

# 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 <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Royal Oak	County Oakland
Fiscal Year End June 30, 2007	Opinion Date November 28, 2007	Date Audit Report Submitted to State December 28, 2007	

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.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Ste. 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas Darling, CPA <small>Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2007.12.26 13:56:10 -0500</small>		Printed Name Thomas E. Darling, CPA		License Number A246550



**CITY OF ROYAL OAK, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended June 30, 2007**



**CITY OF ROYAL OAK, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the fiscal year ended**  
**June 30, 2007**

**CITY COMMISSION**

Mayor

James B. Ellison

Mayor Pro Tem

Michael R. Andrzejak

Commissioners

Patricia A. Capello

Terry H. Drinkwine

Carlo P. Ginotti

Gary F. Lelito

Stephen F. Miller

**ADMINISTRATION**

City Manager

Thomas R. Hoover

Director of Finance

Donald E. Johnson

Controller

Britt Winter

**City of Royal Oak, Michigan**  
**For the Fiscal Year Ended June 30, 2007**

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**For the Fiscal Year Ended June 30, 2007**

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## CITY OF ROYAL OAK

<http://www.ci.royal-oak.mi.us>  
211 S WILLIAMS STREET  
P.O. BOX 64  
ROYAL OAK, MI 48068-0064  
248-246-3000

December 3, 2007

To the Honorable Mayor, Commissioners, employees and citizens of the City of Royal Oak:

In accordance with accounting principles generally accepted in the United States (GAAP), we are submitting the Comprehensive Annual Financial Report (CAFR) of the City of Royal Oak, Michigan for the fiscal year ended June 30, 2007. The City of Royal Oak Charter and state statute require that the City of Royal Oak issue annually a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. The financial statements and supplemental schedules contained in the financial section herein have been audited by Rehmann Robson, Certified Public Accountants. The auditor's opinion does not encompass information in the introductory section or the statistical section of this report.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and results of operations of the various funds and component units of the City of Royal Oak.

### **Profile of the City of Royal Oak**

The City of Royal Oak is a metropolitan Detroit suburb located in southeastern Oakland County, Michigan. The approximately 12 square mile community is located ten miles north of downtown Detroit. Royal Oak's history dates back to the extension of the railroad line from Detroit to Pontiac. In recent years, the City has experienced resurgence as a regional entertainment destination, dynamic place to live and meeting grounds for creative minds. Today, it is estimated that Royal Oak is home to about 55,715 residents.

The commercial character of the City is very diverse, ranging from turn of the century retail buildings located in downtown to modern shopping plazas along Woodward Avenue. Commercial development in the City's one square mile downtown is geared toward a pedestrian friendly shopping experience. City parking lots and structures provide visitors with a central parking location.

The City offers a variety of recreational and cultural activities, which not only enhance the quality of life for residents but also attracts large numbers of visitors. Royal Oak has worked hard to earn a reputation for being an entertainment destination for all of southeast Michigan, with an eclectic blend of restaurants, retail storefronts, theatres, and galleries. Downtown Royal Oak also boasts the City owned Farmer's Market. The market is a source of great community pride and history.

Royal Oak is host to many annual community art fairs and special events including weekly summer concerts, the Holiday Magic Parade held in November, and the Woodward Dream Cruise, the world's largest one day car event.

The City's recreational services include over 50 public parks, 30 baseball fields, an ice arena, public and private golf courses, a mini-course and driving range, 34 tennis courts and an indoor soccer facility. The Senior / Community Center provides recreational and outreach services to senior citizens and programs and classes for adults and children alike.

All of the above activities have served as stimulus to additional residential and commercial development in the City of Royal Oak. Each help make the City an attractive and viable community for residents and visitors.

## **Government**

Royal Oak was organized as a township in 1832, as a village in 1891 and incorporated as a home rule city in 1921 under the Home Rule Cities Act, being Act 279, Public Acts of Michigan of 1909, as amended (the "Home Rule Cities Act"). The City operates under the Council-Manager form of government, but we call our "council" the "City Commission." The Mayor and six commissioners are elected on a non-partisan, at large basis. The Mayor is elected for two year term and the Commissioners serve for four-year overlapping terms. The Mayor is a voting member of the City Commission and serves as its chairperson. The City Manager, City Clerk and City Attorney are appointed by the Commission for indefinite terms and serve at the pleasure of the Commission. The City Manager is the chief administrative officer of the City and is responsible for the day to-day operation of all departments except the City Attorney's Office and the City Clerk's Office.

Royal Oak is a full service city providing a wide range of services including police and fire protection, construction and maintenance of highways, roads, streets and underground infrastructure, planning and zoning, building inspection, and library services. In addition, the City operates Water & Sewer Utilities, an automobile parking system, recreation programs, a farmer's market, and an ice arena as enterprise funds which pay for themselves.

## **Local Economy and Economic Outlook**

The City of Royal Oak is a mature, highly developed community experiencing significant redevelopment. New development has been strong this decade emphasizing in-fill and redevelopment of business buildings and homes.

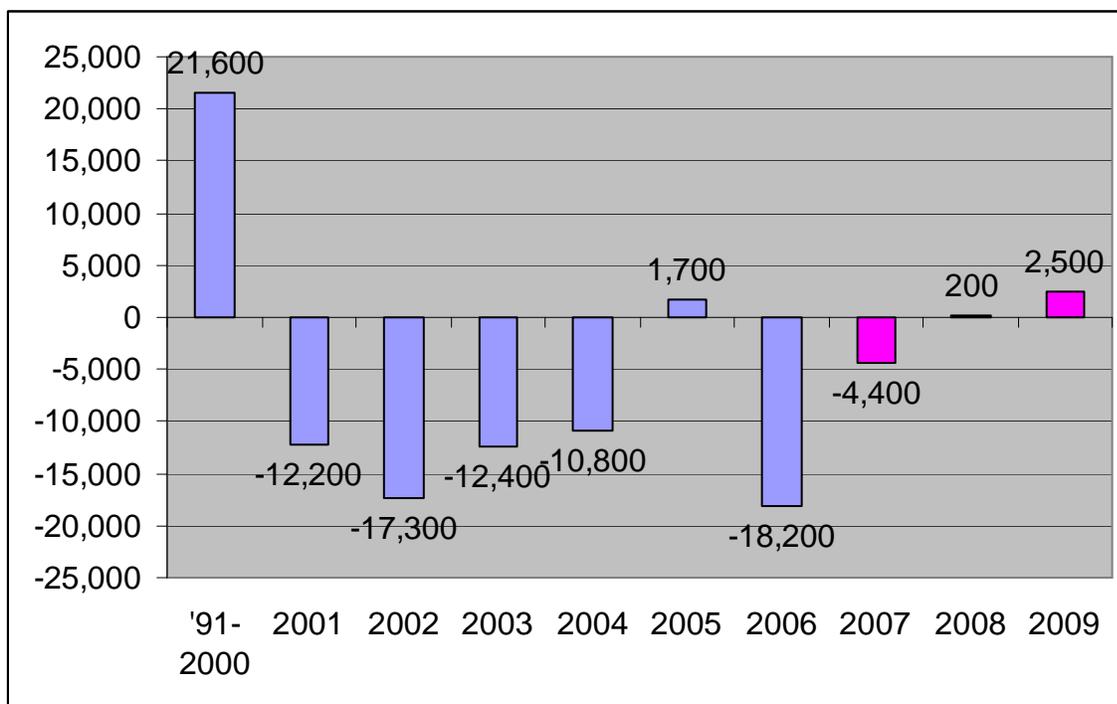
Land use is 69% residential, 20% institutional and recreation, 6% commercial, 3% industrial with less than 1% vacant property. Real property assessments are classified 81% residential, 17% commercial and 2% industrial.

Transportation is excellent. Interstate 75 and 696 highways on our borders provide easy regional access north-south and east-west respectively. Woodward Avenue, a four-lane north-south corridor from the center of Detroit to the burgeoning northwest suburbs, offers retail and services to the automobile shopper. Our flourishing, pedestrian friendly downtown offers high rise loft living, clothing, restaurants and the arts to young and old.

Royal Oak's work force is about 35,000 persons. June 2007 unemployment was 3.9% comparing favorably to 4.5% for the U.S., 7.0% for the state and 6.7% for Oakland County. This is excellent but it remains threatened by the problems of a troubled automobile industry in the region.

The 2007-2009 *Oakland County Economic Outlook* prepared in April of 2006 by the Institute of Labor and Industrial Relations, University of Michigan, measures economic performance in Oakland County in terms of employment. It forecasts that employment in Oakland County will lose 4,400 jobs this year, hold steady 2008 gaining 200 jobs, then gaining 2,500 jobs in 2009. The Big 3 automakers have settled favorable contracts with the UAW union this fall but face significant challenges in the years ahead.

### Private Sector Job Growth in Oakland County, 1991-2009



Average  
Annual  
Job Growth

2006 is estimated

Our unemployment success results from the diversity and focus of local employment. William Beaumont-Royal Oak Hospital, a major 1,061 bed not-for-profit hospital and research facility with a national reputation, employs 12,000 or more. It serves Wayne, Oakland and Macomb counties drawing more than 26,000 patients and their families to the city last year. In addition, its growth has spawned ancillary medical businesses in the city. The next largest employers have 900 or fewer persons. These businesses concentrate in retail and service areas.

Royal Oak's per capital income has risen steadily from \$30,990 in 1999 to \$40,324 last year according to the Oakland County Planning and Economic Development department. This

growth has continued despite the regions problems with employment and mortgage foreclosures. The next few years are extremely hard to predict: depending on the national economy helping lift the Michigan economy.

## **The Comprehensive Annual Financial Report**

This is the City of Royal Oak's first Comprehensive Annual Financial Report which is commonly referred to as a CAFR. Until this year, Royal Oak has only issued Basic Financial Statements. The CAFR is a standard report format recommended, but not mandated by the Government Accounting Standards Board (GASB).

The CAFR format was developed to meet the needs of a broad spectrum of financial statement readers. It is divided into the following major sections:

**Introductory Section:** Here is an introduction to the City of Royal Oak and to this report. Included in this section are: this transmittal letter, the City's organizational chart, and a list of principal officials. Information in this section is not audited.

**Financial Section:** The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements, component unit financial statements and notes to the financial statements are included here. These are the City's Basic Financial Statements. These provide an overview for readers who require less detailed information than is contained in the balance of this report. The information in this section is audited by the independent auditor.

**Required Supplemental Information:** This section contains schedules showing the funding progress of the Royal Oak Retirement System. This information is not audited.

**Other Supplemental Information:** This section contains combining financial statements and comparisons of actual results to budget.

**Statistical Section:** This section contains statistical information about the City of Royal Oak and its operations. Although it includes substantial financial data, these schedules differ from the financial statements in that they also present non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City. This section is not audited.

**Single Audit:** The City of Royal Oak is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are presented under separate cover.

## Financial Information

**Internal Controls:** Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principals. The internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

**Budgeting Controls:** The object of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission.

Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function level in the General Fund and the fund level in the Special Revenue Funds.

The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

**Management Discussion and Analysis:** Generally accepted accounting standards require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the MD&A letter.

This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. Our MD&A letter can be found immediately following the report of the independent auditor. Since the MD&A letter focuses on the government-wide statements, the balance of this letter will be directed at the fund or activity level.

**General Fund:** The General Fund receives all revenues not designated for special uses and accounts for most of the services provided to residents.

Total General Fund revenues increased by 3.1 percent from the prior year. Property taxes increased 5.94 percent and State shared revenues decreased by 3.62 percent. Reimbursements increased significantly due to the new Medicare D Subsidy in the amount of \$289,300.

Total General Fund expenditures increased by 1.69 percent. Increasing health care and pension costs were offset by a reduced workforce due to the City's attrition policy.

### **General Fund Balance:**

The fund balance of the General Fund was increased by \$118 to a balance of \$6,683,517. Of the \$6,683,517 fund balance, \$106,943 is reserved for inventory, \$929,791 is designated for subsequent year's expenditures and \$5,646,783 is unreserved and undesignated. The

\$5,646,783 represents 18 percent of total general fund expenditures, while total fund balance represents 20 percent of that same amount.

**Special Revenue Funds:** Special Revenue Funds are used to account for specific revenues that are legally restricted for particular purposes. The Special Revenue Funds of the City include:

The *Solid Waste Fund* accounts for the tax revenues restricted to fund the collection, disposal, and recycling of garbage, yard waste and recyclable materials.

The *Major and Local Streets Funds* receive revenue from the State per Act 51 for the construction and maintenance of streets and bridges.

The *Community Development Block Grant Fund* accounts for grant revenues from the Department of Housing and Urban Development to be used for residential and other capital improvements.

The *Senior Citizens Services Fund* receives grants and collects user fees to fund a variety of senior programs.

