Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	City of Royal Oak	Oakland

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/2006	November 27, 2006	December 21, 2006

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☐	☒	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☐	☒	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Rehmann Robson	248.952.5000

Street Address	City	State	Zip
5750 New King Street, Suite 200	Troy	MI	48098

Authorizing CPA Signature	Printed Name	License Number
Thomas E. Darling, CPA Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.12.21 18:45:33 -05'00'	Thomas E. Darling	A246550

CITY OF ROYAL OAK, MICHIGAN
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

City of Royal Oak, Michigan
For the Fiscal Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

November 27, 2006

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, 2006, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Royal Oak, Michigan***, as of June 30, 2006, 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 27, 2006, 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 3-13 and the Schedule of Funding Progress on page 53 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.

Rehmann Lohan

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, 2006. 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 $202,469,154 (*net assets*). Of this amount, $13,600,521 (*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 $11,034,091 as compared to a $7,541,407 increase in the previous year mostly due to the Water & Sewer rate increase of 15.39 percent.
- As of the close of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of $21,956,548, a decrease of $1,568,488 in comparison with the prior year. Approximately 98 percent of this total amount, $21,556,134, is unreserved in the general, special revenue, debt service and capital projects funds.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was $5,921,341, or 18 percent of total general fund expenditures.
- The City of Royal Oak's total debt decreased by $1,006,420 (1 percent) during the current fiscal year. The key factor in this decrease was the debt refunding issue to refinance bonds in the Automobile Parking System Fund and the court building bonds, partially offset by the issuance of the water system bonds.

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, an automobile parking system, recreation activities and a Farmers' Market.

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 14-15 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 and its solid waste fund. Budgetary comparison statements have been provided for the general fund and solid waste fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16-21 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 five 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 three 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 22-24 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 25-26 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 29-52 of this report.

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

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining fund statements can be found on pages 54-64 of this report.

The City's discretely presented component units do not issue separate financial statements; therefore, the component units' fund financial statements have been included on pages 65-67 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 $202,469,154 at the close of the most recent fiscal year.

By far the largest portion of the City of Royal Oak's net assets (82 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 (11 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($13,600,521) 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	
	2006	2005 (Restated)	2006	2005 (Restated)	2006	2005
Current and other assets	$34,346,520	$35,407,347	$15,815,369	$18,250,718	$50,161,889	$53,658,065
Capital assets	134,068,483	127,369,723	104,877,419	98,569,770	238,945,902	225,939,493
Total assets	168,415,003	162,777,070	120,692,788	116,820,488	289,107,791	279,597,558
Long-term liabilities outstanding	20,732,519	21,330,667	53,148,223	53,791,491	73,880,742	75,122,158
Other liabilities	8,244,251	8,640,133	4,513,644	4,400,204	12,757,895	13,040,337
Total liabilities	28,976,770	29,970,800	57,661,867	58,191,695	86,638,637	88,162,495
Net assets:						
Invested in capital assets, net of related debt	116,963,284	109,011,288	49,403,430	42,632,434	166,366,714	151,643,722
Restricted	19,737,682	20,087,516	2,764,237	2,574,741	22,501,919	22,662,257
Unrestricted	2,737,267	3,707,466	10,863,254	13,421,618	13,600,521	17,129,084
Total net assets	$139,438,233	$132,806,270	$63,030,921	$58,628,793	$202,469,154	$191,435,063

The government's net assets increased by $11,034,091 during the current fiscal year as compared to a $7,541,407 increase in the previous year mostly due to the Water & Sewer rate increase of 15.39 percent.

Governmental Activities. Governmental activities increased the City of Royal Oak's net assets by $6,631,963 as compared to a $6,730,680 increase in the previous year. Key elements of this difference of $98,717 are as follows:

- Property taxes increased by $970,315 (3.99 percent) during the year. This increase is the result of a 6.62% increase in the taxable property value partially offset by the reduction in the tax rate due to the Headlee Amendment.

- Charges for services for governmental activities increased by $1,425,459 (13 percent), largely due to an increase in customer receipts for sidewalk assessments and an increase in indirect cost allocations.

- Unrestricted investment earnings increased by $918,786 (166 percent) mainly due to earnings on unspent bond proceeds.

- Miscellaneous revenues increased by $533,768 due mostly to an insurance refund.

- Expenditures increased from the prior fiscal year by $4,665,592 (10.5 percent). The increase in expenditures is mainly the result of an increase in retiree health costs and an increase in required pension contributions.

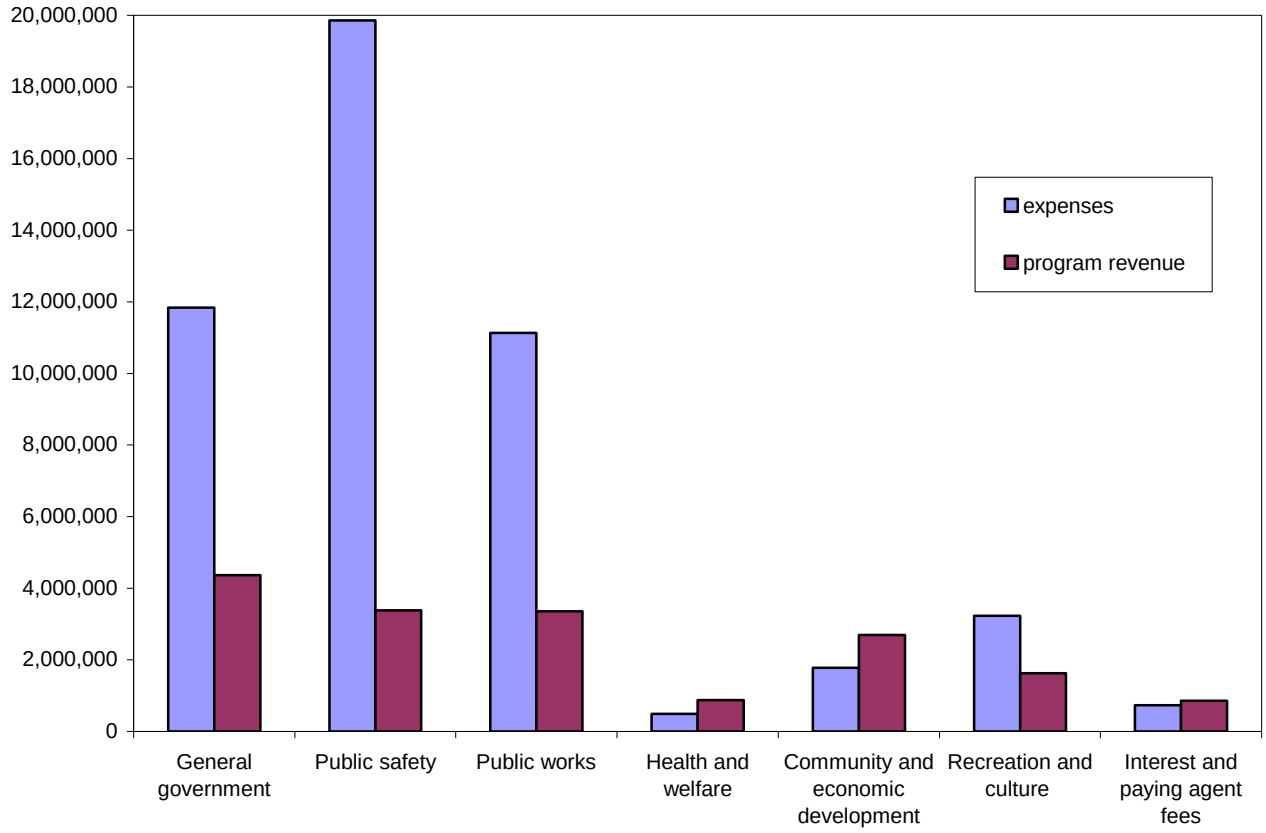
- Capital grants and contributions revenues increased by $1,799,205 mostly due to Federal funding for various road projects.

- Net transfers decreased by $737,651 due mostly to a decrease in the transfer from Automobile Parking System Fund, a business-type activity. The Automobile Parking System Fund has been scheduled to transfer $3.6 million to the General Fund over a three-year period as a means to balance the General Fund budget.

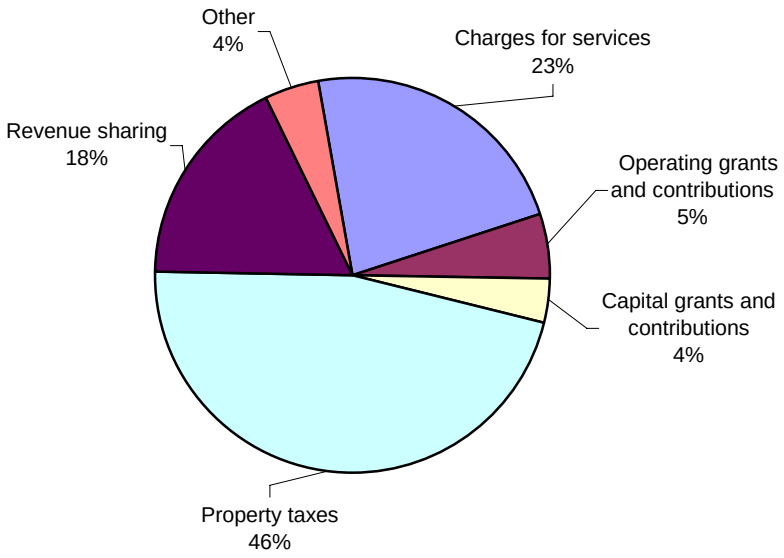
CITY OF ROYAL OAK Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2006	2005 (Restated)	2006	2005 (Restated)	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 12,343,287	$ 10,917,828	$ 23,358,635	$ 21,230,653	$ 35,701,922	$ 32,148,481
Operating grants and contributions	2,842,985	2,605,739	775,879	817,252	3,618,864	3,422,991
Capital grants and contributions	1,972,423	173,218	911,845	20,490	2,884,268	193,708
General revenue:						
Property taxes	25,266,467	24,296,152			25,266,467	24,296,152
Grants and contributions not restricted to specific programs	9,562,574	9,675,450			9,562,574	9,675,450
Other	2,397,431	1,412,254	686,997	275,924	3,084,428	1,688,178
Total revenue	54,385,167	49,080,641	25,733,356	22,344,319	80,118,523	71,424,960
Expenses:						
General government	11,837,178	9,509,493			11,837,178	9,509,493
Public safety	19,853,374	17,608,033			19,853,374	17,608,033
Public works	11,130,782	11,505,812			11,130,782	11,505,812
Health and welfare	488,655	489,725			488,655	489,725
Community and economic development	1,779,318	1,356,084			1,779,318	1,356,084
Recreation and culture	3,237,185	3,216,412			3,237,185	3,216,412
Interest and paying agent fees	733,419	708,760			733,419	708,760
Water & sewer			15,649,024	14,771,560	15,649,024	14,771,560
Parking			2,143,135	1,966,791	2,143,135	1,966,791
Recreation			1,973,325	2,537,582	1,973,325	2,537,582
Farmers market			259,037	213,301	259,037	213,301
Total expenses	49,059,911	44,394,319	20,024,521	19,489,234	69,084,432	63,883,553
Increase in net assets before transfers	5,325,256	4,686,322	5,708,835	2,855,085	11,034,091	7,541,407
Transfers	1,306,707	2,044,358	(1,306,707)	(2,044,358)	0	0
Increase (decrease) in net assets	6,631,963	6,730,680	4,402,128	810,727	11,034,091	7,541,407
Net assets - beginning, as restated	132,806,270	126,075,590	58,628,793	57,818,066	191,435,063	183,893,656
Net assets - ending	$ 139,438,233	$ 132,806,270	$ 63,030,921	$ 58,628,793	$ 202,469,154	$ 191,435,063

