
Cash and cash equivalents			\$ 58,715	\$ 11,411	\$ 70,126
Investments			922,436	962,390	1,884,826
Receivables, net		\$ 25,254	2,208	3,816	31,278
Due from other funds	\$ 6,474	74,794			81,268
Total current assets	6,474	100,048	983,359	977,617	2,067,498
Noncurrent assets:					
Restricted assets			40		40
Capital assets, net	957,875	4,076,766	2,776,778	543,047	8,354,466
Total noncurrent assets	957,875	4,076,766	2,776,818	543,047	8,354,506
Total assets	964,349	4,176,814	3,760,177	1,520,664	10,422,004
LIABILITIES					
Current liabilities:					
Accounts payable	3,321	24,220	74,040	35,105	136,686
Accrued and other liabilities		10,455	4,614	1,556	16,625
Due to other funds			8,699	3,301	12,000
Deferred revenue			10,689		10,689
Bonds payable			246,576		246,576
Total current liabilities	3,321	34,675	344,618	39,962	422,576
Noncurrent liabilities:					
Accrued compensated absences		19,588	15,610	5,020	40,218
Other long-term liabilities		10,300			10,300
Bonds payable			1,475,735		1,475,735
Total noncurrent liabilities		29,888	1,491,345	5,020	1,526,253
Total liabilities	3,321	64,563	1,835,963	44,982	1,948,829
NET ASSETS					
Invested in capital assets, net of related debt	957,875	4,076,766	1,054,467	543,047	6,632,155
Restricted for debt service			246,576		246,576
Restricted for cultural activities		21,103			21,103
Unrestricted	3,153	14,382	623,171	932,635	1,573,341
Total net assets	\$ 961,028	\$ 4,112,251	\$ 1,924,214	\$ 1,475,682	\$ 8,473,175

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	Municipal Golf Courses	Recreation Administration	Ice Arena	Farmers Market	Total
OPERATING REVENUES					
Charges for services	\$ 317,673	\$ 565,677	\$ 1,317,323	\$ 272,295	\$ 2,472,968
Contributions and donations		7,378			7,378
Other	69			149	218
Total operating revenues	<u>317,742</u>	<u>573,055</u>	<u>1,317,323</u>	<u>272,444</u>	<u>2,480,564</u>
OPERATING EXPENSES					
Salaries and benefits	214	254,033	96,224	48,573	399,044
Supplies	58,444	23,869	95,621	7,249	185,183
Other services and charges	460,121	293,667	822,332	149,657	1,725,777
Depreciation	127,081	86,960	136,367	9,068	359,476
Total operating expenses	<u>645,860</u>	<u>658,529</u>	<u>1,150,544</u>	<u>214,547</u>	<u>2,669,480</u>
Operating income (loss)	<u>(328,118)</u>	<u>(85,474)</u>	<u>166,779</u>	<u>57,897</u>	<u>(188,916)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	1,146		16,754	23,179	41,079
Interest expense			(92,782)		(92,782)
Total nonoperating revenue (expenses)	<u>1,146</u>		<u>(76,028)</u>	<u>23,179</u>	<u>(51,703)</u>
Income (loss) before transfers	(326,972)	(85,474)	90,751	81,076	(240,619)
TRANSFERS IN	90,000	13,403			103,403
TRANSFERS OUT					
Change in net assets	(236,972)	(72,071)	90,751	81,076	(137,216)
Total net assets - beginning	<u>1,198,000</u>	<u>4,184,322</u>	<u>1,833,463</u>	<u>1,394,606</u>	<u>8,610,391</u>
Total net assets - ending	<u>\$ 961,028</u>	<u>\$ 4,112,251</u>	<u>\$ 1,924,214</u>	<u>\$ 1,475,682</u>	<u>\$ 8,473,175</u>

City of Royal Oak, Michigan
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005