The *Library Millage Fund* accounts for the collection of the voted millage to fund library operations and renovations to the existing facility.

The *State Construction Code Fund* accounts for the Building Inspection through the collection of registrations, permits and code violation fines.

The *Acorn Fund* accounts for the receipt and use of donations to the City to be used for a public purpose.

The *Grants Fund* accounts for the Animal Shelter which is funded by donations, multiple law enforcement grants and forfeitures to enhance police operations, and a federal fire prevention and safety grant to enhance fire operations.

**Enterprise Funds:** Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. An Enterprise Fund is intended to be a self-supporting endeavor. Although Enterprise Funds may be established for a variety of purposes, the City supports Enterprise Funds in which the pricing policies of the activity establish fees and charges designed to recover all costs, including capital costs (such as depreciation or debt service).

The Enterprise funds include the *Water & Sewer Fund*, the *Automobile Parking Fund*, *Recreation Fund*, the *Ice Arena Fund*, and the *Farmers Market Fund*.

Only two (2) of the Enterprise funds, the *Ice Arena Fund* and the *Auto Parking Fund*, currently have debt issues that are secured by a pledge of net revenues from fees and charges for services. These funds remit lease payments to the Building Authority for the Ice Arena Building and the parking structure.

**Internal Service Funds:** Internal Service Funds account for activities that provide goods or services on a cost reimbursement basis to other funds and component units of the primary government, or to other governments.

The *Information Systems Fund* receives revenue from other funds in order to supply those funds with computer and phone equipment, infrastructure and technical support.

The *Motor Pool Fund* charges other funds a user fee for equipment and vehicles usage and maintenance.

The *Workers Compensation Fund* charges other funds a premium used to pay workers compensation claims.

**Fiduciary Funds:** Fiduciary Funds are used to report assets held in trustee or agency capacity for others and therefore cannot be used to support the government's own programs. These funds are used to report resources held and administered by the primary government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.

The *Retirement Fund* collects employer and employee contributions. The Retirement Board oversees the investment of these monies. Pension benefits and the costs of administering retirement assets are charged to the Retirement Fund.

The *Agency Fund*, *Tax Collection Fund* and *44<sup>th</sup> District Court Fund* are used to account for monies collected on behalf of other governmental units.

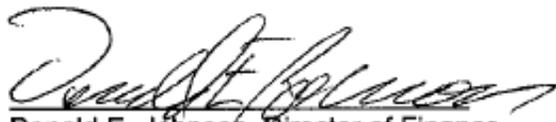
**Component Units:** Component Units are legally separate entities where a board is appointed by the primary government and the unit has financial dependence on the primary government.

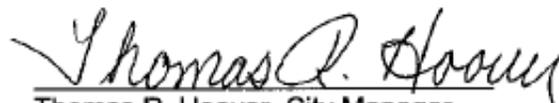
The Component Units include the *Tax Increment Financing Authority*, the *Downtown Development Authority*, the *Economic Development Corporation* and the *Housing Commission*.

## Acknowledgements

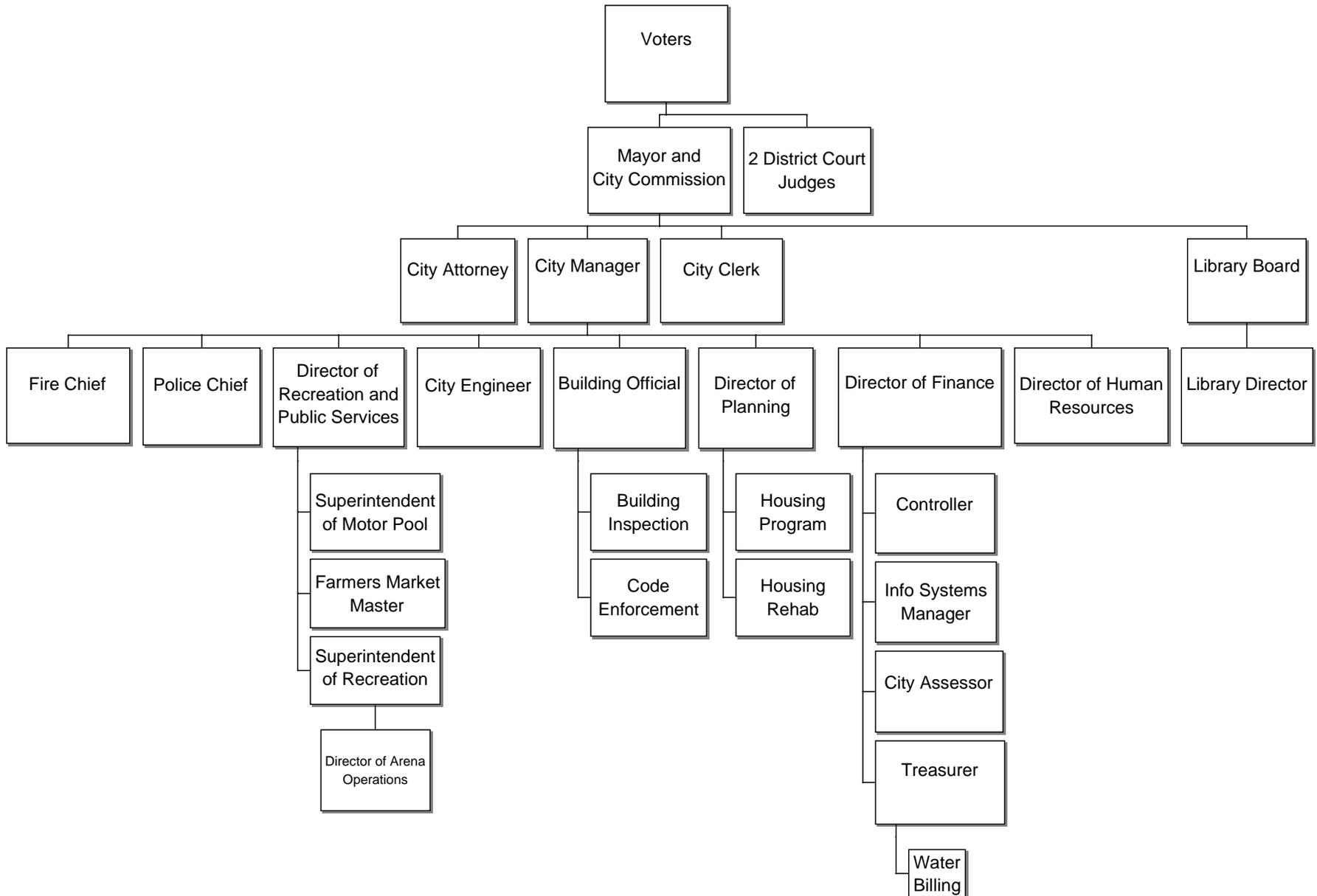
This CAFR represents contributions from all departments of the City. This report was prepared by a team led by Britt Winter, Controller. Special thanks to the Finance Department for the timely preparation of this report and their dedicated service.

Respectfully submitted,

  
Donald E. Johnson, Director of Finance

  
Thomas R. Hoover, City Manager

# CITY OF ROYAL OAK



**City of Royal Oak  
Principal Officials  
as of June 30, 2007**

City Manager	Thomas R. Hoover
City Attorney	David W. Gillam
Director of Finance	Donald E. Johnson
Building Official	Jason R. Craig
City Assessor	James M. Geiermann
City Clerk	Mary Ellen Graver
City Engineer	Elden R. Danielson
City Treasurer	John F. Kravitz
Controller	Britt Winter
Court Administrator	Kevin J. Sutherland
Director of Planning	Timothy E. Thwing
Director of Recreation and Public Services	Gregory J. Rassel
Fire Chief	Wilbur G. White, Jr.
Human Resource Director	Mary Jo DiPaolo
Library Director	Metta T. Lansdale, Jr.
Manager of Information Systems	Scott L. Newman
Police Chief	Theodore H. Quisenberry
Superintendent of Motor Pool	Albert W. Orr
Superintendent of Recreation	Tod A. Gazetti

## 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, 2007. 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 \$210,671,651 (*net assets*). Of this amount, \$11,289,739 (*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 \$8,202,497 as compared to an \$11,034,091 increase in the previous year.
- As of the close of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$23,802,518, an increase of \$1,845,970 in comparison with the prior year. Approximately 98 percent of this total amount, \$23,265,493, 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 \$5,646,783, or 17 percent of total general fund expenditures.
- The City of Royal Oak's total long-term liabilities decreased by \$2,772,369 (4 percent) during the current fiscal year. The key factor in this decrease was the principal payments on the George W. Kuhn 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 13-14 of this report.

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

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

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

The City maintains fourteen 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 one other fund that is considered to be major funds. Data from the other twelve 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 special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City maintains 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 21-23 of this report.

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

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-51 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 52 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds are presented immediately following the required supplementary information on pensions. Combining fund statements can be found on pages 53-72 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 73-78 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 \$210,671,651 at the close of the most recent fiscal year.

By far the largest portion of the City of Royal Oak's net assets (84 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* (\$11,289,739) 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$38,479,552	\$34,346,520	\$17,436,456	\$15,815,369	\$55,916,008	\$50,161,889
Capital assets	135,690,440	134,068,483	104,630,049	104,877,419	240,320,489	238,945,902
Total assets	174,169,992	168,415,003	122,066,505	120,692,788	296,236,497	289,107,791
Long-term liabilities outstanding	20,797,925	20,732,519	50,841,388	53,148,223	71,639,313	73,880,742
Other liabilities	9,123,228	8,244,251	4,802,305	4,513,644	13,925,533	12,757,895
Total liabilities	29,921,153	28,976,770	55,643,693	57,661,867	85,564,846	86,638,637
<b>Net assets:</b>						
Invested in capital assets, net of						
related debt	118,453,656	116,963,284	58,089,326	49,403,430	176,542,982	166,366,714
Restricted	22,836,277	19,737,682	2,653	2,764,237	22,838,930	22,501,919
Unrestricted	2,958,906	2,737,267	8,330,833	10,863,254	11,289,739	13,600,521
Total net assets	\$144,248,839	\$139,438,233	\$66,422,812	\$63,030,921	\$210,671,651	\$202,469,154

The government's net assets increased by \$8,202,497 during the current fiscal year as compared to an \$11,034,091 increase in the previous year.

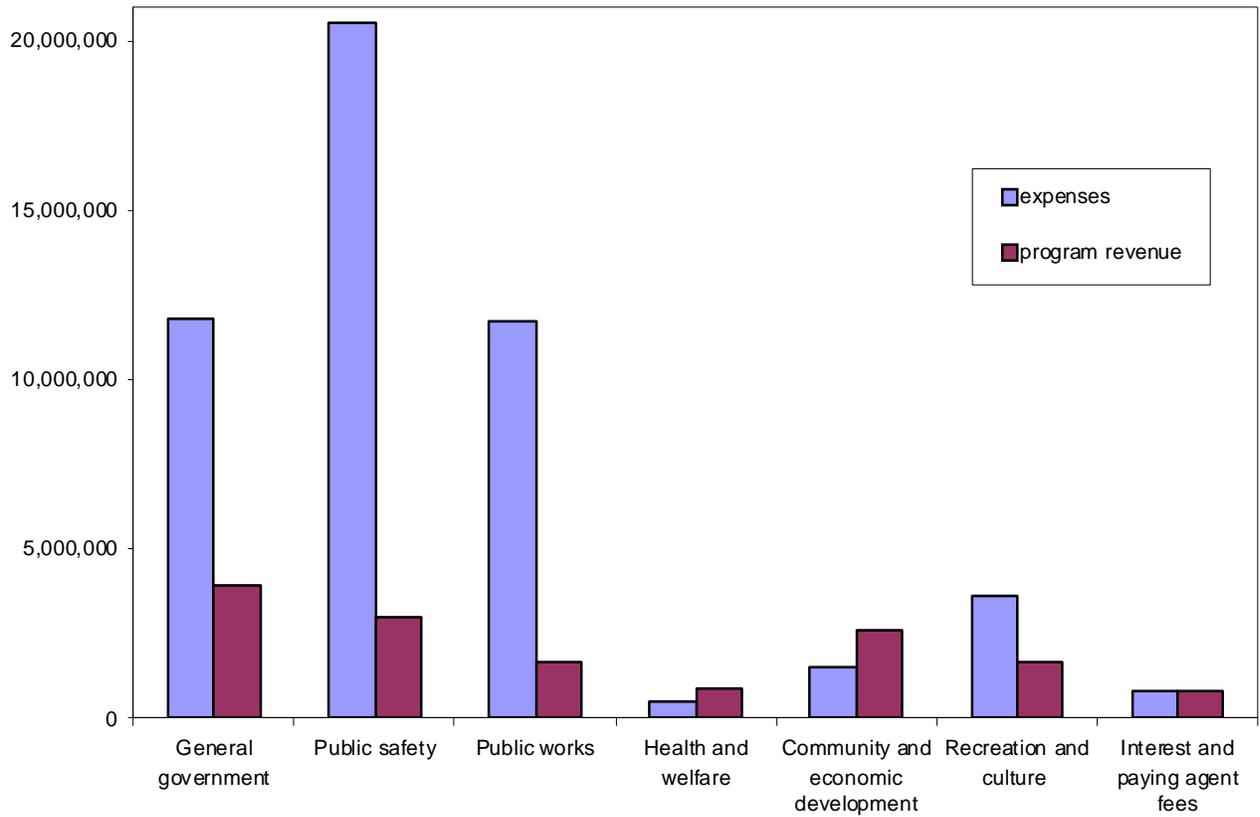
**Governmental Activities.** Governmental activities increased the City of Royal Oak's net assets by \$4,810,606 as compared to a \$6,631,963 increase in the previous year. Key elements of this difference of \$1,821,357 are as follows:

- Property taxes increased by \$1,632,014 (6.46 percent) during the year. This increase is the result of a 6.76% 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 decreased by \$1,956,716 (15.85 percent), largely due a decrease from prior years' customer receipts for sidewalk assessments.
- Unrestricted investment earnings increased by \$467,141 (32 percent) due to higher interest rates and earnings on unspent bond proceeds.
- Expenditures increased from the prior fiscal year by \$1,355,195 (2.8 percent). The increase in expenditures is mainly the result of an increase in health care costs and an increase in required pension contributions.
- Capital grants and contributions revenues decreased by \$893,160 mostly due to a reduction from the prior year on Federal funding for various road projects.