Expenses and Program Revenues – Governmental Activities

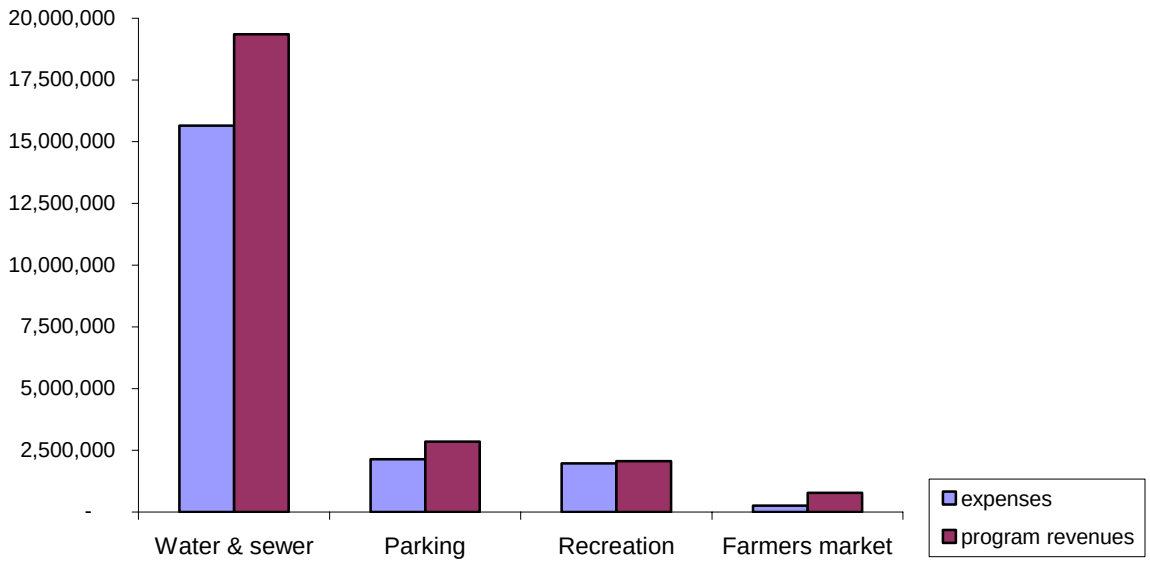


Revenues by Source – Governmental Activities

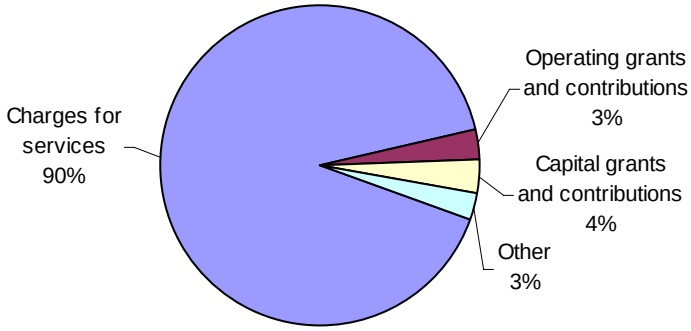


Business-Type Activities. Business-type activities increased the City of Royal Oak's net assets by $4,402,128. The major cause of this increase was due to the Water & Sewer rate increase of 15.39 percent.

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 $21,956,548, a decrease of $1,568,488 in comparison with the prior year. Approximately 85 percent of this total amount ($18,630,613) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed to cover restricted assets used for inventories ($107,957), for an endowment ($26,000), for senior activities ($245,388), and for books and capital expenditures per donor requests ($21,069) and to cover designated amounts for the subsequent year's expenditures ($2,925,521).

The general fund is the chief operating fund of the City of Royal Oak. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was $5,921,341, while total fund balance was $6,683,399. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 18 percent of total general fund expenditures, while total fund balance represents 20.3 percent of that same amount.

The fund balance of the City of Royal Oak's general fund was reduced by $75,344 during the current fiscal year. The budget allowed for a significant use of fund balance, but due to the City's policy regarding attrition, expenditures were lower than budget estimates, therefore retaining a larger portion of the general fund's fund balance than anticipated.

The solid waste fund has a total fund balance of $1,971,438, all of which is unreserved and undesignated. The net increase in fund balance during the current year in the solid waste fund was $845,261, which is due to solid waste collection and disposal costs coming in under budget.

The capital projects fund has a total fund balance of $494,641. The net decrease in fund balance during the current year in the capital projects fund was $2,561,736. The major factor in this decrease was the use 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 $7,554,863, and those for the Automobile Parking System Fund operation amounted to $2,626,322. The total increase in net assets for Water and Sewer was $3,499,923, which was due to a Water & Sewer rate increase of 15.39 percent. The total increase in net assets for the Automobile Parking System Fund was $171,651.

General Fund Budgetary Highlights

Net differences between the original budget and the final amended budget were approximately $109,700 and can be briefly summarized as follows:

- $1,440,500 increase in revenues

- $1,430,000 decrease in expenditures
- $2,541,000 decrease in transfers in
- $459,300 increase in transfers out
- $20,000 increase in sale of capital assets

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

Capital Assets 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, 2006, amounts to $238,945,902 (net of accumulated depreciation). This investment in capital assets includes land, buildings, 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 5.76 percent (a 5.26 percent increase for governmental activities and a 6.40 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
- The library renovation was completed

CITY OF ROYAL OAK Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005 (restated)	2006	2005 (restated)	2006	2005
Land	$66,774,752	$66,774,752	$4,768,191	$4,831,660	$71,542,943	$71,606,412
Buildings	21,184,647	17,436,640	21,389,906	20,469,321	42,574,553	37,905,961
Improvements other than buildings	1,191,792	1,235,670	145,242	158,079	1,337,034	1,393,749
Machinery and equipment	7,009,963	7,403,717	430,255	402,271	7,440,218	7,805,988
Infrastructure	30,406,578	27,295,424	41,141,370	40,543,424	71,547,948	67,838,848
Intangibles	22,521	35,712	0	0	22,521	35,712
Construction in progress	7,478,230	7,187,808	37,002,455	32,165,015	44,480,685	39,352,823
Total	$134,068,483	$127,369,723	$104,877,419	$98,569,770	$238,945,902	$225,939,493

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

Long-term debt. At the end of the current fiscal year, the City of Royal Oak had total debt outstanding of $77,344,376. Of this amount, $22,860,000 is limited general obligation 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 $7,760,000 of unlimited general obligation debt. Another $10,837,387 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 $5,320,157 with the remainder being paid from receipts of the other five communities. Another $32,447,026 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, issuance costs, and deferred loss.

CITY OF ROYAL OAK Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Limited general obligation bonds	$9,940,000	$10,085,000	$12,920,000	$11,890,000	$22,860,000	$21,975,000
Unimited general obligation bonds	7,760,000	8,085,000	0	0	7,760,000	8,085,000
State Revolving Fund	0	0	10,837,387	11,437,387	10,837,387	11,437,387
Contractual obligations	0	0	32,447,026	32,744,671	32,447,026	32,744,671
Compensated absences	3,394,220	3,387,670	324,968	327,693	3,719,188	3,715,363
General liability claims	948,100	844,900	97,900	80,100	1,046,000	925,000
less: unamortized discount, issuance costs, and deferred loss	(594,801)	(396,903)	(730,424)	(134,722)	(1,325,225)	(531,625)
Total	$21,447,519	$22,005,667	$55,896,857	$56,345,129	$77,344,376	$78,350,796

The City of Royal Oak's total debt decreased by $1,006,420 (1 percent) during the current fiscal year. The key factor in this decrease was the debt refunding issue to refinance bonds in the Automobile Parking System Fund and the court building bonds, partially offset by the issuance of the water system bonds.

During the current fiscal year, the City of Royal Oak refinanced some of its existing debt to take advantage of favorable interest rates. The City of Royal Oak issued general obligation bonds to refinance previously outstanding limited tax general obligation bonds for the construction of the court building and parking structures. The result is expected to be a decrease in future debt service payments of $5,648,619.

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

Standard & Poor's	Unlimited AA-,	Limited AA-
Moody's	Unlimited NR,	Limited A1
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 $3,012,515,470; therefore the current debt limitation for the City of Royal Oak is $301,251,547 which is significantly in excess of the City of Royal Oak's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to $5,921,341. The budget plan, as approved for the fiscal year 2006-2007, continues to maintain a minimum unreserved, undesignated fund balance of 10 percent of the current year's expenditures for unforeseen emergencies. The City budgeted for the transfer of $1,000,000 from the Automobile Parking System fund and the use of fund balance of $654,101 in the General Fund.

The Water and Sewer rates were increased for the 2006/07 budget year. The water and sewer rates were increased by an average of 9.88 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 keep up with the increased rates charged by the City of Detroit, our supplier of water and sewer disposal services, and to

finance debt service for the portion owed by the City of Royal Oak on new debt issued during the current fiscal year by the county.