	Municipal Golf Course	Recreation Administration	Ice Arena	Farmers Market	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 311,199	\$ 787,977	\$ 1,318,485	\$ 269,004	\$ 2,686,665
Other operating receipts	93				93
Payments to vendors	(537,190)	(548,926)	(877,882)	(121,285)	(2,085,283)
Payments to employees	(146)	(194,446)	(75,244)	(38,158)	(307,994)
Payments of benefits on behalf of employees	(68)	(45,513)	(11,915)	(9,017)	(66,513)
Internal activity - payments to other funds	(33,850)	(15,695)	(54,081)	(8,194)	(111,820)
Net cash provided by (used in) operating activities	<u>(259,962)</u>	<u>(16,603)</u>	<u>299,363</u>	<u>92,350</u>	<u>115,148</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	90,000	13,403			103,403
Increase in other long-term liabilities		3,200			3,200
Net cash provided by noncapital financing activities	<u>90,000</u>	<u>16,603</u>			<u>106,603</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets			(5,072)	(62,097)	(67,169)
Proceeds from sale of capital assets					
Principal paid on capital debt			(231,576)		(231,576)
Interest paid on capital debt			(92,782)		(92,782)
Net cash provided by (used in) capital and related financing activities			<u>(329,430)</u>	<u>(62,097)</u>	<u>(391,527)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received on investments	1,146		16,754	23,179	41,079
Net increase (decrease) in cash and cash equivalents	(168,816)	-	(13,313)	53,432	(128,697)
Balances - beginning	168,816	-	994,504	920,369	2,083,689
Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,191</u>	<u>\$ 973,801</u>	<u>\$ 1,954,992</u>
Balance sheet classification of cash and cash equivalents:					
Cash and cash equivalents	\$ -	\$ -	\$ 58,715	\$ 11,411	\$ 70,126
Investments			922,436	962,390	1,884,826
Restricted cash			40		40
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,191</u>	<u>\$ 973,801</u>	<u>\$ 1,954,992</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (328,118)	\$ (85,474)	\$ 166,779	\$ 57,897	\$ (188,916)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	127,081	86,960	136,367	9,068	359,476
Changes in assets and liabilities:					
Receivables	24	(2,656)	(1,593)	(3,440)	(7,665)
Due from other funds	(6,474)	(48,794)			(55,268)
Due from other governmental units		217,578			217,578
Accounts payable	(6,322)	(50,388)	(12,139)	25,359	(43,490)
Accrued and other liabilities		247	326	(24)	549
Due to other funds	(46,153)	(134,402)	4,894	2,145	(173,516)
Deferred revenue			2,755		2,755
Accrued compensated absences		326	1,974	1,345	3,645
Net cash provided by (used in) operating activities	<u>\$ (259,962)</u>	<u>\$ (16,603)</u>	<u>\$ 299,363</u>	<u>\$ 92,350</u>	<u>\$ 115,148</u>

City of Royal Oak, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2005

	Information Systems	Motor Pool	Insurance	Total
ASSETS				
Current assets:				
Cash and cash equivalents		\$ 300	\$ 5,000	\$ 5,300
Investments		23,087	546,924	570,011
Receivables, net		192,816	536	193,352
Due from other funds	\$ 561,879	1,901,682	223,842	2,687,403
Inventories		133,478		133,478
Total current assets	561,879	2,251,363	776,302	3,589,544
Noncurrent assets:				
Capital assets	2,204,910	13,816,981		16,021,891
Less accumulated depreciation	(1,580,790)	(7,644,470)		(9,225,260)
Total capital assets (net of accumulated depreciation)	624,120	6,172,511		6,796,631
Total assets	1,185,999	8,423,874	776,302	10,386,175
LIABILITIES				
Current liabilities:				
Accounts payable	1,602	63,996		65,598
Accrued and other liabilities	19,110	24,674	685,933	729,717
Total current liabilities	20,712	88,670	685,933	795,315
Noncurrent liabilities:				
Accrued compensated absences	82,335	106,100		188,435
Total noncurrent liabilities	82,335	106,100		188,435
Total liabilities	103,047	194,770	685,933	983,750
NET ASSETS				
Invested in capital assets, net of related debt	624,120	6,172,511		6,796,631
Unrestricted	458,832	2,056,593	90,369	2,605,794
Total net assets	\$ 1,082,952	\$ 8,229,104	\$ 90,369	\$ 9,402,425

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2005

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Insurance</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 1,052,280	\$ 2,586,716	\$ 317,298	\$ 3,956,294
Other revenue	20	43,449		43,469
Total operating revenues	<u>1,052,300</u>	<u>2,630,165</u>	<u>317,298</u>	<u>3,999,763</u>
OPERATING EXPENSES				
Salaries and benefits	439,111	858,248	173,314	1,470,673
Supplies	9,391	535,286		544,677
Other services and charges	149,761	367,637	130,405	647,803
Depreciation	163,947	1,011,957		1,175,904
Total operating expenses	<u>762,210</u>	<u>2,773,128</u>	<u>303,719</u>	<u>3,839,057</u>
Operating income (loss)	<u>290,090</u>	<u>(142,963)</u>	<u>13,579</u>	<u>160,706</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income			7,750	7,750
Gain (loss) on sale of capital assets	896	119,452		120,348
Total nonoperating revenue (expenses)	<u>896</u>	<u>119,452</u>	<u>7,750</u>	<u>128,098</u>
Changes in net assets	290,986	(23,511)	21,329	288,804
Total net assets - beginning, as restated	<u>791,966</u>	<u>8,252,615</u>	<u>69,040</u>	<u>9,113,621</u>
Total net assets - ending	<u>\$ 1,082,952</u>	<u>\$ 8,229,104</u>	<u>\$ 90,369</u>	<u>\$ 9,402,425</u>