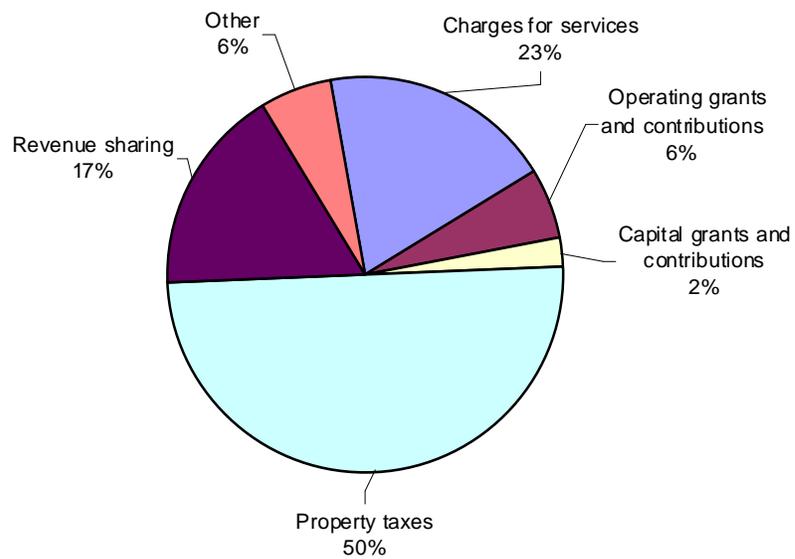
CITY OF ROYAL OAK Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 10,386,571	\$ 12,343,287	\$ 24,059,097	\$ 23,358,635	\$ 34,445,668	\$ 35,701,922
Operating grants and contributions	3,146,627	2,842,985	602,074	775,879	3,748,701	3,618,864
Capital grants and contributions	1,079,263	1,972,423	41,939	911,845	1,121,202	2,884,268
General revenue:						
Property taxes	26,898,481	25,266,467			26,898,481	25,266,467
Grants and contributions not restricted to specific programs	9,350,955	9,562,574			9,350,955	9,562,574
Other	3,076,106	2,397,431	624,166	686,997	3,700,272	3,084,428
Total revenue	53,938,003	54,385,167	25,327,276	25,733,356	79,265,279	80,118,523
Expenses:						
General government	11,820,682	11,837,178			11,820,682	11,837,178
Public safety	20,540,025	19,853,374			20,540,025	19,853,374
Public works	11,677,027	11,130,782			11,677,027	11,130,782
Health and welfare	469,999	488,655			469,999	488,655
Community and economic development	1,532,163	1,779,318			1,532,163	1,779,318
Recreation and culture	3,581,434	3,237,185			3,581,434	3,237,185
Interest and paying agent fees	793,776	733,419			793,776	733,419
Water & sewer			16,358,489	15,649,024	16,358,489	15,649,024
Parking			2,136,181	2,143,135	2,136,181	2,143,135
Recreation			1,886,696	1,973,325	1,886,696	1,973,325
Farmers market			266,310	259,037	266,310	259,037
Total expenses	50,415,106	49,059,911	20,647,676	20,024,521	71,062,782	69,084,432
Increase in net assets before transfers	3,522,897	5,325,256	4,679,600	5,708,835	8,202,497	11,034,091
Transfers	1,287,709	1,306,707	(1,287,709)	(1,306,707)	0	0
Increase in net assets	4,810,606	6,631,963	3,391,891	4,402,128	8,202,497	11,034,091
Net assets - beginning, as restated	139,438,233	132,806,270	63,030,921	58,628,793	202,469,154	191,435,063
Net assets - ending	\$ 144,248,839	\$ 139,438,233	\$ 66,422,812	\$ 63,030,921	\$ 210,671,651	\$ 202,469,154

**Expenses and Program Revenues – Governmental Activities**



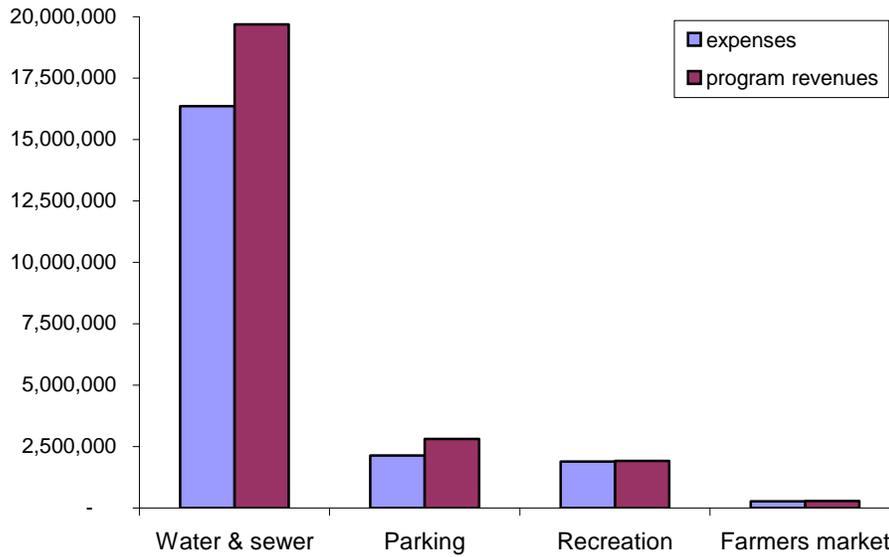
**Revenues by Source – Governmental Activities**



**Business-Type Activities.** Business-type activities increased the City of Royal Oak's net assets by \$3,391,891. The major factor of this increase was the Water & Sewer revenue used to pay principal on debt.

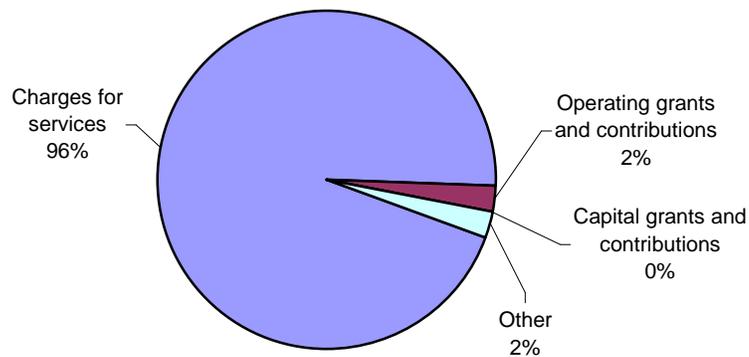
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**Expenses and Program Revenues – Business-type Activities**




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



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Royal Oak's governmental funds reported combined ending fund balances of \$23,802,518, an increase of \$1,845,970 in comparison with the prior year. Approximately 93 percent of this total amount (\$22,216,481) 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 (\$106,943), for an endowment (\$26,000), for senior activities (\$245,388), and for capital expenditures per donor requests (\$158,694) and to cover designated amounts for the subsequent year's expenditures (\$1,049,012).

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 \$5,646,783, while total fund balance was \$6,683,517. 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 17 percent of total general fund expenditures, while total fund balance represents 20 percent of that same amount.

The fund balance of the City of Royal Oak's general fund was increased by \$118 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 \$3,116,334, all of which is unreserved and undesignated. The net increase in fund balance during the current year in the solid waste fund was \$1,144,896, which is due to solid waste collection and disposal costs coming in under budget.

**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 \$3,972,681. The total increase in net assets for Water and Sewer was \$3,486,274, as compared to a \$3,499,923 increase in the previous year.

Unrestricted net assets for the Automobile Parking System Fund amounted to \$3,355,210. The total decrease in net assets for the Automobile Parking System Fund was \$192,327.

## General Fund Budgetary Highlights

Net differences between the original budget and the final amended budget were approximately \$1,083,000 and can be briefly summarized as follows:

- \$122,000 increase in revenues for landlord licenses not previously budgeted
- \$790,000 increase in expenditures to establish a budget for the ordinance enforcement department and an increased need for property and casualty insurance funding

- \$415,000 increase in transfers out of restricted monies for the creation of the grants fund

The adjustments provided for an expected decrease in fund balance. During the year, revenues exceeded projections and expenditures were less than budgetary estimates, thus slightly increasing fund balance.

### 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, 2007, amounts to \$240,320,489 (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 0.58 percent (a 1.21 percent increase for governmental activities and a 0.24 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the continued construction of the George Kuhn Drain project.

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

	Governmental Activities		Business-type Activities		Totals	
	2007	2006 (restated)	2007	2006	2007	2006
Land	\$66,774,752	\$66,774,752	\$4,768,191	\$4,768,191	\$71,542,943	\$71,542,943
Buildings	20,650,149	21,279,250	20,748,016	21,389,906	41,398,165	42,669,156
Improvements other than buildings	1,027,884	1,191,792	132,405	145,242	1,160,289	1,337,034
Machinery and equipment	6,200,998	7,009,963	367,127	430,255	6,568,125	7,440,218
Infrastructure	34,124,596	30,406,578	40,613,801	41,141,370	74,738,397	71,547,948
Intangibles	17,433	22,521	0	0	17,433	22,521
Construction in progress	6,894,628	7,383,627	38,000,509	37,002,455	44,895,137	44,386,082
<b>Total</b>	<b>\$135,690,440</b>	<b>\$134,068,483</b>	<b>\$104,630,049</b>	<b>\$104,877,419</b>	<b>\$240,320,489</b>	<b>\$238,945,902</b>

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

**Long-term debt.** At the end of the current fiscal year, the City of Royal Oak had total debt outstanding of \$75,414,147. Of this amount, \$22,605,000 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 \$7,420,000 of unlimited general obligation debt. Another \$10,222,387 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 \$5,018,249 with the remainder being paid from receipts of the other five communities. Another \$31,164,996 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	
	2007	2006	2007	2006	2007	2006
Limited general obligation bonds	\$10,390,000	\$9,940,000	\$12,215,000	\$12,920,000	\$22,605,000	\$22,860,000
Unlimited general obligation bonds	7,420,000	7,760,000	0	0	7,420,000	7,760,000
State Revolving Fund	0	0	10,222,387	10,837,387	10,222,387	10,837,387
Contractual obligations	0	0	31,164,996	32,447,026	31,164,996	32,447,026
Compensated absences	3,771,190	3,394,220	339,354	324,968	4,110,544	3,719,188
General liability claims	316,300	948,100	32,700	97,900	349,000	1,046,000
less: unamortized discount	(269,565)	(282,038)	(188,215)	(201,047)	(457,780)	(483,085)
<b>Total</b>	<b>\$21,627,925</b>	<b>\$21,760,282</b>	<b>\$53,786,222</b>	<b>\$56,426,234</b>	<b>\$75,414,147</b>	<b>\$78,186,516</b>

The City of Royal Oak's total debt decreased by \$2,772,369 (4 percent) during the current fiscal year. The key factor in this decrease was the principal payments on the George W. Kuhn Drain Bonds.

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 base for the City of Royal Oak is \$3,010,926,845; therefore the current debt limitation for the City of Royal Oak is \$301,092,684 which is significantly in excess of the City of Royal Oak's outstanding general obligation debt.

Additional information on the City of Royal Oak's long-term debt can be found on pages 45-47 of this report.