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, 2006

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 13,651,453	$ 2,154,056	$ 15,805,509	$ 1,519,571
Investments	15,458,508	893,164	16,351,672	5,398,162
Receivables, net of uncollectibles	6,127,890	10,737,547	16,865,437	134,116
Deposits and other assets	38,528	2,200	40,728	89,818
Due from primary government			-	120,440
Due from component units	627,129		627,129	
Internal balances	(1,848,712)	1,848,712	-	
Inventories	265,724	177,986	443,710	
Restricted assets - cash	26,000	1,704	27,704	
Capital assets, not being depreciated	74,252,982	41,770,646	116,023,628	1,401,035
Capital assets, being depreciated, net	59,815,501	63,106,773	122,922,274	622,688
Total assets	168,415,003	120,692,788	289,107,791	9,285,830
LIABILITIES				
Accounts payable	2,374,160	1,276,860	3,651,020	62,963
Accrued and other liabilities	2,242,488	442,261	2,684,749	
Due to primary government			-	627,129
Due to component units	89,495	30,945	120,440	
Cash bonds and deposits	1,370,843	6,479	1,377,322	
Unearned revenue	1,452,265	8,465	1,460,730	143,349
Noncurrent liabilities:				
Due within one year	715,000	2,748,634	3,463,634	100,000
Due in more than one year	20,732,519	53,148,223	73,880,742	414,744
Total liabilities	28,976,770	57,661,867	86,638,637	1,348,185
NET ASSETS				
Invested in capital assets, net of related debt	116,963,284	49,403,430	166,366,714	1,528,734
Restricted for:				
Highways and streets	8,727,895		8,727,895	
Solid waste	2,050,663		2,050,663	
Recreation and culture		15,603	15,603	
Debt service	1,269,108	2,748,634	4,017,742	
Capital projects funds	494,641		494,641	
Permanent fund:				
Expendable	3,318		3,318	
Non-expendable	26,000		26,000	
Other purposes	7,166,057		7,166,057	
Unrestricted	2,737,267	10,863,254	13,600,521	6,408,911
Total net assets	$ 139,438,233	$ 63,030,921	$ 202,469,154	$ 7,937,645

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, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 11,837,178	$ 4,265,247	$ 102,732		$ (7,469,199)		$ (7,469,199)	
Public safety	19,853,374	2,869,512	432,537	$ 78,976	(16,472,349)		(16,472,349)	
Public works	11,130,782	1,775,743		1,578,580	(7,776,459)		(7,776,459)	
Health and welfare	488,655	874,274			385,619		385,619	
Community and economic development	1,779,318	412,601	1,969,895	314,867	918,045		918,045	
Recreation and culture	3,237,185	1,291,357	337,821		(1,608,007)		(1,608,007)	
Interest and paying agent fees	733,419	854,553			121,134		121,134	
Total governmental activities	49,059,911	12,343,287	2,842,985	1,972,423	(31,901,216)		(31,901,216)	
Business-type activities:								
Water & sewer	15,649,024	19,083,625		267,429		$ 3,702,030	3,702,030	
Parking	2,143,135	2,075,657	775,879			708,401	708,401	
Recreation	1,973,325	1,922,617		137,744		87,036	87,036	
Farmers Market	259,037	276,736		506,672		524,371	524,371	
Total business-type activities	20,024,521	23,358,635	775,879	911,845		5,021,838	5,021,838	
Total primary government	$ 69,084,432	$ 35,701,922	$ 3,618,864	$ 2,884,268				
Component units:								
Tax Increment Financing Authority	$ 2,140,577		$ 20,500					$ (2,120,077)
Downtown Development Authority	25,361							(25,361)
Economic Development Corporation	10,400							(10,400)
Housing Commission	1,164,386		1,159,456					(4,930)
Total component units	$ 3,340,724	$ -	$ 1,179,956	$ -				(2,160,768)
General revenues:								
Property taxes					25,266,467		25,266,467	4,050,355
State-shared revenues					9,562,574		9,562,574	
Unrestricted investment earnings					1,471,827	366,520	1,838,347	236,231
Gain on sale of capital assets					32,618	308,829	341,447	
Reimbursements					20,431		20,431	
Miscellaneous					872,555	11,648	884,203	154,635
Transfers					1,306,707	(1,306,707)	-	
Total general revenues and transfers					38,533,179	(619,710)	37,913,469	4,441,221
Change in net assets					6,631,963	4,402,128	11,034,091	2,280,453
Net assets - beginning, as restated					132,806,270	58,628,793	191,435,063	5,657,192
Net assets - ending					$ 139,438,233	$ 63,030,921	$ 202,469,154	$ 7,937,645

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

City of Royal Oak, Michigan
Balance Sheet
Governmental Funds
June 30, 2006

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 12,274,713	$ 162,089	$ 441,959	$ 767,392	$ 13,646,153
Investments		2,323,379		12,570,714	14,894,093
Receivables, net of uncollectibles	912,875	134,610	329,249	2,531,750	3,908,484
Deposits and other assets	10,567			27,961	38,528
Due from other governmental units	1,080,107			929,027	2,009,134
Due from other funds	4,796,763		3,121,565	2,876,120	10,794,448
Due from component units	591,916		35,213		627,129
Inventories	107,957				107,957
Restricted assets - cash				26,000	26,000
Total assets	$ 19,774,898	$ 2,620,078	$ 3,927,986	$ 19,728,964	$ 46,051,926
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 1,546,073	$ 388,425	$ 150,783	$ 185,721	$ 2,271,002
Accrued and other liabilities	995,279	17,906	195,126	219,829	1,428,140
Due to other funds	8,783,714	163,084	3,087,436	4,261,955	16,296,189
Due to component units	89,495				89,495
Cash bonds and deposits	1,370,843				1,370,843
Deferred revenue	306,095	79,225		2,254,389	2,639,709
Total liabilities	13,091,499	648,640	3,433,345	6,921,894	24,095,378
Fund balances:					
Reserved for inventories	107,957				107,957
Reserved for endowment				26,000	26,000
Reserved for senior activities				245,388	245,388
Reserved for books and capital expenditures				21,069	21,069
Unreserved, designated for subsequent year's expenditures	654,101				654,101
Unreserved, designated, reported in nonmajor special revenue funds				2,271,420	2,271,420
Unreserved, undesignated	5,921,341	1,971,438	494,641		8,387,420
Unreserved, undesignated, reported in nonmajor:					
Special revenue funds				8,801,975	8,801,975
Debt service fund				1,437,900	1,437,900
Permanent fund				3,318	3,318
Total fund balances	6,683,399	1,971,438	494,641	12,807,070	21,956,548
Total liabilities and fund balances	$ 19,774,898	$ 2,620,078	$ 3,927,986	$ 19,728,964	$ 46,051,926

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

City of Royal Oak, Michigan
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2006

Total fund balances for governmental funds		$ 21,956,548
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.		128,303,027
- 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.		
Details of this difference are as follows:		
Net assets of the internal service funds	$ 9,491,776	
Less: Internal payable representing charges in excess of cost to business-type activities	(73,706)	
		9,418,070
- Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,187,444
- 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, 2006 are:		
Accrued interest on bonds		(177,387)
Bonds payable	$ (17,700,000)	
Unamortized discounts	282,038	
Unamortized issuance costs	206,876	
Deferred loss	105,887	
Noncurrent portion of general liability claims	(948,100)	
Compensated absences	(3,196,170)	
Total long-term liabilities		(21,249,469)
Total net assets of governmental activities		$ 139,438,233

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, 2006

	General	Solid Waste	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 16,561,274	$ 6,153,004		$ 2,687,149	$ 25,401,427
Licenses and permits	877,457			2,298,876	3,176,333
Federal grants	358,996		$ 1,563,881	1,775,816	3,698,693
State grants	5,831,263			4,139,474	9,970,737
Charges for services	2,960,995	135,593	1,111,213	604,680	4,812,481
Fines and forfeitures	3,556,909			855,376	4,412,285
Interest and rentals	829,856	168,730	62,677	638,227	1,699,490
Contributions and donations	224,870		314,867	85,257	624,994
Reimbursements	20,431				20,431
Other revenue	693,315	5,545	6	173,689	872,555
Total revenues	31,915,366	6,462,872	3,052,644	13,258,544	54,689,426
EXPENDITURES					
Current:					
General government	11,810,472				11,810,472
Public safety	17,982,483			1,996,039	19,978,522
Public works	1,222,470	5,617,611	10,063,194	2,517,372	19,420,647
Health and welfare	474,420				474,420
Community and economic development	254,546			1,512,135	1,766,681
Recreation and culture	1,206,414			2,025,664	3,232,078
Debt service:					
Principal payments				675,000	675,000
Interest and paying agent fees				817,317	817,317
Total expenditures	32,950,805	5,617,611	10,063,194	9,543,527	58,175,137
Excess (deficiency) of revenues over (under) expenditures	(1,035,439)	845,261	(7,010,550)	3,715,017	(3,485,711)
OTHER FINANCING SOURCES (USES)					
Bond proceeds			5,680,000		5,680,000
Payment to refunded bond escrow agent			(5,581,777)		(5,581,777)
Transfers in	1,366,205		7,808,448	649,896	9,824,549
Transfers out	(473,801)		(3,457,857)	(4,141,582)	(8,073,240)
Sale of capital assets	67,691				67,691
Total other financing sources (uses)	960,095	-	4,448,814	(3,491,686)	1,917,223
Net change in fund balances	(75,344)	845,261	(2,561,736)	223,331	(1,568,488)
Fund balances - beginning, as restated	6,758,743	1,126,177	3,056,377	12,583,739	23,525,036
Fund balances - ending	$ 6,683,399	$ 1,971,438	$ 494,641	$ 12,807,070	$ 21,956,548

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, 2006

Net change in fund balances - total governmental funds		$ (1,568,488)
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 assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($9,972,620) exceeded depreciation ($2,207,610) in the current period.		7,765,010
- In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(35,073)
- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		675,000
- 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 ten balances.		
Accrued interest on bonds	$ (18,101)	
Bond proceeds	(5,680,000)	
Bond discount on new debt issue	67,637	
Bond issuance costs on new debt issue	47,883	
Amount paid to refunded escrow agent	5,581,777	
Amortization of bond discount	(13,521)	
Amortization of bond issuance costs	(9,989)	
Amortization of deferred loss	(890)	
Noncurrent portion of general liability claims	(103,200)	
Compensated absences	3,066	
Combined adjustment		(125,338)
- Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds.		(126,149)
- 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.		
Change in net assets of the internal service funds	$ 89,350	
Less: Profit from charges to business-type activities	(42,349)	
		47,001
Change in net assets of governmental activities		$ 6,631,963

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, 2006

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual	Over (Under)
REVENUES				
Taxes	$ 16,550,000	$ 16,475,439	$ 16,561,274	$ 85,835
Licenses and permits	787,000	843,200	877,457	34,257
Federal grants	10,000	122,551	358,996	236,445
State grants	5,887,700	5,842,479	5,831,263	(11,216)
Charges for services	2,322,320	2,792,946	2,960,995	168,049
Fines and forfeitures	3,125,000	3,200,215	3,556,909	356,694
Interest and rentals	503,000	792,500	829,856	37,356
Contributions and donations	287,000	294,178	224,870	(69,308)
Reimbursements	370,500	369,593	20,431	(349,162)
Other revenue	200,000	749,950	693,315	(56,635)
Total revenues	30,042,520	31,483,051	31,915,366	432,315
EXPENDITURES				
General government	12,256,640	11,652,111	11,810,472	158,361
Public safety	19,021,562	18,460,977	17,982,483	(478,494)
Public works	1,590,150	1,479,980	1,222,470	(257,510)
Health and welfare	568,650	516,888	474,420	(42,468)
Community and economic development	184,050	184,050	254,546	70,496
Recreation and culture	1,371,290	1,268,288	1,206,414	(61,874)
Total expenditures	34,992,342	33,562,294	32,950,805	(611,489)
Excess (deficiency) of revenues over (under) expenditures	(4,949,822)	(2,079,243)	(1,035,439)	1,043,804
OTHER FINANCING SOURCES (USES)				
Transfers in	3,571,000	1,030,000	1,366,205	336,205
Transfers out	(107,400)	(566,681)	(473,801)	92,880
Sale of capital assets	40,000	60,000	67,691	7,691
Total other financing sources (uses)	3,503,600	523,319	960,095	436,776
Net change in fund balance	$ (1,446,222)	$ (1,555,924)	(75,344)	$ 1,480,580
Fund balance - beginning, as restated			6,758,743	
Fund balance - ending			$ 6,683,399	