City of Royal Oak, Michigan
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2005

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Insurance</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users		\$ 93,710		\$ 93,710
Internal activity - receipts from other funds	\$ 706,910	2,476,022	\$ 526,988	3,709,920
Other operating receipts	20	73,834	(525)	73,329
Payments to vendors	(159,730)	(821,398)	(116,725)	(1,097,853)
Payments to employees	(343,161)	(615,552)		(958,713)
Payments of benefits on behalf of employees	(106,730)	(267,426)	(396,717)	(770,873)
Internal activity - payments to other funds	(542)	(103,617)	(13,680)	(117,839)
Net cash provided by (used in) operating activities	<u>96,767</u>	<u>835,573</u>	<u>(659)</u>	<u>931,681</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(97,663)	(931,938)		(1,029,601)
Proceeds from sale of capital assets	896	119,452		120,348
Net cash provided by (used in) capital and related financing activities	<u>(96,767)</u>	<u>(812,486)</u>		<u>(909,253)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities			(7,111)	(7,111)
Interest received on investments			7,750	7,750
Net cash provided by investment activities			<u>639</u>	<u>639</u>
Net increase (decrease) in cash and cash equivalents	-	23,087	(20)	23,067
Balances - beginning	-	300	5,020	5,320
Balances - ending	<u>\$ -</u>	<u>\$ 23,387</u>	<u>\$ 5,000</u>	<u>\$ 28,387</u>
Balance sheet classification of cash and cash equivalents:				
Cash and cash equivalents	\$ -	\$ 300	\$ 5,000	\$ 5,300
Investments		23,087	546,924	570,011
Less investments with original maturities greater than three months			(546,924)	(546,924)
	<u>\$ -</u>	<u>\$ 23,387</u>	<u>\$ 5,000</u>	<u>\$ 28,387</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 290,090	\$ (142,963)	\$ 13,579	\$ 160,706
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	163,947	1,011,957		1,175,904
Changes in assets and liabilities:				
Receivables		30,385	(525)	29,860
Deposits and other assets		16,700		16,700
Due from other funds	(345,370)	(16,984)	209,690	(152,664)
Inventories		(21,974)		(21,974)
Accounts payable	(578)	(8,171)		(8,749)
Accrued and other liabilities	1,459	4,286	(223,403)	(217,658)
Accrued compensated absences	(12,781)	(37,663)		(50,444)
Net cash provided by (used in) operating activities	<u>\$ 96,767</u>	<u>\$ 835,573</u>	<u>\$ (659)</u>	<u>\$ 931,681</u>

**City of Royal Oak, Michigan
Combining Statement of Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2005**

	<u>Pension Trust</u>	<u>Retiree Health Care</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,000	\$ -	\$ 3,000
Receivables, net	67,304		67,304
Retirement investments, at fair value			
U.S. government obligations	18,528,897		18,528,897
Corporate bonds	22,201,410		22,201,410
Stocks	86,952,069		86,952,069
Other investments	6,001,972		6,001,972
Accrued income	380,747		380,747
Total investments	<u>134,065,095</u>		<u>134,065,095</u>
Total assets	<u>134,135,399</u>	<u>-</u>	<u>134,135,399</u>
LIABILITIES			
Accounts payable	<u>637,323</u>		<u>637,323</u>
Total liabilities	<u>637,323</u>	<u>-</u>	<u>637,323</u>
NET ASSETS			
Held in trust for pension and health benefits	<u>\$ 133,498,076</u>	<u>\$ -</u>	<u>\$ 133,498,076</u>

City of Royal Oak, Michigan
Combining Statement of Changes in Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2005

	Pension Trust	Retiree Health Care	Total
ADDITIONS			
Contributions:			
Employer	\$ 1,340,215		\$ 1,340,215
Plan members	420,775		420,775
Plan members' buybacks	1,226,504		1,226,504
Total contributions	<u>2,987,494</u>		<u>2,987,494</u>
Investment earnings:			
Net increase (decrease) in fair value of investments	7,758,106		7,758,106
Interest	1,836,647	\$ 19,590	1,856,237
Dividends	1,474,964		1,474,964
Other investment revenues	21,591		21,591
Total investment income	<u>11,091,308</u>	<u>19,590</u>	<u>11,110,898</u>
Less investment expenses	855,186		855,186
Net investment income	<u>10,236,122</u>	<u>19,590</u>	<u>10,255,712</u>
Total additions	<u>13,223,616</u>	<u>19,590</u>	<u>13,243,206</u>
DEDUCTIONS			
Benefits	8,945,132	2,182,419	11,127,551
Refund of contributions	618,586		618,586
Administrative expenses	62,815		62,815
Total deductions	<u>9,626,533</u>	<u>2,182,419</u>	<u>11,808,952</u>
Change in net assets	3,597,083	(2,162,829)	1,434,254
Net assets - beginning	129,900,993	2,162,829	132,063,822
Net assets - ending	<u>\$ 133,498,076</u>	<u>\$ -</u>	<u>\$ 133,498,076</u>