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

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$5,646,783. The budget plan, as approved for the fiscal year 2007-2008, continues to maintain a minimum unreserved, undesignated fund balance of 10 percent of the current year's expenditures for unforeseen emergencies. The City originally budgeted for the transfer of \$520,000 from the Automobile Parking System fund and the use of fund balance of \$929,791 in the General Fund. A budget adjustment, in October 2007, reduced use of fund balance to \$124,845.

The Water and Sewer rate calculation method was changed to a graduated system for the 2007/08 budget year. The water and sewer rates are \$65 for the first 2,000 cubic feet and \$70 for every 1,000 cubic feet thereafter.

### 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, 2007**

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 23,053,026	\$ 3,211,326	\$ 26,264,352	\$ 1,401,816
Investments	4,926,845	2,111,644	7,038,489	2,474,835
Receivables, net of uncollectibles	6,947,292	13,399,810	20,347,102	364,496
Deposits and other assets	528,408	505,748	1,034,156	107,137
Due from primary government			-	33,517
Due from component units	725,930		725,930	
Internal balances	1,974,558	(1,974,558)	-	
Inventories	297,493	182,486	479,979	
Restricted assets, cash	26,000		26,000	
Capital assets, not being depreciated	73,669,380	42,768,700	116,438,080	2,945,059
Capital assets, being depreciated, net	62,021,060	61,861,349	123,882,409	998,913
<b>Total assets</b>	<b>174,169,992</b>	<b>122,066,505</b>	<b>296,236,497</b>	<b>8,325,773</b>
<b>LIABILITIES</b>				
Accounts payable	2,031,524	1,353,125	3,384,649	71,129
Accrued and other liabilities	2,927,419	496,014	3,423,433	16,418
Due to primary government			-	725,930
Due to component units	33,517		33,517	
Cash bonds and deposits	1,599,891	8,332	1,608,223	
Unearned revenue	1,700,877		1,700,877	
Noncurrent liabilities:				
Due within one year	830,000	2,944,834	3,774,834	125,000
Due in more than one year	20,797,925	50,841,388	71,639,313	328,134
<b>Total liabilities</b>	<b>29,921,153</b>	<b>55,643,693</b>	<b>85,564,846</b>	<b>1,266,611</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	118,453,656	58,089,326	176,542,982	3,818,972
Restricted for:				
Highways and streets	8,541,841		8,541,841	
Solid waste	3,201,310		3,201,310	
Recreation and culture		2,653	2,653	
Debt service	1,593,724		1,593,724	
Permanent fund:				
Expendable	3,896		3,896	
Non-expendable	26,000		26,000	
Other purposes	9,469,506		9,469,506	
Unrestricted	2,958,906	8,330,833	11,289,739	3,240,190
<b>Total net assets</b>	<b>\$ 144,248,839</b>	<b>\$ 66,422,812</b>	<b>\$ 210,671,651</b>	<b>\$ 7,059,162</b>

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

**City of Royal Oak, Michigan  
Statement of Activities  
For the Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 11,820,682	\$ 3,859,945	\$ 102,369		\$ (7,858,368)		\$ (7,858,368)	
Public safety	20,540,025	2,490,350	531,638	\$ 7,118	(17,510,919)		(17,510,919)	
Public works	11,677,027	665,860		1,029,885	(9,981,282)		(9,981,282)	
Health and welfare	469,999	893,850			423,851		423,851	
Community and economic development	1,532,163	396,838	2,126,239	42,260	1,033,174		1,033,174	
Recreation and culture	3,581,434	1,301,829	386,381		(1,893,224)		(1,893,224)	
Interest and paying agent fees	793,776	777,899			(15,877)		(15,877)	
Total governmental activities	50,415,106	10,386,571	3,146,627	1,079,263	(35,802,645)		(35,802,645)	
Business-type activities:								
Water & sewer	16,358,489	19,659,036		35,377		\$ 3,335,924	3,335,924	
Parking	2,136,181	2,215,151	599,049			678,019	678,019	
Recreation	1,886,696	1,909,576	3,025			25,905	25,905	
Farmers Market	266,310	275,334		6,562		15,586	15,586	
Total business-type activities	20,647,676	24,059,097	602,074	41,939		4,055,434	4,055,434	
Total primary government	\$ 71,062,782	\$ 34,445,668	\$ 3,748,701	\$ 1,121,202				
<b>Component units:</b>								
Tax Increment Financing Authority	\$ 1,711,919		\$ 23,816					\$ (1,688,103)
Downtown Development Authority	61,174							(61,174)
Economic Development Corporation	9,853							(9,853)
Housing Commission	1,222,532		1,422,909					200,377
Total component units	\$ 3,005,478	\$ -	\$ 1,446,725	\$ -				(1,558,753)
<b>General revenues:</b>								
Property taxes					26,898,481		26,898,481	2,163,996
State-shared revenues					9,350,955		9,350,955	
Unrestricted investment earnings					1,938,968	602,023	2,540,991	341,574
Gain on sale of capital assets					30,958		30,958	
Reimbursements					806,267		806,267	
Miscellaneous					299,913	22,143	322,056	254,397
Transfers					1,287,709	(1,287,709)	-	
Total general revenues and transfers					40,613,251	(663,543)	39,949,708	2,759,967
Change in net assets					4,810,606	3,391,891	8,202,497	1,201,214
Net assets - beginning, as restated					139,438,233	63,030,921	202,469,154	5,857,948
Net assets - ending					\$ 144,248,839	\$ 66,422,812	\$ 210,671,651	\$ 7,059,162

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

**City of Royal Oak, Michigan**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<b>General</b>	<b>Solid Waste</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 14,572,004	\$ 995,883	\$ 7,479,839	\$ 23,047,726
Investments		1,158,941	3,767,904	4,926,845
Receivables, net of uncollectibles	1,247,708	99,225	2,605,240	3,952,173
Deposits and other assets	10,958		213,799	224,757
Due from other governmental units	1,614,110	196,058	1,140,922	2,951,090
Due from other funds	3,224,262	1,161,758	3,534,487	7,920,507
Due from component units	725,930			725,930
Inventories	106,943			106,943
Restricted assets, cash			26,000	26,000
<b>Total assets</b>	<b>\$ 21,501,915</b>	<b>\$ 3,611,865</b>	<b>\$ 18,768,191</b>	<b>\$ 43,881,971</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 580,485	\$ 396,336	\$ 936,861	\$ 1,913,682
Accrued and other liabilities	1,705,407	14,219	301,101	2,020,727
Due to other funds	10,610,681		834,977	11,445,658
Due to component units	33,215			33,215
Cash bonds and deposits	1,598,041		1,850	1,599,891
Deferred revenue	290,569	84,976	2,690,735	3,066,280
<b>Total liabilities</b>	<b>14,818,398</b>	<b>495,531</b>	<b>4,765,524</b>	<b>20,079,453</b>
Fund balances:				
Reserved for inventories	106,943			106,943
Reserved for endowment			26,000	26,000
Reserved for senior activities			245,388	245,388
Reserved for capital expenditures			158,694	158,694
Unreserved, designated for subsequent year's expenditures	929,791			929,791
Unreserved, designated, reported in nonmajor special revenue funds			119,221	119,221
Unreserved, undesignated	5,646,783	3,116,334		8,763,117
Unreserved, undesignated, reported in nonmajor:				
Special revenue funds			11,416,858	11,416,858
Debt service fund			1,765,680	1,765,680
Capital projects funds			266,930	266,930
Permanent fund			3,896	3,896
<b>Total fund balances</b>	<b>6,683,517</b>	<b>3,116,334</b>	<b>14,002,667</b>	<b>23,802,518</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,501,915</b>	<b>\$ 3,611,865</b>	<b>\$ 18,768,191</b>	<b>\$ 43,881,971</b>

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, 2007**

Total fund balances for governmental funds		\$ 23,802,518
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.		130,731,676
- 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	\$ 9,778,565	
Less: Internal payable representing charges in excess of cost to business-type activities	<u>(103,035)</u>	9,675,530
- Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,365,403
- 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 this statement of net assets.		
Balances as of June 30, 2007 are:		
Accrued interest on bonds		(181,267)
Bonds payable	\$ (17,810,000)	
Unamortized discounts	269,565	
Unamortized issuance costs	203,795	
Deferred loss	99,856	
Noncurrent portion of general liability claims	(316,300)	
Compensated absences	<u>(3,591,937)</u>	
Total long-term liabilities		<u>(21,145,021)</u>
Total net assets of governmental activities		<u>\$ 144,248,839</u>

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, 2007**

	<u>General</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 17,545,790	\$ 6,496,923	\$ 2,800,433	\$ 26,843,146
Licenses and permits	1,051,773		1,837,469	2,889,242
Federal grants	26,987		3,055,237	3,082,224
State grants	5,620,281		4,183,649	9,803,930
Charges for services	2,814,569	157,593	617,244	3,589,406
Fines and forfeitures	3,304,468		840,717	4,145,185
Interest and rentals	1,315,168	114,754	690,644	2,120,566
Contributions and donations	324,983		182,971	507,954
Reimbursements	806,267			806,267
Other revenue	95,759	5,169	198,985	299,913
Total revenues	<u>32,906,045</u>	<u>6,774,439</u>	<u>14,407,349</u>	<u>54,087,833</u>
<b>EXPENDITURES</b>				
Current:				
General government	12,155,896			12,155,896
Public safety	18,432,240		1,994,260	20,426,500
Public works	1,268,752	5,629,543	8,254,057	15,152,352
Health and welfare	455,470			455,470
Community and economic development	189,364		1,380,408	1,569,772
Recreation and culture	1,004,618		2,280,346	3,284,964
Debt service:				
Principal payments			715,000	715,000
Interest and paying agent fees			772,931	772,931
Total expenditures	<u>33,506,340</u>	<u>5,629,543</u>	<u>15,397,002</u>	<u>54,532,885</u>
Excess (deficiency) of revenues over (under) expenditures	(600,295)	1,144,896	(989,653)	(445,052)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds			825,000	825,000
Transfers in	984,055		4,007,974	4,992,029
Transfers out	(414,600)		(3,142,365)	(3,556,965)
Sale of capital assets	30,958			30,958
Total other financing sources	<u>600,413</u>	<u>-</u>	<u>1,690,609</u>	<u>2,291,022</u>
Net change in fund balances	118	1,144,896	700,956	1,845,970
Fund balances - beginning	<u>6,683,399</u>	<u>1,971,438</u>	<u>13,301,711</u>	<u>21,956,548</u>
Fund balances - ending	<u>\$ 6,683,517</u>	<u>\$ 3,116,334</u>	<u>\$ 14,002,667</u>	<u>\$ 23,802,518</u>

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

**City of Royal Oak, Michigan**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds \$ 1,845,970

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 (\$4,992,280) exceeded depreciation (\$2,469,029) in the current period. 2,523,251

- Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 715,000

- 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 nine balances.

Accrued interest on bonds	\$	(3,880)	
Bond proceeds		(825,000)	
Bond discount on new debt issue		4,492	
Bond issuance costs on new debt issue		9,615	
Amortization of bond discount		(16,965)	
Amortization of bond issuance costs		(12,695)	
Amortization of deferred loss		(6,031)	
Noncurrent portion of general liability claims		631,800	
Compensated absences		(395,767)	
Combined adjustment		(614,431)	(614,431)

- Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. 177,959

- 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	\$	192,186	
Less: Profit from charges to business-type activities		(29,329)	
		162,857	162,857

Change in net assets of governmental activities \$ 4,810,606

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, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 17,434,924	\$ 17,434,924	\$ 17,545,790	\$ 110,866
Licenses and permits	836,200	976,810	1,051,773	74,963
Federal grants	-	-	26,987	26,987
State grants	5,816,166	5,686,221	5,620,281	(65,940)
Charges for services	2,765,664	2,747,664	2,814,569	66,905
Fines and forfeitures	3,210,000	3,261,500	3,304,468	42,968
Interest and rentals	689,000	689,000	1,315,168	626,168
Contributions and donations	274,086	352,330	324,983	(27,347)
Reimbursements	15,500	15,500	806,267	790,767
Other revenue	500,000	500,000	95,759	(404,241)
Total revenues	<u>31,541,540</u>	<u>31,663,949</u>	<u>32,906,045</u>	<u>1,242,096</u>
<b>EXPENDITURES</b>				
General government	12,033,870	12,314,870	12,155,896	(158,974)
Public safety	18,021,869	18,522,536	18,432,240	(90,296)
Public works	1,453,017	1,453,017	1,268,752	(184,265)
Health and welfare	526,540	532,897	455,470	(77,427)
Community and economic development	192,150	192,150	189,364	(2,786)
Recreation and culture	1,016,545	1,018,875	1,004,618	(14,257)
Total expenditures	<u>33,243,991</u>	<u>34,034,345</u>	<u>33,506,340</u>	<u>(528,005)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,702,451)	(2,370,396)	(600,295)	1,770,101
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,000,000	1,000,000	984,055	(15,945)
Transfers out	-	(415,000)	(414,600)	(400)
Sale of capital assets	50,000	50,000	30,958	(19,042)
Total other financing sources	<u>1,050,000</u>	<u>635,000</u>	<u>600,413</u>	<u>(34,587)</u>
Net change in fund balance	<u>\$ (652,451)</u>	<u>\$ (1,735,396)</u>	<u>118</u>	<u>\$ 1,735,514</u>
Fund balance - beginning			<u>6,683,399</u>	
Fund balance - ending			<u>\$ 6,683,517</u>	