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, 2006

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual	Over (Under)
REVENUES				
Taxes	$ 5,975,390	$ 5,975,390	$ 6,153,004	$ 177,614
Charges for services	123,000	123,000	135,593	12,593
Interest	28,000	28,000	168,730	140,730
Other revenue	4,000	4,000	5,545	1,545
Total revenues	6,130,390	6,130,390	6,462,872	332,482
EXPENDITURES				
Public works	6,756,460	6,756,460	5,617,611	(1,138,849)
Total expenditures	6,756,460	6,756,460	5,617,611	(1,138,849)
Net change in fund balance	$ (626,070)	$ (626,070)	845,261	$ 1,471,331
Fund balance - beginning			1,126,177	
Fund balance - ending			$ 1,971,438	

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, 2006

	Business Type Activities - Enterprise Funds				Governmental Activities
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 209,914	$ 833,458	$ 1,110,684	$ 2,154,056	$ 5,300
Investments		893,164		893,164	564,415
Receivables, net of uncollectibles	5,126,488	9,343	53,453	5,189,284	210,272
Deposits and other assets			2,200	2,200	
Due from other governmental units	313,092			313,092	
Due from other funds	1,388,048	1,351,996	21,975	2,762,019	3,821,337
Inventories	174,708	3,278		177,986	157,767
Total current assets	7,212,250	3,091,239	1,188,312	11,491,801	4,759,091
Noncurrent assets:					
Restricted assets - cash		1,704		1,704	
Receivables, net of uncollectibles	5,235,171			5,235,171	
Capital assets, net	77,917,649	18,171,216	8,788,554	104,877,419	5,765,456
Total noncurrent assets	83,152,820	18,172,920	8,788,554	110,114,294	5,765,456
Total assets	90,365,070	21,264,159	9,976,866	121,606,095	10,524,547
LIABILITIES					
Current liabilities:					
Accounts payable	1,087,606	83,067	106,187	1,276,860	103,158
Accrued and other liabilities	393,438	23,914	24,909	442,261	636,961
Due to other funds	871,857		115,156	987,013	94,602
Due to component units		30,945		30,945	
Cash bonds and deposits	4,979	1,500		6,479	
Unearned revenue			8,465	8,465	
Bonds payable	2,207,314	279,820	261,500	2,748,634	
Total current liabilities	4,565,194	419,246	516,217	5,500,657	834,721
Noncurrent liabilities:					
Accrued compensated absences	247,864	38,175	38,929	324,968	198,050
Other long-term liabilities	79,500	9,200	9,200	97,900	
Bonds payable	45,286,938	6,226,250	1,212,167	52,725,355	
Total noncurrent liabilities	45,614,302	6,273,625	1,260,296	53,148,223	198,050
Total liabilities	50,179,496	6,692,871	1,776,513	58,648,880	1,032,771
NET ASSETS					
Invested in capital assets, net of related debt	30,423,397	11,665,146	7,314,887	49,403,430	5,765,456
Restricted for debt service	2,207,314	279,820	261,500	2,748,634	
Restricted for cultural activities			15,603	15,603	
Unrestricted	7,554,863	2,626,322	608,363	10,789,548	3,726,320
Total net assets	$ 40,185,574	$ 14,571,288	$ 8,200,353	62,957,215	$ 9,491,776

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.	73,706
Net assets of business-type activities	$ 63,030,921

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, 2006

	Business Type Activities - Enterprise Funds				Governmental Activities
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	$ 19,083,625	$ 2,075,657	$ 2,199,353	$ 23,358,635	$ 4,522,704
Contributions and donations		775,879		775,879	
Other	32,138			32,138	21,397
Total operating revenues	19,115,763	2,851,536	2,199,353	24,166,652	4,544,101
OPERATING EXPENSES					
Salaries and benefits	2,449,968	648,824	429,892	3,528,684	1,728,533
Supplies	162,657	68,906	115,769	347,332	659,318
Water purchases	3,073,845			3,073,845	
Sewage disposal services	6,682,780			6,682,780	
Other services and charges	1,740,462	412,768	1,375,764	3,528,994	645,064
Depreciation	1,350,481	550,419	246,178	2,147,078	1,104,351
Total operating expenses	15,460,193	1,680,917	2,167,603	19,308,713	4,137,266
Operating income	3,655,570	1,170,619	31,750	4,857,939	406,835
NONOPERATING REVENUES (EXPENSES)					
Federal grants	245,582		6,672	252,254	
State grants	1,357			1,357	
Interest income	130,171	172,970	63,379	366,520	19,076
Contributions and donations			500,000	500,000	
Interest expense	(204,050)	(475,767)	(78,339)	(758,156)	
Gain on disposal of capital assets		303,829	5,000	308,829	108,041
Total nonoperating revenue (expenses)	173,060	1,032	496,712	670,804	127,117
Income before contributions and transfers	3,828,630	1,171,651	528,462	5,528,743	533,952
CAPITAL CONTRIBUTIONS			137,744	137,744	
TRANSFERS IN	11,858		22,000	33,858	
TRANSFERS OUT	(340,565)	(1,000,000)		(1,340,565)	(444,602)
Change in net assets	3,499,923	171,651	688,206	4,359,780	89,350
Total net assets - beginning, as restated	36,685,651	14,399,637	7,512,147		9,402,426
Total net assets - ending	$ 40,185,574	$ 14,571,288	$ 8,200,353		$ 9,491,776

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.	42,348
Change in net assets of business-type activities	$ 4,402,128

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, 2006

	Business Type Activities - Enterprise Funds				Governmental Activities
	Water & Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 18,912,551	$ 3,000,701	$ 2,172,754	$ 24,086,006	$ 88,882
Internal activity - receipts from other funds			11,256	11,256	3,299,888
Other operating receipts	32,138			32,138	5,808
Payments to vendors	(14,707,438)	(1,140,140)	(1,374,287)	(17,221,865)	(1,171,840)
Payments to employees	(1,557,598)	(452,236)	(304,975)	(2,314,809)	(1,089,563)
Payments of benefits on behalf of employees	(726,913)	(192,858)	(109,915)	(1,029,686)	(696,510)
Internal activity - payments to other funds	(1,216,635)	(171,282)	(7,712)	(1,395,629)	(75,702)
Net cash provided by operating activities	736,105	1,044,185	387,121	2,167,411	360,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grant proceeds	246,939		6,672	253,611	
Transfers from other funds	11,858		22,000	33,858	
Transfers to other funds	(340,565)	(1,000,000)		(1,340,565)	(444,602)
Increase in other long-term liabilities	14,900	4,000	3,100	22,000	
Decrease in other long-term liabilities			(4,200)	(4,200)	
Net cash provided by (used in) noncapital financing activities	(66,868)	(996,000)	27,572	(1,035,296)	(444,602)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions			500,000	500,000	
Purchase of capital assets	(6,876,931)	(3,124)	(1,500,397)	(8,380,452)	(147,773)
Principal paid on capital debt	(2,163,984)	(3,526,898)	(248,644)	(5,939,526)	
Interest paid on capital debt	(204,050)	(475,767)	(78,339)	(758,156)	
Increase in long-term receivable	3,100,330			3,100,330	
Proceeds from sale of capital assets		367,298	5,000	372,298	182,639
Proceeds from sale of bonds	5,476,178			5,476,178	
Net cash provided by (used in) capital and related financing activities	(668,457)	(3,638,491)	(1,322,380)	(5,629,328)	34,866
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments					24,101
Purchase of investment securities					(17,491)
Interest received on investments	130,171	172,970	63,379	366,520	19,076
Net cash provided by investing activities	130,171	172,970	63,379	366,520	25,686
Net increase (decrease) in cash and cash equivalents	130,951	(3,417,336)	(844,308)	(4,130,693)	(23,087)
Balances - beginning	78,963	5,145,662	1,954,992	7,179,617	28,387
Balances - ending	$ 209,914	$ 1,728,326	$ 1,110,684	$ 3,048,924	$ 5,300
Statement of net assets classification of cash and cash equivalents:					
Cash and cash equivalents	$ 209,914	$ 833,458	$ 1,110,684	$ 2,154,056	$ 5,300
Investments		893,164		893,164	564,415
Restricted assets - cash		1,704		1,704	
Less investments with original maturities greater than three months					(564,415)
	$ 209,914	$ 1,728,326	$ 1,110,684	$ 3,048,924	$ 5,300
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	$ 3,655,570	$ 1,170,619	$ 31,750	$ 4,857,939	$ 406,835
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,350,481	550,419	246,178	2,147,078	1,104,351
Changes in assets and liabilities:					
Receivables	(162,689)	(2,236)	(22,175)	(187,100)	(16,920)
Deposits and other assets		120,106	(2,200)	117,906	
Due from other governmental units	(7,637)			(7,637)	
Due from other funds	(1,388,048)	(1,351,426)	52,819	(2,686,655)	(1,133,934)
Due from component units		550,137		550,137	
Inventories	(44,891)	1,227		(43,664)	(24,289)
Accounts payable	(140,071)	(19,084)	(27,178)	(186,333)	13,459
Accrued and other liabilities	69,049	2,442	8,284	79,775	(92,756)
Due to other funds	(2,602,789)		103,156	(2,499,633)	94,602
Due to component units		30,945		30,945	
Cash bonds and deposits	(748)	350		(398)	
Unearned revenue			(2,224)	(2,224)	
Accrued compensated absences	7,878	(9,314)	(1,289)	(2,725)	9,615
Net cash provided by operating activities	$ 736,105	$ 1,044,185	$ 387,121	$ 2,167,411	$ 360,963

Noncash investing, capital and financing activities:
The nonmajor enterprise funds received $137,744 of capital contributions from the Community Development Block Grant fund.