City of Royal Oak, Michigan
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	<u>Agency</u>	<u>44th District Court</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 131,528	\$ 621,737	\$ 753,265
Receivables, net	46,762		46,762
Total assets	<u>\$ 178,290</u>	<u>\$ 621,737</u>	<u>\$ 800,027</u>
LIABILITIES			
Accounts payable	\$ 2,551	\$ 392,099	\$ 394,650
Due to other governmental units	1,100	105,569	106,669
Cash bonds and deposits	174,639	124,069	298,708
Total liabilities	<u>\$ 178,290</u>	<u>\$ 621,737</u>	<u>\$ 800,027</u>

City of Royal Oak, Michigan
Balance Sheet
Component Units
June 30, 2005

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission
ASSETS				
Cash and investments			\$ 20,202	\$ 7,988
Investments	\$ 7,015,174			
Receivables, net	88,120	\$ 2,407		
Deposits and other assets				96,093
Due from other funds				
Due from primary government	101,832	14,562		
Total assets	<u>7,205,126</u>	<u>16,969</u>	<u>20,202</u>	<u>104,081</u>
LIABILITIES				
Accounts payable	29,189	1,112		7,765
Due to other funds				
Due to primary government	692,062			40,672
Due to other governmental units	1,942,899			
Deferred revenue	54,523	2,407		55,644
Total liabilities	<u>2,718,673</u>	<u>3,519</u>		<u>104,081</u>
FUND BALANCES				
Unreserved	4,486,453	13,450	20,202	-
Total fund balances	<u>4,486,453</u>	<u>13,450</u>	<u>20,202</u>	<u>-</u>
Amounts reported for component units in the statement of net assets are different because:				
- Capital assets used in governmental activities are not financial resources, and are not reported at the fund level	1,685,910			10,198
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	54,523	2,407		
- Long-term liabilities are not due and payable in the current period and are not reported at the fund level	(595,278)			
- Interest on long-term debt is not accrued at fund level, but rather is recognized as an expenditure when due	(9,375)			
- Compensated absences are included as a liability				(11,298)
Total net assets for component units	<u>\$ 5,622,233</u>	<u>\$ 15,857</u>	<u>\$ 20,202</u>	<u>\$ (1,100)</u>

City of Royal Oak, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance
Component Units
For the Year Ended June 30, 2005

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission
REVENUES				
Taxes	\$ 1,790,841	\$ 49,704		
Federal grants				\$ 1,235,201
Interest and rentals	140,715		\$ 50	547
Contributions and donations	30,530			
Total revenues	1,962,086	49,704	50	1,235,748
EXPENDITURES				
Salaries and benefits		43,914		107,070
Supplies		4,731		3,130
Other services and charges		4,602		20,300
Housing assistance payments				1,105,248
Community and economic development	1,854,744			
Debt service:				
Principal payments	100,000			
Interest expense	40,500			
Total expenditures	1,995,244	53,247		1,235,748
Net change in fund balance	(33,158)	(3,543)	50	-
Fund balance - beginning	4,519,611	16,993	20,152	-
Fund balance - ending	\$ 4,486,453	\$ 13,450	\$ 20,202	\$ -

City of Royal Oak, Michigan
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Component Units
to the Statement of Activities
For the Year Ended June 30, 2005

	<u>Tax Increment Financing Authority</u>	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Housing Commission</u>
Net change in fund balances - component units	\$ (33,158)	\$ (3,543)	\$ 50	\$ -
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.	93,651			2,198
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures.	(30,320)	197		
- Repayments of bond principal is an expenditure at the fund level, but not in the statement of activities (where it reduces long-term debt).	100,000			
- Under the modified accrual basis of accounting , expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than when it accrues.				
The adjustment combines the net changes of three balances.				
Accrued interest on bonds	(5,699)			
Amortization of bond discount	340			
Compensated absences				(1,488)
Combined adjustment	<u>(5,359)</u>			<u>(1,488)</u>
Change in net assets of component units	<u>\$ 124,814</u>	<u>\$ (3,346)</u>	<u>\$ 50</u>	<u>\$ 710</u>