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, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 6,522,413	\$ 6,522,413	\$ 6,496,923	\$ (25,490)
Charges for services	160,000	160,000	157,593	(2,407)
Interest	50,000	50,000	114,754	64,754
Other revenue	6,000	6,000	5,169	(831)
Total revenues	<u>6,738,413</u>	<u>6,738,413</u>	<u>6,774,439</u>	<u>36,026</u>
<b>EXPENDITURES</b>				
Public works	<u>6,697,961</u>	<u>6,792,961</u>	<u>5,629,543</u>	<u>(1,163,418)</u>
Total expenditures	<u>6,697,961</u>	<u>6,792,961</u>	<u>5,629,543</u>	<u>(1,163,418)</u>
Net change in fund balance	<u>\$ 40,452</u>	<u>\$ (54,548)</u>	<u>1,144,896</u>	<u>\$ 1,199,444</u>
Fund balance - beginning			<u>1,971,438</u>	
Fund balance - ending			<u>\$ 3,116,334</u>	

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, 2007**

	<b>Business Type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Water &amp; Sewer</b>	<b>Automobile Parking System</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 122,496	\$ 2,079,540	\$ 1,009,290	\$ 3,211,326	\$ 5,300
Investments	1,100,000	1,011,644		2,111,644	
Receivables, net of uncollectibles	6,187,937	17,461	239	6,205,637	44,029
Deposits and other assets	48,755	453,918	3,075	505,748	
Due from other governmental units	320,728			320,728	
Due from other funds	88,227	205,449	120,112	413,788	5,608,355
Inventories	180,650	1,836		182,486	190,550
Total current assets	8,048,793	3,769,848	1,132,716	12,951,357	5,848,234
Noncurrent assets:					
Receivables, net of uncollectibles	6,873,445			6,873,445	
Capital assets	99,587,662	24,491,899	11,625,935	135,705,496	15,387,814
Accumulated depreciation	(21,240,107)	(6,787,980)	(3,047,360)	(31,075,447)	(10,429,050)
Capital assets, net of depreciation	78,347,555	17,703,919	8,578,575	104,630,049	4,958,764
Total noncurrent assets	85,221,000	17,703,919	8,578,575	111,503,494	4,958,764
Total assets	93,269,793	21,473,767	9,711,291	124,454,851	10,806,998
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	1,179,289	89,629	84,207	1,353,125	117,842
Accrued and other liabilities	369,135	79,456	47,423	496,014	725,425
Due to other funds	2,234,834	200,042	56,505	2,491,381	5,611
Due to component units				-	302
Cash bonds and deposits	6,132	2,200		8,332	
Bonds payable	2,339,834	325,000	280,000	2,944,834	
Total current liabilities	6,129,224	696,327	468,135	7,293,686	849,180
Noncurrent liabilities:					
Accrued compensated absences	260,122	40,211	39,021	339,354	179,253
Other long-term liabilities	26,600	3,100	3,000	32,700	
Bonds payable	43,181,999	6,355,168	932,167	50,469,334	
Total noncurrent liabilities	43,468,721	6,398,479	974,188	50,841,388	179,253
Total liabilities	49,597,945	7,094,806	1,442,323	58,135,074	1,028,433
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	39,699,167	11,023,751	7,366,408	58,089,326	4,958,764
Restricted for cultural activities			2,653	2,653	
Unrestricted	3,972,681	3,355,210	899,907	8,227,798	4,819,801
Total net assets	\$ 43,671,848	\$ 14,378,961	\$ 8,268,968	66,319,777	\$ 9,778,565

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.

103,035

Net assets of business-type activities

\$ 66,422,812

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, 2007**

	<b>Business Type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Water &amp; Sewer</b>	<b>Automobile Parking System</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 19,659,036	\$ 2,215,151	\$ 2,184,910	\$ 24,059,097	\$ 4,837,566
Other	55,365	1,765	390	57,520	51,006
Total operating revenues	19,714,401	2,216,916	2,185,300	24,116,617	4,888,572
<b>OPERATING EXPENSES</b>					
Salaries and benefits	2,538,166	717,025	399,457	3,654,648	2,007,074
Supplies	207,616	76,988	93,763	378,367	780,983
Water purchases	3,251,202			3,251,202	
Sewage disposal services	6,890,097			6,890,097	
Other services and charges	1,676,714	451,827	1,313,153	3,441,694	754,592
Depreciation	1,420,980	553,929	290,893	2,265,802	1,050,715
Total operating expenses	15,984,775	1,799,769	2,097,266	19,881,810	4,593,364
Operating income	3,729,626	417,147	88,034	4,234,807	295,208
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Federal grants			6,562	6,562	
Interest income	441,302	122,368	38,353	602,023	24,546
Contributions and donations		599,049	3,025	602,074	
Interest expense	(379,445)	(348,391)	(67,359)	(795,195)	
Gain on disposal of capital assets				-	19,787
Total nonoperating revenue (expenses)	61,857	373,026	(19,419)	415,464	44,333
Income before contributions and transfers	3,791,483	790,173	68,615	4,650,271	339,541
<b>TRANSFERS IN</b>	83,544			83,544	
<b>TRANSFERS OUT</b>	(388,753)	(982,500)		(1,371,253)	(147,355)
Change in net assets	3,486,274	(192,327)	68,615	3,362,562	192,186
Total net assets - beginning	40,185,574	14,571,288	8,200,353		9,586,379
Total net assets - ending	\$ 43,671,848	\$ 14,378,961	\$ 8,268,968		\$ 9,778,565

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.

	29,329
Change in net assets of business-type activities	<u>\$ 3,391,891</u>

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, 2007**

	<b>Business Type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Water &amp; Sewer</b>	<b>Automobile Parking System</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 18,542,349	\$ 2,200,880	\$ 2,229,174	\$ 22,972,403	\$ 312,463
Internal activity - receipts from other funds				-	2,738,085
Other operating receipts	55,365	1,765		57,130	220,468
Payments to vendors	(8,181,576)	986,836	(1,284,859)	(8,479,599)	(1,413,123)
Payments to employees	(1,691,677)	(432,716)	(263,810)	(2,388,203)	(955,722)
Payments of benefits on behalf of employees	(765,995)	(213,253)	(104,674)	(1,083,922)	(955,117)
Internal activity - payments to other funds	(1,188,053)	(174,536)	(309,191)	(1,671,780)	(259,028)
Net cash provided by (used in) operating activities	6,770,413	2,368,976	266,640	9,406,029	(311,974)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Grant proceeds			9,587	9,587	
Transfers from other funds	83,544			83,544	
Transfers to other funds	(388,753)	(982,500)		(1,371,253)	(147,355)
Decrease in other long-term liabilities	(52,900)	(6,100)	(6,200)	(65,200)	
Net cash provided by (used in) noncapital financing activities	(358,109)	(988,600)	3,387	(1,343,322)	(147,355)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital assets	(1,850,885)	(86,632)	(80,915)	(2,018,432)	(149,419)
Principal paid on capital debt	(1,972,420)	(303,912)	(261,500)	(2,537,832)	
Interest paid on capital debt	(379,445)	(348,391)	(67,359)	(795,195)	
Decrease in long-term receivable	(1,638,274)			(1,638,274)	
Contributions and donations used for debt service		599,049		599,049	
Proceeds from sale of capital assets				-	19,787
Net cash used in capital and related financing activities	(5,841,024)	(139,886)	(409,774)	(6,390,684)	(129,632)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	3,792,571	632,134		4,424,705	590,347
Purchase of investment securities	(4,892,571)	(750,614)		(5,643,185)	(25,932)
Interest received on investments	441,302	122,368	38,353	602,023	24,546
Net cash provided by investing activities	(658,698)	3,888	38,353	(616,457)	588,961
Net increase (decrease) in cash and cash equivalents	(87,418)	1,244,378	(101,394)	1,055,566	-
Balances - beginning	209,914	835,162	1,110,684	2,155,760	5,300
Balances - ending	\$ 122,496	\$ 2,079,540	\$ 1,009,290	\$ 3,211,326	\$ 5,300
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 3,729,626	\$ 417,147	\$ 88,034	\$ 4,234,807	\$ 295,208
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,420,980	553,929	290,893	2,265,802	1,050,715
Changes in assets and liabilities:					
Receivables	(1,061,449)	(8,118)	53,214	(1,016,353)	166,243
Deposits and other assets	(48,755)	24,092	(875)	(25,538)	
Due from other governmental units	(7,636)			(7,636)	
Due from other funds	1,299,821	1,146,547	(98,137)	2,348,231	(1,787,018)
Inventories	(5,942)	1,442		(4,500)	(32,783)
Accounts payable	91,683	6,562	(21,979)	76,266	14,684
Accrued and other liabilities	(24,303)	55,542	22,514	53,753	88,464
Due to other funds	1,362,977	200,042	(58,651)	1,504,368	(88,992)
Due to component units		(30,945)		(30,945)	302
Cash bonds and deposits	1,153	700		1,853	
Unearned revenue			(8,465)	(8,465)	
Accrued compensated absences	12,258	2,036	92	14,386	(18,797)
Net cash provided by (used in) operating activities	\$ 6,770,413	\$ 2,368,976	\$ 266,640	\$ 9,406,029	\$ (311,974)

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, 2007**

	<u>Pension Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,000	\$ 584,861
Receivables, net of uncollectibles	318,402	61,401
Due from other governmental units		28,595
Retirement investments, at fair value		
U.S. government obligations	32,231,858	
Corporate bonds	13,124,512	
Stocks	96,470,615	
Other investments	6,933,937	
Total investments	<u>148,760,922</u>	
Total assets	<u>149,080,324</u>	<u>\$ 674,857</u>
<b>LIABILITIES</b>		
Accounts payable	1,487,155	\$ 50,726
Due to other governmental units		492,547
Cash bonds and deposits		131,584
Total liabilities	<u>1,487,155</u>	<u>\$ 674,857</u>
<b>NET ASSETS</b>		
Held in trust for pension and other employee benefits	<u>\$ 147,593,169</u>	

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

**City of Royal Oak, Michigan**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2007**

	<b>Pension Trust</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 4,055,421
Plan members	420,546
Plan members' buybacks	708,854
Total contributions	<u>5,184,821</u>
Investment earnings:	
Net increase in fair value of investments	13,113,409
Interest	2,387,950
Dividends	2,140,961
Other investment revenues	188,713
Total investment income	<u>17,831,033</u>
Less investment expenses	<u>925,484</u>
Net investment income	<u>16,905,549</u>
Total additions	<u>22,090,370</u>
<b>DEDUCTIONS</b>	
Benefits	10,337,345
Refund of contributions	623,558
Administrative expenses	43,360
Total deductions	<u>11,004,263</u>
Change in net assets	11,086,107
Net assets - beginning	<u>136,507,062</u>
Net assets - ending	<u>\$ 147,593,169</u>

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, 2007**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Housing Commission</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,213,722		\$ 188,094	\$ 1,401,816
Investments	2,474,835			2,474,835
Receivables, net of uncollectibles	120,427	\$ 2,959		123,386
Deposits and other assets	13,297		93,840	107,137
Due from primary government		33,215	302	33,517
Due from other governmental units	202,871	2,153	36,086	241,110
Total current assets	<u>4,025,152</u>	<u>38,327</u>	<u>318,322</u>	<u>4,381,801</u>
Noncurrent assets:				
Capital assets, not being depreciated	2,945,059			2,945,059
Capital assets, being depreciated, net	994,814		4,099	998,913
Total noncurrent assets	<u>3,939,873</u>		<u>4,099</u>	<u>3,943,972</u>
Total assets	<u>7,965,025</u>	<u>38,327</u>	<u>322,421</u>	<u>8,325,773</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	67,088	296	3,745	71,129
Accrued and other liabilities	10,029	1,922	4,467	16,418
Due to primary government	625,332		100,598	725,930
Current portion of long-term debt	125,000			125,000
Total current liabilities	<u>827,449</u>	<u>2,218</u>	<u>108,810</u>	<u>938,477</u>
Noncurrent liabilities:				
Accrued compensated absences	5,829	8,591	14,421	28,841
Noncurrent portion of long-term debt	297,293		2,000	299,293
Total noncurrent liabilities	<u>303,122</u>	<u>8,591</u>	<u>16,421</u>	<u>328,134</u>
Total liabilities	<u>1,130,571</u>	<u>10,809</u>	<u>125,231</u>	<u>1,266,611</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,814,873		4,099	3,818,972
Unrestricted	3,019,581	27,518	193,091	3,240,190
Total net assets	<u>\$ 6,834,454</u>	<u>\$ 27,518</u>	<u>\$ 197,190</u>	<u>\$ 7,059,162</u>