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, 2006

	Pension Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 1,000	$ 979,424
Receivables, net of uncollectibles	1,178,985	
Retirement investments, at fair value		
U.S. government obligations	30,424,406	
Corporate bonds	16,644,903	
Stocks	85,656,747	
Other investments	2,884,444	
Total investments	135,610,500	
Total assets	136,790,485	$ 979,424
LIABILITIES		
Accounts payable	283,423	$ 457,581
Due to other governmental units		263,067
Cash bonds and deposits		258,776
Total liabilities	283,423	$ 979,424
NET ASSETS		
Held in trust for pension and other employee benefits	$ 136,507,062	

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, 2006

		Pension Trust
ADDITIONS		
Contributions:		
Employer	$	3,768,869
Plan members		421,607
Plan members' buybacks		970,406
Total contributions		5,160,882
Investment earnings:		
Net increase in fair value of investments		5,781,517
Interest		2,077,540
Dividends		1,737,896
Other investment revenues		7,484
Total investment income		9,604,437
Less investment expenses		905,983
Net investment income		8,698,454
Total additions		13,859,336
DEDUCTIONS		
Benefits		9,828,548
Refund of contributions		955,932
Administrative expenses		65,871
Total deductions		10,850,351
Change in net assets		3,008,985
Net assets - beginning		133,498,077
Net assets - ending	$	136,507,062

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

City of Royal Oak, Michigan
Combining Statement of Net Assets
Component Units
June 30, 2006

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 1,500,000		$ 9,851	$ 9,720	$ 1,519,571
Investments	5,398,162				5,398,162
Receivables, net of uncollectibles	131,445	$ 2,671			134,116
Deposits and other assets				89,818	89,818
Due from primary government	30,945	37,506		51,989	120,440
Total current assets	7,060,552	40,177	9,851	151,527	7,262,107
Noncurrent assets:					
Capital assets, not being depreciated	1,401,035				1,401,035
Capital assets, being depreciated, net	615,540			7,148	622,688
Total noncurrent assets	2,016,575			7,148	2,023,723
Total assets	9,077,127	40,177	9,851	158,675	9,285,830
LIABILITIES					
Current liabilities:					
Accounts payable	54,457	328		8,178	62,963
Due to primary government	627,129				627,129
Deferred revenue				143,349	143,349
Current portion of long-term debt	100,000				100,000
Total current liabilities	781,586	328		151,527	933,441
Noncurrent liabilitites:					
Accrued compensated absences				12,607	12,607
Noncurrent portion of long-term debt	402,137				402,137
Total noncurrent liabilities	402,137			12,607	414,744
Total liabilities	1,183,723	328		164,134	1,348,185
NET ASSETS					
Invested in capital assets, net of related debt	1,521,586			7,148	1,528,734
Unrestricted (deficit)	6,371,818	39,849	9,851	(12,607)	6,408,911
Total net assets	$ 7,893,404	$ 39,849	$ 9,851	$ (5,459)	$ 7,937,645

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

City of Royal Oak, Michigan
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2006

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Operating Grants and Contributions	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission	Totals
Tax Increment Financing Authority							
Public works	$ 2,106,417	$ 20,500	$ (2,085,917)				$ (2,085,917)
Interest on long-term debt	34,160		(34,160)				(34,160)
Total - Tax Increment Financing Authority	2,140,577	20,500	(2,120,077)				(2,120,077)
Downtown Development Authority							
General government	25,361			$ (25,361)			(25,361)
Economic Development Corporation	10,400				$ (10,400)		(10,400)
Housing Commission							
General government	136,254	131,324				$ (4,930)	(4,930)
Health and welfare	1,028,132	1,028,132				-	-
Total - Housing Commission	1,164,386	1,159,456				(4,930)	(4,930)
Total component units	$ 3,340,724	$ 1,179,956					(2,160,768)
	General revenues:						
	Property taxes		4,001,002	49,353			4,050,355
	Unrestricted investment earnings		235,611		$ 49	571	236,231
	Miscellaneous		154,635				154,635
	Total general revenues		4,391,248	49,353	49	571	4,441,221
	Change in net assets		2,271,171	23,992	(10,351)	(4,359)	2,280,453
	Net assets (deficit) - beginning		5,622,233	15,857	20,202	(1,100)	5,657,192
	Net assets (deficit) - ending		$ 7,893,404	$ 39,849	$ 9,851	$ (5,459)	$ 7,937,645

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

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 financial statements 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 repayment of General Obligation Bonds related to the construction of a parking deck which is combined with the Automobile Parking System Enterprise Fund for inclusion in the City's financial statements; the repayment of Fire Improvement Bonds related to the construction of two fire stations, the renovation of one fire station, and for the purchase of various fire apparatus and equipment; and the recognition of expenditures for the renovation of the library and the repayment of the related General Obligation Bonds.

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 units column in the combined financial statement includes the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City. The following component units are included in the reporting entity because the officials of the primary government are financially accountable.

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

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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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).

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.

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of our proprietary funds relate to charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the 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 cash 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 31st. The December bill, which typically contains the county levy and a small City levy, is payable without interest by the following February 14th. The bills are considered past due on March 1st, at which time the applicable property is subject to lien, and penalties and interest are assessed.

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. Permanent fund restricted assets are restricted by a legal endowment.

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:

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

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay, longevity pay, and a portion of sick pay is accrued when incurred in the government-wide and proprietary financial statements. Sick pay limits are based on the employee's union contract. 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 general fund to include the former golf course fund with the general fund. The fund balance at June 30, 2005 was reported as $6,755,590 and was adjusted by $3,153; therefore, the restated fund balance is $6,758,743. A prior period adjustment was made at the government-wide level for both governmental and business-type activities to reclassify the former golf course fund as a governmental activity. The governmental activity's net assets at June 30, 2005 were reported as $131,845,242 and were adjusted by $961,028; therefore, the restated net assets are $132,806,270. The business-type activity's net assets were reported as $59,589,821 and were adjusted by $961,028; therefore the restated net assets are $58,628,793.

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 and the permanent fund, which are 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 function 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. The Commission made several supplemental budgetary appropriations throughout the year mostly a result of the mid-year review. The supplementary budgetary appropriations made in the general fund were not material.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, the City of Royal Oak incurred expenditures in certain budgeted funds which were in excess of the amount appropriated, as follows:

Budget Item	Budget Appropriation	Actual Expenditure
General Fund – General Government	11,652,111	11,810,472
General Fund – Community and economic development	184,050	254,546

These overexpenditures were funded by greater than anticipated revenues.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

State of Michigan statues 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 is 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	$ 13,651,453	$ 2,154,056	$ 980,424	$ 16,785,933	$ 1,519,571
Investments	15,458,508	893,164	135,610,500	151,962,172	5,398,162
Restricted assets	26,000	1,704	-	27,704	-
Total	$ 29,135,961	$ 3,048,924	$ 136,590,924	$ 168,775,809	$ 6,917,733

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings accounts, certificates of deposits)	$ 35,943,027	$ 6,917,733
Investments in Debt Securities	47,169,152	
Investments in Equity Securities	85,656,747	
Petty Cash and Cash on Hand	6,883	
Total	$ 168,775,809	$ 6,917,733

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. State law limits investment maturities for commercial paper to no more than 270 days after date of purchase. 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, 2006:

		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	$ 30,424,405	$ 2,883,652	$ 5,252,959	$ 1,643,419	$ 20,644,375	*	*
Commercial paper	99,843	99,843				A1/P1	n/a
Corporate bonds	16,644,903	635,575	8,251,347	1,559,918	6,198,063	AAA to BB+	Aaa to Baa3

*The City's investments in U.S. agencies implicitly guaranteed by the U.S. government (e.g., securities issued by the Federal National Mortgage Association (FNMA), the Federal Home Loan Banks (FHLB), and the Federal Home Loan Mortgage Corporation (FHLMC)) were rated AAA by Standard & Poors and Aaa by Moody's Investor Service.

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. Commercial paper must be rated within the two highest classifications established by not less than two standard rating services. 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, 2006, $35,127,537 of the City of Royal Oak's bank balance of $36,284,705 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of year end, $6,598,162 of the component unit's bank balance of $6,917,733 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 $47,169,152 in investments, the City of Royal Oak has a custodial credit risk exposure of $16,644,903 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, and the City of Royal Oak does not have a policy specifying limits on concentration of credit risk. At June 30, 2006, there were no individual investments with a fair value that represent 5% or more of the City's investments; and other than U.S. agencies, the City did not have 5% or more invested with any one issuer.

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 allowances for doubtful accounts, are as follows:

Receivables:	General Fund	Solid Waste	Capital Projects	Water and Sewer	Auto Parking	Nonmajor and Other Funds	Total	Component Units
Taxes	$ 292,909	$ 88,225				$ 35,295	$ 416,429	$ 87,899
Accounts	246,194	5,067	$ 329,249	$ 5,126,488	$ 3,859	1,616,206	7,327,063	
Special Assessments						721,395	721,395	
Intergovernmental	380,936					1,037,821	1,418,757	
Interest and other	17,796	50,318			5,484	563,743	637,341	71,217
Gross Receivables	937,835	143,610	329,249	5,126,488	9,343	3,974,460	10,520,985	159,116
Less: Allowance for uncollectibles	(24,960)	(9,000)					(33,960)	(25,000)
Net receivables, per fund financials	$ 912,875	$ 134,610	$ 329,249	$ 5,126,488	$ 9,343	$ 3,974,460	$ 10,487,025	$ 134,116

Of the special assessment receivable, $122,000 is expected to be collected in the next year.

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	$ 292,909	$ 88,225		$ 35,295	$ 416,429
Accounts	246,194	5,067	$ 329,249	228,899	809,409
Special Assessments				721,395	721,395
Intergovernmental	1,461,043			1,030,934	2,491,977
Interest and other	17,796	50,318		1,654,526	1,722,640
Gross Receivables	2,017,942	143,610	329,249	3,671,049	6,161,850
Less: Allowance for uncollectibles	(24,960)	(9,000)			(33,960)
Net receivables, per govt-wide financials	$ 1,992,982	$ 134,610	$ 329,249	$ 3,671,049	$ 6,127,890

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
Deliquent Personal Property Taxes	$ 384,929	
Special Assessments	721,395	
Grant Drawdowns Prior to Meeting Eligibility Requirements		$ 1,533,385
Total - fund financials	1,106,324	1,533,385
less: revenue recognized under full accrual	(1,106,324)	(81,120)
Total - govt-wide financials	$ -	$ 1,452,265

C. Capital Assets:

Capital asset activity for the current year was as follows:

Primary Government

	Beginning Balance (restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	$ 66,774,752			$ 66,774,752
Construction in progress	7,187,808	$ 5,207,006	$ (4,916,584)	7,478,230
Total capital assets, not being depreciated	73,962,560	5,207,006	(4,916,584)	74,252,982
Capital assets, being depreciated				
Buildings	25,943,578	4,240,373		30,183,951
Improvements other than buildings	3,838,865	109,094		3,947,959
Machinery and equipment	18,589,789	1,070,871	(1,033,077)	18,627,583
Infrastructure	76,866,707	4,405,269		81,271,976
Intangibles	527,502	4,364	(7,133)	524,733
Total capital assets being depreciated	125,766,441	9,829,971	(1,040,210)	134,556,202
Less accumulated depreciation for:				
Buildings	(8,506,938)	(492,366)		(8,999,304)
Improvements other than buildings	(2,603,195)	(152,972)		(2,756,167)
Machinery and equipment	(11,186,072)	(1,354,954)	923,406	(11,617,620)
Infrastructure	(49,571,283)	(1,294,115)		(50,865,398)
Intangibles	(491,790)	(17,555)	7,133	(502,212)
Total accumulated depreciation	(72,359,278)	(3,311,962)	930,539	(74,740,701)
Total capital assets, being depreciated, net	53,407,163	6,518,009	(109,671)	59,815,501
Govenmental activities capital assets, net	$ 127,369,723	$ 11,725,015	$ (5,026,255)	$ 134,068,483

	Beginning Balance (restated)	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 4,831,660		$ (63,469)	$ 4,768,191
Construction in progress	32,165,015	$ 4,899,537	(62,097)	37,002,455
Total capital assets, not being depreciated	36,996,675	4,899,537	(125,566)	41,770,646
Capital assets, being depreciated				
Buildings	27,596,240	1,616,383	(52,346)	29,160,277
Improvements other than buildings	311,958			311,958
Machinery and equipment	1,421,021	89,100	(34,922)	1,475,199
Infrastructure	58,993,712	1,975,274		60,968,986
Total capital assets being depreciated	88,322,931	3,680,757	(87,268)	91,916,420
Less accumulated depreciation for:				
Buildings	(7,126,919)	(695,798)	52,346	(7,770,371)
Improvements other than buildings	(153,879)	(12,837)		(166,716)
Machinery and equipment	(1,018,750)	(61,116)	34,922	(1,044,944)
Infrastructure	(18,450,288)	(1,377,328)		(19,827,616)
Total accumulated depreciation	(26,749,836)	(2,147,079)	87,268	(28,809,647)
Total capital assets, being depreciated, net	61,573,095	1,533,678	-	63,106,773
Business-type activities capital assets, net	$ 98,569,770	$ 6,433,215	$ (125,566)	$ 104,877,419

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

Governmental activities:	
General government	$ 303,668
Public safety	292,823
Public works	1,271,853
Health and welfare	14,153
Community and economic development	2,863
Recreation and culture	322,250
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,104,351
Total depreciation expense - governmental activities	$ 3,311,961
Business-type activities:	
Water and sewer	$ 1,350,481
Parking	550,419
Recreation	225,694
Farmers market	20,484
Total depreciation expense - business-type activities	$ 2,147,078

Construction Commitments

The City has active construction projects as of June 30, 2006. 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	$ 1,311,946	$ 51,258
Street Projects	1,973,068	1,696,064
Water Projects	966,927	1,049,356
Sidewalks	1,193,363	186,965
Total	$ 5,445,304	$ 2,983,643

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 $36,415,600 has been spent to date and is attributable to the City of Royal Oak.