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, 2007**

	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>				
	<b>Expenses</b>	<b>Operating Grants and Contributions</b>	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Economic Development Corporation</b>	<b>Housing Commission</b>	<b>Totals</b>
<b>Tax Increment Financing Authority</b>							
Public works	\$ 1,683,759	\$ 23,816	\$ (1,659,943)				\$ (1,659,943)
Interest on long-term debt	28,160		(28,160)				(28,160)
Total - Tax Increment Financing Authority	<u>1,711,919</u>	<u>23,816</u>	<u>(1,688,103)</u>				<u>(1,688,103)</u>
<b>Downtown Development Authority</b>							
General government	61,174			\$ (61,174)			(61,174)
<b>Economic Development Corporation</b>							
	9,853				\$ (9,853)		(9,853)
<b>Housing Commission</b>							
General government	125,745	326,122				\$ 200,377	200,377
Health and welfare	1,096,787	1,096,787				-	-
Total - Housing Commission	<u>1,222,532</u>	<u>1,422,909</u>				<u>200,377</u>	<u>200,377</u>
Total component units	<u>\$ 3,005,478</u>	<u>\$ 1,446,725</u>					<u>(1,558,753)</u>
<b>General revenues:</b>							
Property taxes			2,115,153	48,843			2,163,996
Unrestricted investment earnings			339,300		2	2,272	341,574
Miscellaneous			254,397				254,397
Total general revenues			<u>2,708,850</u>	<u>48,843</u>	<u>2</u>	<u>2,272</u>	<u>2,759,967</u>
Change in net assets			1,020,747	(12,331)	(9,851)	202,649	1,201,214
Net assets (deficit) - beginning, as restated			5,813,707	39,849	9,851	(5,459)	5,857,948
Net assets - ending			<u>\$ 6,834,454</u>	<u>\$ 27,518</u>	<u>\$ -</u>	<u>\$ 197,190</u>	<u>\$ 7,059,162</u>

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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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

**A. Reporting Entity:**

The City of Royal Oak operates under the Council/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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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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. The Corporation's assets were liquidated during the fiscal year, therefore, does not have a balance sheet included in these financial statements.

**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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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Property taxes are levied as of July 1<sup>st</sup> on property values assessed as of the same date. The City bills twice a year, on July 1<sup>st</sup> and December 1<sup>st</sup>. The July bill, which contains the school, community college and most of the City levy, is due without interest by July 31<sup>st</sup> although taxpayers may pay the bill in two installments provided half the bill is paid by July 31<sup>st</sup>. The second half is due without penalty by October 31<sup>st</sup>. The December bill, which typically contains the county levy and a small City levy, is payable without interest by the following February 14<sup>th</sup>. The bills are considered past due on March 1<sup>st</sup>, 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, \$852,830 of interest was capitalized as part of the cost of assets under construction.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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

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

**6. Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay, 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.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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**9. Restatements**

A prior period adjustment was made in the Motor Pool fund to reclassify an operating transfer out for the purpose of funding a capital improvement project to an increase in capital assets. The net assets at June 30, 2006 were reported as \$7,782,644 and were adjusted by \$94,603; therefore, the restated net assets are \$7,877,247.

A prior period adjustment was made in the Tax Increment Financing Authority to reclassify tax revenue as due to other governmental units for tax collections that were not eligible to be captured per State law. The fund balance at June 30, 2006 was reported as \$6,326,613, and was reduced by \$2,079,697; therefore, the restated fund balance is \$4,246,916. This adjustment was also made at the government-wide level. The net assets at June 30, 2006, were reported as \$7,893,404 and were reduced by \$2,079,697; therefore, the restated net assets are \$5,813,707.

**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 30<sup>th</sup>. The appropriated budget is prepared by fund, function, and department. Budget adjustments are submitted for Commission approval on a quarterly basis. 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 lapse, therefore 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, 2007, the City of Royal Oak incurred expenditures in certain budgeted funds which were in excess of the amount appropriated, as follows:

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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<u>Budget Item</u>	<u>Budget</u> <u>Appropriation</u>	<u>Actual</u> <u>Expenditure</u>
Community Development Block Grant Fund	2,190,125	2,221,101

In the Community Development Block Grant Fund, prior year's appropriations were spent and the revenue drawn accordingly.

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

**A. Deposits and Investments**

State of Michigan statutes authorize the City of Royal Oak to invest in bonds and other direct and certain indirect obligations of the US Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration; and commercial paper must be rated within the two highest classifications established by not less than two 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:

	<b>Governmental</b> <b>Activities</b>	<b>Business-Type</b> <b>Activities</b>	<b>Fiduciary</b> <b>Funds</b>	<b>Total Primary</b> <b>Government</b>	<b>Component</b> <b>Units</b>
Cash and cash equivalents	\$ 23,053,026	\$ 3,211,326	\$ 585,861	\$ 26,850,213	\$ 1,401,816
Investments	4,926,845	2,111,644	148,760,922	155,799,411	2,474,835
Restricted assets	26,000	-	-	26,000	-
<b>Total</b>	<b>\$ 28,005,871</b>	<b>\$ 5,322,970</b>	<b>\$ 149,346,783</b>	<b>\$ 182,675,624</b>	<b>\$ 3,876,651</b>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings accounts, certificates of deposits)	\$ 40,841,668	\$ 3,876,651
Investments in Debt Securities	45,356,370	
Investments in Equity Securities	96,470,615	
Petty Cash and Cash on Hand	6,971	
<b>Total</b>	<b>\$ 182,675,624</b>	<b>\$ 3,876,651</b>

*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, 2007:

	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	\$ 32,231,858	\$ 1,458,380	\$ 2,049,617	\$ 5,099,918	\$ 23,623,943	*	*
Corporate bonds	13,124,512	671,595	3,706,296	1,867,111	6,879,510	AAA to BB	Aaa to Baa3
<b>Total</b>	<b>\$ 45,356,370</b>	<b>\$ 2,129,975</b>	<b>\$ 5,755,913</b>	<b>\$ 6,967,029</b>	<b>\$ 30,503,453</b>		

\*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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

Oak does not have a policy for deposit custodial credit risk. As of June 30, 2007, \$37,064,140 of the City of Royal Oak's bank balance of \$38,030,733 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of year end, \$3,576,651 of the component unit's bank balance of \$3,876,651 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 \$45,356,370 in investments, the City of Royal Oak has a custodial credit risk exposure of \$13,124,512 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, 2007, 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:

	General Fund	Solid Waste	Water and Sewer	Auto Parking	Nonmajor and Other Funds	Total	Component Units
Receivables:							
Taxes	\$ 313,069	\$ 93,976			\$ 37,557	\$ 444,602	\$ 116,853
Accounts	423,693	930	\$ 6,160,927	\$ 7,586	1,746,330	8,339,466	
Special Assessments					748,557	748,557	
Intragovernmental	651,990				114,316	766,306	
Interest and other	9,653	13,319	27,010	9,875	382,551	442,408	31,533
Gross Receivables	1,398,405	108,225	6,187,937	17,461	3,029,311	10,741,339	148,386
Less: Allowance for uncollectibles	(150,697)	(9,000)				(159,697)	(25,000)
Net receivables, per fund financials	\$ 1,247,708	\$ 99,225	\$ 6,187,937	\$ 17,461	\$ 3,029,311	\$ 10,581,642	\$ 123,386

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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
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Receivables at year end at the government-wide level for governmental activities are as follows:

	General	Solid	Nonmajor	
	Fund	Waste	Governmental	Total
			Funds	
Taxes Receivable	\$ 313,069	\$ 93,976	\$ 37,557	\$ 444,602
Accounts	423,693	930	352,274	776,897
Special Assessments			748,557	748,557
Intergovernmental	2,266,100		1,082,835	3,348,935
Interest and other	9,653	13,319	1,765,026	1,787,998
Gross Receivables	3,012,515	108,225	3,986,249	7,106,989
Less: Allowance for uncollectibles	(150,697)	(9,000)		(159,697)
Net receivables, per govt-wide financials	\$ 2,861,818	\$ 99,225	\$ 3,986,249	\$ 6,947,292

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

	Unavailable	Unearned
Delinquent Personal Property Taxes	\$ 413,102	
Special Assessments	748,557	
Grant Drawdowns Prior to Meeting Eligibility Requirements		\$ 1,904,621
Total - fund financials	1,161,659	1,904,621
less: revenue recognized under full accrual	(1,161,659)	(203,744)
Total - govt-wide financials	\$ -	\$ 1,700,877

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
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**C. Capital Assets:**

Capital asset activity for the current year was as follows:

**Primary Government**

	Beginning Balance (restated)	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 66,774,752			\$ 66,774,752
Construction in progress	7,383,627	\$ 4,666,623	\$ (5,155,622)	6,894,628
Total capital assets, not being depreciated	74,158,379	4,666,623	(5,155,622)	73,669,380
Capital assets, being depreciated				
Buildings	30,278,554	11,593		30,290,147
Improvements other than buildings	3,947,959			3,947,959
Machinery and equipment	18,627,583	551,730	(275,818)	18,903,495
Infrastructure	81,271,976	5,058,648		86,330,624
Intangibles	524,733	8,729		533,462
Total capital assets being depreciated	134,650,805	5,630,700	(275,818)	140,005,687
Less accumulated depreciation for:				
Buildings	(8,999,304)	(640,694)		(9,639,998)
Improvements other than buildings	(2,756,167)	(163,908)		(2,920,075)
Machinery and equipment	(11,617,620)	(1,360,695)	275,818	(12,702,497)
Infrastructure	(50,865,398)	(1,340,630)		(52,206,028)
Intangibles	(502,212)	(13,817)		(516,029)
Total accumulated depreciation	(74,740,701)	(3,519,744)	275,818	(77,984,627)
Total capital assets, being depreciated, net	59,910,104	2,110,956	-	62,021,060
Govenmental activities capital assets, net	<u>\$ 134,068,483</u>	<u>\$ 6,777,579</u>	<u>\$ (5,155,622)</u>	<u>\$ 135,690,440</u>

**City of Royal Oak, Michigan**  
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	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 4,768,191			\$ 4,768,191
Construction in progress	37,002,455	\$ 1,686,498	(688,444)	38,000,509
Total capital assets, not being depreciated	41,770,646	1,686,498	(688,444)	42,768,700
Capital assets, being depreciated				
Buildings	29,160,277	96,529		29,256,806
Improvements other than buildings	311,958			311,958
Machinery and equipment	1,475,199			1,475,199
Infrastructure	60,968,986	923,849		61,892,835
Total capital assets being depreciated	91,916,420	1,020,378	-	92,936,798
Less accumulated depreciation for:				
Buildings	(7,770,371)	(738,419)		(8,508,790)
Improvements other than buildings	(166,716)	(12,837)		(179,553)
Machinery and equipment	(1,044,944)	(63,128)		(1,108,072)
Infrastructure	(19,827,616)	(1,451,418)		(21,279,034)
Total accumulated depreciation	(28,809,647)	(2,265,802)	-	(31,075,449)
Total capital assets, being depreciated, net	63,106,773	(1,245,424)	-	61,861,349
Business-type activities capital assets, net	<u>\$ 104,877,419</u>	<u>\$ 441,074</u>	<u>\$ (688,444)</u>	<u>\$ 104,630,049</u>

**City of Royal Oak, Michigan**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

<u>Governmental activities:</u>	
General government	\$ 288,923
Public safety	303,265
Public works	1,382,984
Health and welfare	14,153
Community and economic development	201
Recreation and culture	479,503
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,050,715
Total depreciation expense - governmental activities	<u><u>\$ 3,519,744</u></u>
<u>Business-type activities:</u>	
Water and sewer	\$ 1,420,980
Parking	553,929
Recreation	234,234
Farmers market	56,659
Total depreciation expense - business-type activities	<u><u>\$ 2,265,802</u></u>

**Construction Commitments**

The City has active construction projects as of June 30, 2007. 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:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Buildings	\$ 1,834,310	\$ 47,273
Street Projects	7,001,770	1,871,771
Water Projects	4,493,723	672,145
Sidewalks	2,646,089	292,546
Total	<u><u>\$ 15,975,892</u></u>	<u><u>\$ 2,883,735</u></u>

A Building Authority bond issue is financing the Library construction commitment by a special millage. Oakland County has a major contract on the George W. Kuhn project, of which \$35,760,700 has been spent to date and is attributable to the City of Royal Oak.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
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**Discretely presented component units**

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Component units:</b>				
Capital assets, not being depreciated				
Land	\$ 1,084,754	\$ 1,811,001		\$ 2,895,755
Construction in progress	316,281	42,260	(309,237)	49,304
Total capital assets, not being depreciated	1,401,035	1,853,261	(309,237)	2,945,059
Capital assets, being depreciated				
Improvements other than buildings	347,519	494,460		841,979
Equipment	15,247			15,247
Infrastructure	437,276		(58,446)	378,830
Total capital assets being depreciated	800,042	494,460	(58,446)	1,236,056
Less accumulated depreciation for:				
Improvements other than buildings	(46,270)	(36,746)		(83,016)
Equipment	(8,099)	(3,049)		(11,148)
Infrastructure	(122,985)	(19,994)		(142,979)
Total accumulated depreciation	(177,354)	(59,789)	-	(237,143)
Total capital assets, being depreciated, net	622,688	434,671	(58,446)	998,913
Component unit capital assets, net	<u>\$ 2,023,723</u>	<u>\$ 2,287,932</u>	<u>\$ (367,683)</u>	<u>\$ 3,943,972</u>

There was \$59,789 in depreciation expense, \$56,740 of which was charged to the Tax Increment Financing Authority activity and \$3,049 was charged to the Housing Commission.