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
Construction in progress		$ 316,281		316,281
Total capital assets, not being depreciated	1,084,754	316,281	-	1,401,035
Capital assets, being depreciated				
Improvements other than buildings	347,519			347,519
Equipment	15,247			15,247
Infrastructure	378,830	58,446		437,276
Total capital assets being depreciated	741,596	58,446	-	800,042
Less accumulated depreciation for:				
Improvements other than buildings	(46,270)			(46,270)
Equipment	(5,049)	(3,050)		(8,099)
Infrastructure	(78,923)	(44,062)		(122,985)
Total accumulated depreciation	(130,242)	(47,112)	-	(177,354)
Total capital assets, being depreciated, net	611,354	11,334	-	622,688
Component unit capital assets, net	$ 1,696,108	$ 327,615	$ -	$ 2,023,723

There was $47,112 in depreciation expense, $44,062 of which was charged to the Tax Increment Financing Authority activity and $3,050 was charged to the Housing Commission.

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Fund	Due To	Due From
General Fund	$ 8,783,714	$ 4,796,763
Solid Waste Fund	163,084	
Capital Projects Fund	3,087,436	3,121,565
Nonmajor Governmental Funds	4,261,955	2,876,120
Water & Sewer Fund	871,857	1,388,048
Automobile Parking System Fund		1,351,996
Nonmajor Enterprise Funds	115,156	21,975
Internal Service Funds	94,602	3,821,337
	$ 17,377,804	$ 17,377,804

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

Interfund transfers between the funds within the primary government were as follows:

Fund	Transfers In	Fund	Transfers Out
General	$ 1,366,205	General	$ 473,801
Capital Projects	7,808,448	Capital Projects	3,457,857
Nonmajor governmental funds	649,896	Nonmajor governmental funds	4,141,582
Water & Sewer	11,858	Water & Sewer	340,565
Nonmajor enterprise funds	22,000	Auto Parking	1,000,000
		Internal service funds	444,602
	$ 9,858,407		$ 9,858,407

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.

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 and other long-term liabilities 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	4.0%-4.375%	2026	$ 6,385,000	$ (10,000)	$ 6,375,000	$ 220,000
Limited tax general obligation bonds	3.00%-4.250%	2023	3,700,000	(135,000)	3,565,000	155,000
Unlimited tax general obligation bonds	3.75%-5.0%	2021	8,085,000	(325,000)	7,760,000	340,000
Compensated absences			3,387,670	6,550	3,394,220	
General liability claims			844,900	103,200	948,100	
			22,402,570	(360,250)	22,042,320	715,000
Less: unamortized discount, issuance costs and deferred loss			(396,903)	(197,898)	(594,801)	
Total governmental activitiy long-term liabilities			$ 22,005,667	$ (558,148)	$ 21,447,519	$ 715,000
Business-type activities						
Limited tax general obligation-Ice Arena	5.0%	2010	$ 1,740,000	$ (250,000)	$ 1,490,000	$ 265,000
Limited tax general obligation-Parking	4.0%-4.375%	2026	10,150,000	(3,045,000)	7,105,000	310,000
Limited tax general obligation-Water	3.5%-4.3%	2026	-	4,325,000	4,325,000	130,000
Oakland County North Arm Drain Bonds	2.25%	2020	11,437,387	(600,000)	10,837,387	615,000
Contractual obligations	2.5%-5.375%	2024	32,744,671	(297,645)	32,447,026	1,468,170
Compensated absences			327,693	(2,725)	324,968	
General liability claims			80,100	17,800	97,900	
			56,479,851	147,430	56,627,281	2,788,170
Less: unamortized discount and issuance costs			(134,722)	(595,702)	(730,424)	(39,536)
Total business-type activity long-term liabilities			$ 56,345,129	$ (448,272)	$ 55,896,857	$ 2,748,634
Component units						
Limited tax development bonds	6.0%	2009	$ 625,000	$ (100,000)	$ 525,000	$ 100,000
Compensated absences			11,298	1,309	12,607	
			636,298	(98,691)	537,607	100,000
Less: unamortized discount and issuance costs			(29,722)	6,859	(22,863)	
Total Component Units			$ 606,576	$ (91,832)	$ 514,744	$ 100,000

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 $198,050 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.

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

Years Ending	Governmental Activities		Business-Type Activities*		Component Units	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 715,000	$ 770,618	$ 1,396,733	$ 894,508	$ 100,000	$ 28,500
2008	765,000	722,528	1,471,247	796,305	125,000	21,750
2009	795,000	691,998	1,520,760	743,361	150,000	13,500
2010	835,000	659,562	1,580,274	688,355	150,000	4,500
2011	865,000	627,390	1,639,788	630,888	-	-
2012-2016	4,910,000	2,580,168	6,545,671	2,493,680	-	-
2017-2021	6,145,000	1,397,483	7,178,695	1,408,011	-	-
2022-2026	2,670,000	179,996	3,670,000	494,290	-	-
Total	$ 17,700,000	$ 7,629,743	$ 25,003,168	$ 8,149,398	$ 525,000	$ 68,250

*Does not include the obligation of $31,201,245 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, 2006, the City’s obligation is $31,201,245 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.

Advance Refundings: The City issued $11,100,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $13,640,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by $334,790. The amount is being netted against the new debt and amortized over the new debt's life, which is shorter than the refunded debt. The transaction also resulted in an economic gain of $529,032 and a reduction of $5,648,619 in future debt service payments.

F. Restricted Assets

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

Unspent Bond Proceeds	$	1,704
Total Restricted Assets	$	1,704

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 for general property and liability claims.

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 establish a member loss fund. The loss fund is used to pay the member's self-insured retention portion of claims.

The City of Royal Oak has a $250,000 per occurrence self-insured retention for liability claims and $15,000,000 per occurrence of excess liability insurance coverage. Coverage limits, retentions and deductibles for other types of coverage vary. All coverage is on an occurrence basis except for a stop loss policy which is on a claims paid basis. The stop loss policy limits the maximum total self-insured retention payments in any one fiscal year to $883,000. Settlements have not exceeded coverages for each of the past three fiscal years.

The City was unable to obtain workers compensation insurance at a cost it considered to be economically justifiable. Therefore, the City established the Workers Compensation Fund, an internal service fund, to account for and finance its uninsured risks of loss related to employee work related accidents.

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 $450,000. Settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the reported liability for the fiscal years 2005 and 2006 are as follows:

Fiscal Year	Liability at Beginning of Year	Current-Year Claims and Changes in Estimates	Claim Payments	Liability at End of Year
2005	$ 909,336	$ 173,314	$ (396,717)	$ 685,933
2006	685,933	143,037	(247,488)	581,482

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. Subsequent Events

The City had a lease-to-purchase agreement with the management company operating the golf course for the golf course equipment. On October 30, 2006, the management company was notified that the

management agreement will be terminated effective December 15, 2006, therefore according to the terms of the concession agreement, the lease-to-purchase agreement was nullified.

D. 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, 2006 the City expensed approximately $1,271,000 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, 2006 the City expensed approximately $3,074,000 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.

E. 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, 407 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 $4,868,400.

F. 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, 2006 was approximately $20,429,200. The City's total payroll was approximately $24,926,200.

At June 30, 2005 (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	511
Current full-time employees:	
Fully vested	250
Nonvested	115
Total current employees	365

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.

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.

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, 2006, 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, 2006, the City's annual pension cost of $3,768,869 was equal to the City's required and actual contributions. An employee contribution of 1.5 percent to 4 percent of gross wages is required. The City is required to contribute 16.27% for general employees and 22.87% for police and fire employees of annual covered payroll. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 3.5% to 8.3%.

THREE YEAR TREND INFORMATION (in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$0	0%	$0
6/30/2005	1,340	100%	0
6/30/2006	3,769	100%	0

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	-
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	131,980	146,386	14,406	90.2%	20,569	70.0%
6/30/2005	134,773	152,016	17,243	88.7%	20,839	82.7%

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	0	0	100%
2005	1,340	1,340	100%
2006	3,769	3,769	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, assumptions, amortization method, etc., see Note 4(F) on pages 50, 51 and 52.