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
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**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water & sewer	\$ 2,234,834
	Automobile parking system	200,042
	Nonmajor governmental	732,881
	Nonmajor enterprise	56,505
Solid waste	General	1,161,758
Water & sewer	General	88,227
Automobile parking system	General	205,449
Nonmajor governmental funds	General	3,426,780
	Internal service funds	5,611
	Nonmajor governmental	102,096
Nonmajor enterprise funds	General	120,112
Internal service funds	General	5,608,355
		<u><u>\$ 13,942,650</u></u>

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:

<u>Transfer out:</u>	<u>Transfer in:</u>			<u>Total</u>
	<u>General</u>	<u>Water &amp; sewer</u>	<u>Nonmajor governmental funds</u>	
General			\$ 414,600	\$ 414,600
Water & sewer			388,753	388,753
Automobile parking system	\$ 982,500			982,500
Internal service funds			147,355	147,355
Nonmajor governmental funds	1,555	\$ 83,544	3,057,266	3,142,365
	<u><u>\$ 984,055</u></u>	<u><u>\$ 83,544</u></u>	<u><u>\$ 4,007,974</u></u>	<u><u>\$ 5,075,573</u></u>

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

**City of Royal Oak, Michigan**  
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**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. Bond and contractual obligation activity and other long-term liabilities can be summarized as follows:

	Beginning Balance	Additions	Reductions	Principal Outstanding	Due Within One Year
<b>Governmental activities</b>					
Limited tax general obligation-Court	\$ 6,375,000		\$ (220,000)	\$ 6,155,000	\$ 255,000
Limited tax general obligation-Library	3,565,000		(155,000)	3,410,000	155,000
Unlimited tax general obligation bonds	7,760,000		(340,000)	7,420,000	355,000
Limited tax general obligation	-	\$ 825,000		825,000	65,000
Compensated absences	3,394,220	376,970		3,771,190	
General liability claims	948,100		(631,800)	316,300	
	22,042,320	1,201,970	(1,346,800)	21,897,490	830,000
Less: unamortized discount	(282,038)	(4,492)	16,965	(269,565)	
Total governmental activity long-term liabilities	<u>\$ 21,760,282</u>	<u>\$ 1,197,478</u>	<u>\$ (1,329,835)</u>	<u>\$ 21,627,925</u>	<u>\$ 830,000</u>
<b>Business-type activities</b>					
Limited tax general obligation-Ice Arena	\$ 1,490,000		\$ (265,000)	\$ 1,225,000	\$ 280,000
Limited tax general obligation-Parking	7,105,000		(310,000)	6,795,000	325,000
Limited tax general obligation-Water	4,325,000		(130,000)	4,195,000	155,000
Oakland County North Arm Drain Bonds	10,837,387		(615,000)	10,222,387	630,000
Contractual obligations	32,447,026	\$ 230,655	(1,512,685)	31,164,996	1,554,834
Compensated absences	324,968	14,386		339,354	
General liability claims	97,900		(65,200)	32,700	
	56,627,281	245,041	(2,897,885)	53,974,437	2,944,834
Less: unamortized discount	(201,047)		12,832	(188,215)	
Total business-type activity long-term liabilities	<u>\$ 56,426,234</u>	<u>\$ 245,041</u>	<u>\$ (2,885,053)</u>	<u>\$ 53,786,222</u>	<u>\$ 2,944,834</u>
<b>Component units</b>					
Limited tax development bonds	\$ 525,000		\$ (100,000)	\$ 425,000	\$ 125,000
Compensated absences	12,607	\$ 16,234		28,841	
General liability claims	-	2,000		2,000	
	537,607	18,234	(100,000)	455,841	125,000
Less: unamortized discount	(3,867)		1,160	(2,707)	
Total component unit long-term liabilities	<u>\$ 533,740</u>	<u>\$ 18,234</u>	<u>\$ (98,840)</u>	<u>\$ 453,134</u>	<u>\$ 125,000</u>

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
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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 \$179,253 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.

The original amount of general obligation bonds, interest rate and maturity information is as follows:

Purpose	Interest Rate	Maturing Through	Original Issue Amount	Principal Outstanding
Governmental activities	3.0%-5.0%	2023	\$ 13,525,000	\$ 11,655,000
Governmental activities - refunding	4.0%-4.375%	2024	6,590,000	6,155,000
Business-type activities	2.25%-5.0%	2026	23,625,000	15,642,387
Business-type activities - refunding	4.0%-4.375%	2026	7,405,000	6,795,000
Component units	6.00%	2009	1,160,000	425,000
			<u>\$ 52,305,000</u>	<u>\$ 40,672,387</u>

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

Years Ending June 30	Governmental Activities		Business-Type Activities*		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 830,000	\$ 758,277	\$ 2,884,038	\$ 1,518,250	\$ 125,000	\$ 21,750
2009	865,000	722,398	2,971,188	1,433,313	150,000	13,500
2010	910,000	687,162	3,069,788	1,345,355	150,000	4,500
2011	945,000	651,990	3,169,831	1,253,990	-	-
2012	985,000	614,927	2,799,875	1,167,163	-	-
2013-2017	5,580,000	2,428,400	15,299,958	4,657,905	-	-
2018-2022	6,435,000	1,115,276	16,222,227	2,478,007	-	-
2023-2027	1,260,000	76,640	6,368,945	479,300	-	-
Total	<u>\$ 17,810,000</u>	<u>\$ 7,055,070</u>	<u>\$ 52,785,850</u>	<u>\$14,333,283</u>	<u>\$ 425,000</u>	<u>\$ 39,750</u>

\*Does not include \$816,533 of the George W. Kuhn Series D and 2005 obligations as the debt schedule is not finalized because the project is incomplete.

**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

**City of Royal Oak, Michigan**  
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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 \$35,120,000 with an interest rate of 2.5%. As of June 30, 2007, the City's obligation is \$29,995,948 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.

**F. Restricted Assets**

The balance of the restricted asset accounts in the governmental activities is as follows:

Endowments	\$	26,000
Total Restricted Assets	\$	<u>26,000</u>

**NOTE 4 – Other Information**

**A. Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority 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.

**City of Royal Oak, Michigan**  
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The City was unable to obtain workers compensation insurance at a cost it considered to be economically justifiable. Therefore, the City utilizes 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 2006 and 2007 are as follows:

<u>Fiscal Year</u>	<u>Liability at Beginning of Year</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability at End of Year</u>
2006	\$ 685,933	\$ 143,037	\$ (247,488)	\$ 581,482
2007	581,482	369,897	(302,948)	648,431

**B. Subsequent events**

On August 1, 2007, the Oakland County Drain Commission partially refunded George W. Kuhn Drain Bonds Series 2000B and 2001E. The City of Royal Oak's portion of the defeased debt is \$6,051,552. The City's portion of the new debt is \$5,032,837 and the undefeased portion is \$796,910, resulting in a net savings of \$221,805.

**C. 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.

**City of Royal Oak, Michigan**  
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**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.

**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, 2007 the City expensed approximately \$1,267,000 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, 2007 the City expensed approximately \$3,251,000 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 \$5,087,100.

**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, 2007 was approximately \$19,578,100. The City's total payroll was approximately \$23,235,500.

**City of Royal Oak, Michigan**  
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At June 30, 2006 (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	513
Current full-time employees:	
Fully vested	253
Nonvested	98
Total current employees	351

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. 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

**City of Royal Oak, Michigan**  
**Notes to Financial Statements**  
**June 30, 2007**

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included no securities of or loans to the City or any other related party. At June 30, 2007, 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, the system's assets were valued using the smoothed funding method.

For the year ended June 30, 2007, the City's annual pension cost of \$4,055,421 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 18.25% for general employees and 24.30% 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 7.3%.

**THREE YEAR TREND INFORMATION (in thousands)**

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
6/30/2005	\$1,340	100%	\$0
6/30/2006	3,769	100%	0
6/30/2007	4,055	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**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL") Entry Age</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/1997	\$ 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%
6/30/2006	137,264	158,239	20,975	86.7%	20,432	102.7%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual Pension Cost</b>	<b>Actual Contribution</b>	<b>Percentage Contributed</b>
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%
2007	4,055	4,055	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 49, 50 and 51.

## **OTHER SUPPLEMENTAL INFORMATION**

**City of Royal Oak, Michigan  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

	Special Revenue							Total Nonmajor Special Revenue Funds
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	Acorn Fund	
<b>ASSETS</b>								
Cash and cash equivalents	\$ 2,808,264	\$ 2,699,986	\$ 473	\$ 647,966	\$ 358,462			\$ 6,515,151
Investments	661,913	1,412,044			688,722			2,762,679
Receivables, net of allowance for uncollectibles	22,579	34,022	1,700,877	5,014	28,994		\$ 11,577	1,803,063
Deposits and other assets			213,799					213,799
Due from other governmental units	473,493	153,915	307,060		63,922			998,390
Due from other funds	139,630	270,268	23,115	429,154		\$ 1,055,453	\$ 153,294	2,806,184
Total assets	<u>\$ 4,105,879</u>	<u>\$ 4,570,235</u>	<u>\$ 2,245,324</u>	<u>\$ 1,082,134</u>	<u>\$ 1,140,100</u>	<u>\$ 1,055,453</u>	<u>\$ 153,294</u>	<u>\$ 15,099,266</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 16,088	\$ 5,000	\$ 260,642	\$ 8,908	\$ 68,546	\$ 11,670	\$ 101,692	\$ 472,546
Accrued and other liabilities	15,108	30,759	29,105	3,624	66,952	67,585	7,825	220,958
Due to other funds	67,318	-	254,700	19,988	188,878			530,884
Cash bonds and deposits							1,850	1,850
Deferred revenue	3,069	3,069	1,700,877	45,434	22,108		158,310	1,932,867
Total liabilities	<u>101,583</u>	<u>38,828</u>	<u>2,245,324</u>	<u>77,954</u>	<u>346,484</u>	<u>79,255</u>	<u>269,677</u>	<u>3,159,105</u>
<b>FUND BALANCES</b>								
Reserved for senior activities				245,388				245,388
Reserved for capital expenditures					158,694			158,694
Unreserved, designated for subsequent year's expenditures				119,221				119,221
Unreserved, undesignated	4,004,296	4,531,407	-	639,571	634,922	976,198	\$ 153,294	11,416,858
Total fund balances	<u>4,004,296</u>	<u>4,531,407</u>	<u>-</u>	<u>1,004,180</u>	<u>793,616</u>	<u>976,198</u>	<u>153,294</u>	<u>11,940,161</u>
Total liabilities and fund balances	<u>\$ 4,105,879</u>	<u>\$ 4,570,235</u>	<u>\$ 2,245,324</u>	<u>\$ 1,082,134</u>	<u>\$ 1,140,100</u>	<u>\$ 1,055,453</u>	<u>\$ 153,294</u>	<u>\$ 15,099,266</u>