ADDITIONAL INFORMATION

City of Royal Oak, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue							
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	Acorn Fund	Total Nonmajor Special Revenue Funds
ASSETS								
Cash and cash equivalents			$ 8,456	$ 611,620				$ 620,076
Investments	$ 3,716,967	$ 6,017,391		310,597	$ 1,291,307			11,336,262
Receivables, net of allowance for uncollectibles	58,937	94,029	1,452,265	6,824	43,350		$ 44,279	1,699,684
Deposits and other assets			27,961					27,961
Due from other governmental units	657,855	156,672	114,500					929,027
Due from other funds	659,604	600,000	75,762	54,067	168,569	$ 976,341	288,022	2,822,365
Total assets	$ 5,093,363	$ 6,868,092	$ 1,678,944	$ 983,108	$ 1,503,226	$ 976,341	$ 332,301	$ 17,435,375
LIABILITIES								
Accounts payable	$ 38,800	$ 2,555	$ 60,238	$ 13,932	$ 41,505	$ 27,809		$ 184,839
Accrued and other liabilities	11,359	27,935	24,290	5,337	67,847	83,061		219,829
Due to other funds	1,513,165	1,639,746	142,151		754,986		$ 116,408	4,166,456
Deferred revenue	3,468	3,469	1,452,265	45,434	19,763			1,524,399
Total liabilities	1,566,792	1,673,705	1,678,944	64,703	884,101	110,870	116,408	6,095,523
FUND BALANCES								
Reserved for senior activities				245,388				245,388
Reserved for books and capital expenditures					21,069			21,069
Unreserved, designated for subsequent year's expenditures	714,140	1,333,904		219,754	3,622			2,271,420
Unreserved, undesignated	2,812,431	3,860,483	-	453,263	594,434	865,471	215,893	8,801,975
Total fund balances	3,526,571	5,194,387	-	918,405	619,125	865,471	215,893	11,339,852
Total liabilities and fund balances	$ 5,093,363	$ 6,868,092	$ 1,678,944	$ 983,108	$ 1,503,226	$ 976,341	$ 332,301	$ 17,435,375

City of Royal Oak, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects: Special Assessments	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	$ 620,076	$ 147,316			$ 767,392
Investments	11,336,262	1,234,452			12,570,714
Receivables, net of allowance for uncollectibles	1,699,684	110,628	$ 721,395	$ 43	2,531,750
Deposits and other assets	27,961				27,961
Due from other governmental units	929,027				929,027
Due from other funds	2,822,365	49,998	482	3,275	2,876,120
Restricted assets - cash				26,000	26,000
Total assets	$ 17,435,375	$ 1,542,394	$ 721,877	$ 29,318	$ 19,728,964
LIABILITIES					
Accounts payable	$ 184,839	$ 400	$ 482		$ 185,721
Accrued and other liabilities	219,829				219,829
Due to other funds	4,166,456	95,499			4,261,955
Deferred revenue	1,524,399	8,595	721,395		2,254,389
Total liabilities	6,095,523	104,494	721,877		6,921,894
FUND BALANCES					
Reserved for endowment	-			$ 26,000	26,000
Reserved for senior activities	245,388				245,388
Reserved for books and capital expenditures	21,069				21,069
Unreserved, designated for subsequent year's expenditures	2,271,420				2,271,420
Unreserved, undesignated	8,801,975	1,437,900	-	3,318	10,243,193
Total fund balances	11,339,852	1,437,900	-	29,318	12,807,070
Total liabilities and fund balances	$ 17,435,375	$ 1,542,394	$ 721,877	$ 29,318	$ 19,728,964

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue							
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	Acorn Fund	Total Nonmajor Special Revenue Funds
REVENUES								
Taxes					$ 2,006,346			$ 2,006,346
Licenses and permits	$ 176,211					$ 2,122,665		2,298,876
Federal grants			$ 1,775,816					1,775,816
State grants	2,916,949	$ 948,839		$ 143,613	130,073			4,139,474
Charges for services			412,601	152,632	15,106	24,341		604,680
Fines and forfeitures					823			823
Interest	162,427	222,477		37,418	91,894		$ 13,219	527,435
Contributions and donations	14,699			19,856	4,863		45,839	85,257
Other revenue	13,080	881	17,689	117	1,917	10,400		44,084
Total revenues	3,283,366	1,172,197	2,206,106	353,636	2,251,022	2,157,406	59,058	11,482,791
EXPENDITURES								
Current:								
Public safety						1,983,479	12,560	1,996,039
Public works	1,213,386	1,303,986						2,517,372
Community and economic development			1,512,135					1,512,135
Recreation and culture				292,299	1,733,365			2,025,664
Debt service:								
Principal payments					135,000			135,000
Interest and paying agent fees					137,805			137,805
Total expenditures	1,213,386	1,303,986	1,512,135	292,299	2,006,170	1,983,479	12,560	8,324,015
Excess (deficiency) of revenues over (under) expenditures	2,069,980	(131,789)	693,971	61,337	244,852	173,927	46,498	3,158,776
OTHER FINANCING SOURCES (USES)								
Transfers in	6,559	620,979	22,358					649,896
Transfers out	(1,513,165)	(864,608)	(716,329)		(754,986)		(128,633)	(3,977,721)
Total other financing sources (uses)	(1,506,606)	(243,629)	(693,971)		(754,986)		(128,633)	(3,327,825)
Net change in fund balances	563,374	(375,418)	-	61,337	(510,134)	173,927	(82,135)	(169,049)
Fund balances - beginning	2,963,197	5,569,805	-	857,068	1,129,259	691,544	298,028	11,508,901
Fund balances - ending	$ 3,526,571	$ 5,194,387	$ -	$ 918,405	$ 619,125	$ 865,471	$ 215,893	$ 11,339,852

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects: Special Assessments	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES					
Taxes	$ 2,006,346	$ 680,803			$ 2,687,149
Licenses and permits	2,298,876				2,298,876
Federal grants	1,775,816				1,775,816
State grants	4,139,474				4,139,474
Charges for services	604,680				604,680
Fines and forfeitures	823	854,553			855,376
Interest	527,435	75,416	$ 34,411	$ 965	638,227
Contributions and donations	85,257				85,257
Other revenue	44,084	155	129,450		173,689
Total revenues	11,482,791	1,610,927	163,861	965	13,258,544
EXPENDITURES					
Current:					
Public safety	1,996,039				1,996,039
Public works	2,517,372				2,517,372
Community and economic development	1,512,135				1,512,135
Recreation and culture	2,025,664				2,025,664
Debt service:					
Principal payments	135,000	540,000			675,000
Interest and paying agent fees	137,805	679,512			817,317
Total expenditures	8,324,015	1,219,512			9,543,527
Excess of revenues over expenditures	3,158,776	391,415	163,861	965	3,715,017
OTHER FINANCING SOURCES (USES					
Transfers in	649,896				649,896
Transfers out	(3,977,721)		(163,861)		(4,141,582)
Total other financing sources (uses)	(3,327,825)	-	(163,861)		(3,491,686)
Net change in fund balances	(169,049)	391,415	-	965	223,331
Fund balances - beginning	11,508,901	1,046,485	-	28,353	12,583,739
Fund balances - ending	$ 11,339,852	$ 1,437,900	$ -	$ 29,318	$ 12,807,070

City of Royal Oak, Michigan
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2006

	Recreation Administration	Ice Arena	Farmers Market	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents		$ 928,704	$ 181,980	$ 1,110,684
Receivables, net of allowance for uncollectibles	$ 49,242	3,740	471	53,453
Deposits and other assets	2,200			2,200
Due from other funds	21,975			21,975
Total current assets	73,417	932,444	182,451	1,188,312
Noncurrent assets:				
Capital assets, net of depreciation	4,127,550	2,752,905	1,908,099	8,788,554
Total noncurrent assets	4,127,550	2,752,905	1,908,099	8,788,554
Total assets	4,200,967	3,685,349	2,090,550	9,976,866
LIABILITIES				
Current liabilities:				
Accounts payable	19,263	71,943	14,981	106,187
Accrued and other liabilities	11,332	5,305	8,272	24,909
Due to other funds		84,013	31,143	115,156
Unearned revenue		8,465		8,465
Bonds payable		261,500		261,500
Total current liabilities	30,595	431,226	54,396	516,217
Noncurrent liabilities:				
Accrued compensated absences	20,204	16,110	2,615	38,929
Other long-term liabilities	6,100	3,100		9,200
Bonds payable		1,212,167		1,212,167
Total noncurrent liabilities	26,304	1,231,377	2,615	1,260,296
Total liabilities	56,899	1,662,603	57,011	1,776,513
NET ASSETS				
Invested in capital assets, net of related debt	4,127,550	1,279,238	1,908,099	7,314,887
Restricted for debt service		261,500		261,500
Restricted for cultural activities	15,603			15,603
Unrestricted	915	482,008	125,440	608,363
Total net assets	$ 4,144,068	$ 2,022,746	$ 2,033,539	$ 8,200,353

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2006

	Recreation Administration	Ice Arena	Farmers Market	Total Nonmajor Enterprise Funds
OPERATING REVENUES				
Charges for services	$ 579,414	$ 1,343,203	$ 276,736	$ 2,199,353
Total operating revenues	579,414	1,343,203	276,736	2,199,353
OPERATING EXPENSES				
Salaries and benefits	263,239	108,391	58,262	429,892
Supplies	25,644	84,347	5,778	115,769
Other services and charges	331,498	868,485	175,781	1,375,764
Depreciation	86,960	138,734	20,484	246,178
Total operating expenses	707,341	1,199,957	260,305	2,167,603
Operating income (loss)	(127,927)	143,246	16,431	31,750
NONOPERATING REVENUES (EXPENSES)				
Federal grants			6,672	6,672
Interest income		28,625	34,754	63,379
Contributions and donations			500,000	500,000
Interest expense		(78,339)		(78,339)
Gain on disposal of assets		5,000		5,000
Total nonoperating revenue (expenses)		(44,714)	541,426	496,712
Income (loss) before contributions and transfers	(127,927)	98,532	557,857	528,462
CAPITAL CONTRIBUTIONS	137,744			137,744
TRANSFERS IN	22,000			22,000
Change in net assets	31,817	98,532	557,857	688,206
Total net assets - beginning, as restated	4,112,251	1,924,214	1,475,682	7,512,147
Total net assets - ending	$ 4,144,068	$ 2,022,746	$ 2,033,539	$ 8,200,353

City of Royal Oak, Michigan
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2006

	Recreation Administration	Ice Arena	Farmers Market	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 553,226	$ 1,339,447	$ 280,081	$ 2,172,754
Internal activity - receipts from other funds		8,079	3,177	11,256
Payments to vendors	(304,349)	(892,706)	(177,232)	(1,374,287)
Payments to employees	(183,297)	(81,059)	(40,619)	(304,975)
Payments of benefits on behalf of employees	(75,668)	(21,129)	(13,118)	(109,915)
Internal activity - payments to other funds	(7,712)			(7,712)
Net cash provided by (used in) operating activities	(17,800)	352,632	52,289	387,121
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Grant proceeds			6,672	6,672
Transfers from other funds	22,000			22,000
Increase in other long-term liabilities		3,100		3,100
Decrease in other long-term liabilities	(4,200)			(4,200)
Net cash provided by noncapital financing activities	17,800	3,100	6,672	27,572
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions			500,000	500,000
Purchase of capital assets		(114,861)	(1,385,536)	(1,500,397)
Principal paid on capital debt		(248,644)		(248,644)
Interest paid on capital debt		(78,339)		(78,339)
Proceeds from sale of capital assets		5,000		5,000
Net cash provided by (used in) capital and related financing activities		(436,844)	(885,536)	(1,322,380)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received on investments		28,625	34,754	63,379
Net increase (decrease) in cash and cash equivalents	-	(52,487)	(791,821)	(844,308)
Balances - beginning	-	981,191	973,801	1,954,992
Balances - ending	$ -	$ 928,704	$ 181,980	$ 1,110,684

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (127,927)	$ 143,246	$ 16,431	$ 31,750
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	86,960	138,734	20,484	246,178
Changes in assets and liabilities:				
Receivables, net	(23,988)	(1,532)	3,345	(22,175)
Deposits and other assets	(2,200)			(2,200)
Due from other funds	52,819			52,819
Accounts payable	(4,957)	(2,097)	(20,124)	(27,178)
Accrued and other liabilities	877	691	6,716	8,284
Due to other funds		75,314	27,842	103,156
Unearned revenue		(2,224)		(2,224)
Accrued compensated absences	616	500	(2,405)	(1,289)
Net cash provided by (used in) operating activities	$ (17,800)	$ 352,632	$ 52,289	$ 387,121

Noncash investing, capital and financing activities:

The Recreation Administration fund received $137,744 of capital contributions from the Community Development Block Grant fund.

City of Royal Oak, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Information Systems	Motor Pool	Workers Compensation	Total
ASSETS				
Current assets:				
Cash and cash equivalents		$ 300	$ 5,000	$ 5,300
Investments			564,415	564,415
Receivables, net of uncollectibles		208,405	1,867	210,272
Due from other funds	$ 994,002	2,446,492	380,843	3,821,337
Inventories		157,767		157,767
Total current assets	994,002	2,812,964	952,125	4,759,091
Noncurrent assets:				
Capital assets	2,137,727	13,211,872		15,349,599
Less accumulated depreciation	(1,655,541)	(7,928,602)		(9,584,143)
Total capital assets (net of accumulated depreciation)	482,186	5,283,270		5,765,456
Total assets	1,476,188	8,096,234	952,125	10,524,547
LIABILITIES				
Current liabilities:				
Accounts payable	6,952	72,105	24,101	103,158
Accrued and other liabilities	20,236	35,243	581,482	636,961
Due to other funds		94,602		94,602
Total current liabilities	27,188	201,950	605,583	834,721
Noncurrent liabilities:				
Accrued compensated absences	86,410	111,640		198,050
Total noncurrent liabilities	86,410	111,640		198,050
Total liabilities	113,598	313,590	605,583	1,032,771
NET ASSETS				
Invested in capital assets, net of related debt	482,186	5,283,270		5,765,456
Unrestricted	880,404	2,499,374	346,542	3,726,320
Total net assets	$ 1,362,590	$ 7,782,644	$ 346,542	$ 9,491,776

City of Royal Oak, Michigan
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2006

	Information Systems	Motor Pool	Workers Compensation	Total
OPERATING REVENUES				
Charges for services	$ 1,100,028	$ 2,581,888	$ 840,788	$ 4,522,704
Other revenue		21,277	120	21,397
Total operating revenues	1,100,028	2,603,165	840,908	4,544,101
OPERATING EXPENSES				
Salaries and benefits	505,089	1,080,407	143,037	1,728,533
Supplies	9,170	650,148		659,318
Other services and charges	142,136	392,154	110,774	645,064
Depreciation	165,231	939,120		1,104,351
Total operating expenses	821,626	3,061,829	253,811	4,137,266
Operating income (loss)	278,402	(458,664)	587,097	406,835
NONOPERATING REVENUES				
Interest income			19,076	19,076
Gain on sale of capital assets	1,235	106,806		108,041
Total nonoperating revenue	1,235	106,806	19,076	127,117
Income (loss) before transfers	279,637	(351,858)	606,173	533,952
TRANSFERS OUT		(94,602)	(350,000)	(444,602)
Change in net assets	279,637	(446,460)	256,173	89,350
Total net assets - beginning	1,082,953	8,229,104	90,369	9,402,426
Total net assets - ending	$ 1,362,590	$ 7,782,644	$ 346,542	$ 9,491,776

City of Royal Oak, Michigan
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2006

	Information Systems	Motor Pool	Workers Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users		$ 88,882		$ 88,882
Internal activity - receipts from other funds	$ 667,905	1,948,196	$ 683,787	3,299,888
Other operating receipts	-	5,688	120	5,808
Payments to vendors	(125,361)	(952,679)	(93,800)	(1,171,840)
Payments to employees	(350,270)	(634,842)	(104,451)	(1,089,563)
Payments of benefits on behalf of employees	(148,165)	(405,308)	(143,037)	(696,510)
Internal activity - payments to other funds	(22,048)	(35,349)	(18,305)	(75,702)
Net cash provided by operating activities	22,061	14,588	324,314	360,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds		(94,602)	(350,000)	(444,602)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(23,296)	(124,477)		(147,773)
Proceeds from sale of capital assets	1,235	181,404		182,639
Net cash provided by (used in) capital and related financing activities	(22,061)	56,927		34,866
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments			24,101	24,101
Purchase of investment securities			(17,491)	(17,491)
Interest received on investments			19,076	19,076
Net cash provided by investment activities			25,686	25,686
Net increase (decrease) in cash and cash equivalents	-	(23,087)	-	(23,087)
Balances - beginning	-	23,387	5,000	28,387
Balances - ending	$ -	$ 300	$ 5,000	$ 5,300
Statement of net assets classification of cash and cash equivalents:				
Cash and cash equivalents	$ -	$ 300	$ 5,000	$ 5,300
Investments			564,415	564,415
Less investments with original maturities greater than three months			(564,415)	(564,415)
	$ -	$ 300	$ 5,000	$ 5,300
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ 278,402	$ (458,664)	$ 587,097	$ 406,835
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	165,231	939,120		1,104,351
Changes in assets and liabilities:				
Receivables		(15,589)	(1,331)	(16,920)
Due from other funds	(432,123)	(544,810)	(157,001)	(1,133,934)
Inventories		(24,289)		(24,289)
Accounts payable	5,350	8,109		13,459
Accrued and other liabilities	1,126	10,569	(104,451)	(92,756)
Due to other funds		94,602		94,602
Accrued compensated absences	4,075	5,540		9,615
Net cash provided by operating activities	$ 22,061	$ 14,588	$ 324,314	$ 360,963

City of Royal Oak, Michigan
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	Agency	44th District Court	Total
ASSETS			
Cash and cash equivalents	$ 317,444	$ 661,980	$ 979,424
Total assets	$ 317,444	$ 661,980	$ 979,424
LIABILITIES			
Accounts payable	$ 52,545	$ 405,036	$ 457,581
Due to other governmental units	141,276	121,791	263,067
Cash bonds and deposits	123,623	135,153	258,776
Total liabilities	$ 317,444	$ 661,980	$ 979,424

City of Royal Oak, Michigan
Balance Sheets
Component Units
June 30, 2006

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission
ASSETS				
Cash and cash equivalents	$ 1,500,000		$ 9,851	$ 9,720
Investments	5,398,162			
Receivables, net of uncollectibles	131,445	$ 2,671		
Deposits and other assets				89,818
Due from primary government	30,945	37,506		51,989
Total assets	7,060,552	40,177	9,851	151,527
LIABILITIES				
Accounts payable	46,582	328		8,178
Due to primary government	627,129			
Deferred revenue	60,228	2,671		143,349
Total liabilities	733,939	2,999		151,527
FUND BALANCES				
Unreserved	6,326,613	37,178	9,851	-
Total fund balances	6,326,613	37,178	9,851	-
Amounts reported for component units in the statement of net assets are different because:				
- Capital assets used in governmental activities are not financial resources, and are not reported at the fund level	2,016,575			7,148
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	60,228	2,671		
- Long-term liabilities are not due and payable in the current period and are not reported at the fund level	(502,137)			(12,607)
- Interest on long-term debt is not accrued at fund level, but rather is recognized as an expenditure when due	(7,875)			
Total net assets for component units	$ 7,893,404	$ 39,849	$ 9,851	$ (5,459)

City of Royal Oak, Michigan
Statements of Revenues, Expenditures, and Changes in Fund Balances
Component Units
For the Year Ended June 30, 2006

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission
REVENUES				
Taxes	$ 3,995,297	$ 49,089		
Federal grants				$ 1,159,456
Interest and rentals	235,611		$ 49	571
Contributions and donations	20,500			
Other revenues	154,635			
Total revenues	4,406,043	49,089	49	1,160,027
EXPENDITURES				
Current:				
Salaries and benefits		18,492		103,543
Supplies		1,641		431
Other services and charges		5,228		27,921
Housing assistance payments				1,028,132
Community and economic development	2,431,384		10,400	
Debt service:				
Principal payments	100,000			
Interest expense	34,500			
Total expenditures	2,565,884	25,361	10,400	1,160,027
Net change in fund balance	1,840,159	23,728	(10,351)	-
Fund balances - beginning	4,486,454	13,450	20,202	-
Fund balances - ending	$ 6,326,613	$ 37,178	$ 9,851	$ -

City of Royal Oak, Michigan
Reconciliations of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Component Units to the Statement of Activities
For the Year Ended June 30, 2006

	Tax Increment Financing Authority	Downtown Development Authority	Economic Development Corporation	Housing Commission
Net change in fund balances - component units	$ 1,840,159	$ 23,728	$ (10,351)	$ -
Amounts reported for component units in the statement of activities 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. This is the amount by which capital outlays ($374,727) exceeded depreciation ($44,062) in the current period for the Tax Increment Financing Authority and the amount of depreciation for the Housing Commission.	330,665			(3,050)
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures.	5,705	264		
- 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	(5,698)			
Amortization of bond discount	340			
Compensated absences				(1,309)
Combined adjustment	(5,358)			(1,309)
Change in net assets of component units	$ 2,271,171	$ 23,992	$ (10,351)	$ (4,359)

REHMANN ROBSON
Certified Public Accountants
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November 27, 2006

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

In planning and performing our audit of the financial statements of the ***City of Royal Oak. Michigan*** for the year ended June 30, 2006, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 27, 2006, on the financial statements of the ***City of Royal Oak. Michigan***.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of this matter, or to assist you in implementing the recommendations.

Rehmann Robson

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CITY OF ROYAL OAK, MICHIGAN

COMMENTS AND RECOMMENDATIONS

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1) **Timely Filing of Annual Report Form (METRO Authority) – *Repeated Comment***
The City did not file its 2005 Annual Report Form regarding the use and disposition of funds received from the METRO Authority in a timely manner. Untimely filing of this report is a violation of Section 10(5) of Public Act 48 and caused a delay in the City receiving its 2006 payment from the State.

Recommendation:
The City should implement policies and procedures to ensure that reports required by the State and other grantors are filed in a timely manner. Such procedures could include the development of a timeline that identifies filing deadlines and assignment of responsibility for monitoring the reporting process for all reports to a single City employee.

2) **GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions***

In April 2004 the Governmental Accounting Standards Board issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans.*

The standard will require the City to obtain an actuarial valuation of its postemployment benefits other than pension plans, in most cases establish a separate trust or equivalent for these benefits and finally begin recognizing this long-term obligation based on the actuarially determined required contribution amount.

The City will be required to adopt this new standard in the 2008/2009 fiscal year. In addition, the City will be required to have an updated actuarial study performed in the 2007/2008 fiscal year to determine the actuarial required contribution amount.

Recommendation:
The City should implementation a plan that will ensure compliance with this statement, including having an updated valuation of its liability for post-employment benefits and addressing contributions in future budgets.

There are also other options that the City may consider in reducing this liability such as limiting this benefit to only current employees or establishing a defined contribution plan in lieu of this benefit. These options, may of course, require some level of legal assistance and union approval.

3) **Compliance with the State Construction Code Act**

Among other requirements, Public Act 245 of 1999 requires the City to separately account for revenue and expenditures related to enforcement of the State Construction Code Act. The City currently accounts for these revenues and expenditures in a separate fund that also accounts for revenue and expenditures related to local code enforcement. Accounting for both State and local code enforcement in a single fund appears to violate provisions of Public Act 245 of 1999.

Recommendation:

The City should account for revenue and expenditures related to enforcement of the State Construction Code Act separately from all other activity.