**City of Royal Oak, Michigan  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007**

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Capital Projects Funds	Permanent Fund	Total Nonmajor Governmental Funds
			Capital Projects	Special Assessments			
<b>ASSETS</b>							
Cash and cash equivalents	\$ 6,515,151	\$ 964,688					\$ 7,479,839
Investments	2,762,679	1,005,225					3,767,904
Receivables, net of allowance for uncollectibles	1,803,063	53,582		\$ 748,557	\$ 748,557	\$ 38	2,605,240
Deposits and other assets	213,799				-		213,799
Due from other governmental units	998,390	20,586	\$ 118,399	3,547	121,946		1,140,922
Due from other funds	2,806,184	26,816	697,629		697,629	3,858	3,534,487
Restricted assets, cash	-				-	26,000	26,000
Total assets	<u>\$ 15,099,266</u>	<u>\$ 2,070,897</u>	<u>\$ 816,028</u>	<u>\$ 752,104</u>	<u>\$ 1,568,132</u>	<u>\$ 29,896</u>	<u>\$ 18,768,191</u>
<b>LIABILITIES</b>							
Accounts payable	\$ 472,546	\$ 400	\$ 463,915		\$ 463,915		\$ 936,861
Accrued and other liabilities	220,958		80,143		80,143		301,101
Due to other funds	530,884	295,506	5,040	\$ 3,547	8,587		834,977
Cash bonds and deposits	1,850				-		1,850
Deferred revenue	1,932,867	9,311			748,557		2,690,735
Total liabilities	<u>3,159,105</u>	<u>305,217</u>	<u>549,098</u>	<u>752,104</u>	<u>1,301,202</u>		<u>4,765,524</u>
<b>FUND BALANCES</b>							
Reserved for endowment	-					\$ 26,000	26,000
Reserved for senior activities	245,388						245,388
Reserved for capital expenditures	158,694						158,694
Unreserved, designated for subsequent year's expenditures	119,221						119,221
Unreserved, undesignated	11,416,858	1,765,680	266,930	-	266,930	3,896	13,453,364
Total fund balances	<u>11,940,161</u>	<u>1,765,680</u>	<u>266,930</u>	<u>-</u>	<u>266,930</u>	<u>29,896</u>	<u>14,002,667</u>
Total liabilities and fund balances	<u>\$ 15,099,266</u>	<u>\$ 2,070,897</u>	<u>\$ 816,028</u>	<u>\$ 752,104</u>	<u>\$ 1,568,132</u>	<u>\$ 29,896</u>	<u>\$ 18,768,191</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	Special Revenue							Total Nonmajor Special Revenue Funds	
	Major Streets	Local Streets	Community Development Block Grant	Senior Citizens Program	Library Millage	State Construction Code	Acorn Fund		Grants
<b>REVENUES</b>									
Taxes					\$ 2,118,234				\$ 2,118,234
Licenses and permits	\$ 174,846					\$ 1,662,623			1,837,469
Federal grants			\$ 1,813,577				\$ 226,766		2,040,343
State grants	2,883,876	\$ 937,346		\$ 175,205	140,498		46,724		4,183,649
Charges for services			396,838	148,521	41,219	2,850	19,240		608,668
Fines and forfeitures					2,705		60,113		62,818
Interest	185,963	273,798		45,770	68,625		\$ 9,460	2,055	585,671
Contributions and donations	14,991			49,531	6,619		46,845	22,725	140,711
Other revenue	18,991	1,400	10,686		4,916	12,271			48,264
Total revenues	3,278,667	1,212,544	2,221,101	419,027	2,382,816	1,677,744	56,305	377,623	11,625,827
<b>EXPENDITURES</b>									
Current:									
Public safety						1,567,017	55,657	371,586	1,994,260
Public works	1,135,807	1,521,934							2,657,741
Community and economic development			1,380,408						1,380,408
Recreation and culture				333,252	1,939,541		6,714		2,279,507
Debt service:									
Principal payments					155,000				155,000
Interest and paying agent fees					134,513				134,513
Total expenditures	1,135,807	1,521,934	1,380,408	333,252	2,229,054	1,567,017	62,371	371,586	8,601,429
Excess (deficiency) of revenues over (under) expenditures	2,142,860	(309,390)	840,693	85,775	153,762	110,727	(6,066)	6,037	3,024,398
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	6,420	33,763			20,729			471,133	532,045
Transfers out	(1,671,555)	(387,353)	(840,693)				(56,533)		(2,956,134)
Total other financing sources (uses)	(1,665,135)	(353,590)	(840,693)		20,729		(56,533)	471,133	(2,424,089)
Net change in fund balances	477,725	(662,980)	-	85,775	174,491	110,727	(62,599)	477,170	600,309
Fund balances - beginning	3,526,571	5,194,387	-	918,405	619,125	865,471	215,893	-	11,339,852
Fund balances - ending	\$ 4,004,296	\$ 4,531,407	\$ -	\$ 1,004,180	\$ 793,616	\$ 976,198	\$ 153,294	\$ 477,170	\$ 11,940,161

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects		Total Nonmajor Capital Project Funds	Permanent Fund	Total Nonmajor Governmental Funds
			Capital Projects	Special Assessments			
<b>REVENUES</b>							
Taxes	\$ 2,118,234	\$ 682,199			\$ -		\$ 2,800,433
Licenses and permits	1,837,469				-		1,837,469
Federal grants	2,040,343		\$ 1,014,894		1,014,894		3,055,237
State grants	4,183,649				-		4,183,649
Charges for services	608,668		8,576		8,576		617,244
Fines and forfeitures	62,818	777,899			-		840,717
Interest	585,671	64,314	7,775	\$ 31,467	39,242	\$ 1,417	690,644
Contributions and donations	140,711		42,260		42,260		182,971
Other revenue	48,264	1,786	17,297	131,638	148,935		198,985
Total revenues	11,625,827	1,526,198	1,090,802	163,105	1,253,907	1,417	14,407,349
<b>EXPENDITURES</b>							
Current:							
Public safety	1,994,260				-		1,994,260
Public works	2,657,741		5,596,316		5,596,316		8,254,057
Community and economic development	1,380,408				-		1,380,408
Recreation and culture	2,279,507				-	839	2,280,346
Debt service:							
Principal payments	155,000	560,000			-		715,000
Interest and paying agent fees	134,513	638,418			-		772,931
Total expenditures	8,601,429	1,198,418	5,596,316		5,596,316	839	15,397,002
Excess of revenues over expenditures	3,024,398	327,780	(4,505,514)	163,105	(4,342,409)	578	(989,653)
<b>OTHER FINANCING SOURCES (USES)</b>							
Bond proceeds			825,000		825,000		825,000
Transfers in	532,045		3,475,929		3,475,929		4,007,974
Transfers out	(2,956,134)		(23,126)	(163,105)	(186,231)		(3,142,365)
Total other financing sources (uses)	(2,424,089)		4,277,803	(163,105)	4,114,698		1,690,609
Net change in fund balances	600,309	327,780	(227,711)	-	(227,711)	578	700,956
Fund balances - beginning	11,339,852	1,437,900	494,641	-	494,641	29,318	13,301,711
Fund balances - ending	\$ 11,940,161	\$ 1,765,680	\$ 266,930	\$ -	\$ 266,930	\$ 29,896	\$ 14,002,667

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Major Streets Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ -	\$ -	\$ 174,846	\$ 174,846
State grants	3,080,240	3,080,240	2,883,876	(196,364)
Interest and rentals	40,000	40,000	185,963	145,963
Contributions and donations	10,000	10,000	14,991	4,991
Other revenue	10,000	10,000	18,991	8,991
Total revenues	<u>3,140,240</u>	<u>3,140,240</u>	<u>3,278,667</u>	<u>138,427</u>
<b>EXPENDITURES</b>				
Public works	<u>3,358,380</u>	<u>3,358,380</u>	<u>1,135,807</u>	<u>(2,222,573)</u>
Total expenditures	<u>3,358,380</u>	<u>3,358,380</u>	<u>1,135,807</u>	<u>(2,222,573)</u>
Excess (deficiency) of revenues over (under) expenditures	(218,140)	(218,140)	2,142,860	2,361,000
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	364,000	364,000	6,420	(357,580)
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(1,671,555)</u>	<u>1,171,555</u>
Total other financing sources (uses)	<u>(136,000)</u>	<u>(136,000)</u>	<u>(1,665,135)</u>	<u>(1,529,135)</u>
Net change in fund balance	<u>\$ (354,140)</u>	<u>\$ (354,140)</u>	<u>477,725</u>	<u>\$ 831,865</u>
Fund balance - beginning			<u>3,526,571</u>	
Fund balance - ending			<u>\$ 4,004,296</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Local Streets Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
State grants	\$ 1,002,195	\$ 1,002,195	\$ 937,346	\$ (64,849)
Interest and rentals	50,000	50,000	273,798	223,798
Other revenue	2,000	2,000	1,400	(600)
Total revenues	<u>1,054,195</u>	<u>1,054,195</u>	<u>1,212,544</u>	<u>158,349</u>
<b>EXPENDITURES</b>				
Public works	<u>2,101,099</u>	<u>2,101,099</u>	<u>1,521,934</u>	<u>(579,165)</u>
Total expenditures	<u>2,101,099</u>	<u>2,101,099</u>	<u>1,521,934</u>	<u>(579,165)</u>
Deficiency of revenues under expenditures	(1,046,904)	(1,046,904)	(309,390)	737,514
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	209,000	209,000	33,763	(175,237)
Transfers out	<u>(300,000)</u>	<u>(300,000)</u>	<u>(387,353)</u>	<u>87,353</u>
Total other financing sources (uses)	<u>(91,000)</u>	<u>(91,000)</u>	<u>(353,590)</u>	<u>(262,590)</u>
Net change in fund balance	<u><u>\$ (1,137,904)</u></u>	<u><u>\$ (1,137,904)</u></u>	<u>(662,980)</u>	<u><u>\$ 474,924</u></u>
Fund balance - beginning			<u>5,194,387</u>	
Fund balance - ending			<u><u>\$ 4,531,407</u></u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Community Development Block Grant Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Federal grants	\$ 1,850,342	\$ 1,850,342	\$ 1,813,577	\$ (36,765)
Charges for services	400,000	400,000	396,838	(3,162)
Other revenue	-	-	10,686	10,686
Total revenues	<u>2,250,342</u>	<u>2,250,342</u>	<u>2,221,101</u>	<u>(29,241)</u>
<b>EXPENDITURES</b>				
Community and economic development	<u>1,528,125</u>	<u>1,528,125</u>	<u>1,380,408</u>	<u>(147,717)</u>
Total expenditures	<u>1,528,125</u>	<u>1,528,125</u>	<u>1,380,408</u>	<u>(147,717)</u>
Excess of revenues over expenditures	722,217	722,217	840,693	118,476
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(662,000)</u>	<u>(662,000)</u>	<u>(840,693)</u>	<u>178,693</u>
Total other financing sources (uses)	<u>(662,000)</u>	<u>(662,000)</u>	<u>(840,693)</u>	<u>(178,693)</u>
Net change in fund balance	<u>\$ 60,217</u>	<u>\$ 60,217</u>	<u>-</u>	<u>\$ (60,217)</u>
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<u>\$ -</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Senior Citizens Program Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
State grants	\$ -	\$ -	\$ 175,205	\$ 175,205
Charges for services	125,660	125,660	148,521	22,861
Interest and rentals	30,900	30,900	45,770	14,870
Contributions and donations	4,635	4,635	49,531	44,896
Total revenues	<u>161,195</u>	<u>161,195</u>	<u>419,027</u>	<u>257,832</u>
<b>EXPENDITURES</b>				
Recreation and culture	<u>380,949</u>	<u>380,949</u>	<u>333,252</u>	<u>(47,697)</u>
Total expenditures	<u>380,949</u>	<u>380,949</u>	<u>333,252</u>	<u>(47,697)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(219,754)</u>	<u>(219,754)</u>	85,775	<u>305,529</u>
Net change in fund balance	<u><u>\$(219,754)</u></u>	<u><u>\$(219,754)</u></u>	85,775	<u><u>\$ 305,529</u></u>
Fund balance - beginning			<u>918,405</u>	
Fund balance - ending			<u><u>\$ 1,004,180</u></u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Library Millage Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,126,500	\$ 2,126,500	\$ 2,118,234	\$ (8,266)
State grants	123,200	123,200	140,498	17,298
Charges for services	51,000	51,000	41,219	(9,781)
Fines and forfeitures	3,500	3,500	2,705	(795)
Interest and rentals	40,000	40,000	68,625	28,625
Contributions and donations	7,500	7,500	6,619	(881)
Other revenue	1,500	1,500	4,916	3,416
Total revenues	<u>2,353,200</u>	<u>2,353,200</u>	<u>2,382,816</u>	<u>29,616</u>
<b>EXPENDITURES</b>				
Recreation and culture	2,084,189	2,127,676	1,939,541	(188,135)
Debt service:				
Principal payments	155,000	155,000	155,000	-
Interest and paying agents fees	<u>133,763</u>	<u>133,763</u>	<u>134,513</u>	<u>750</u>
Total expenditures	<u>2,372,952</u>	<u>2,416,439</u>	<u>2,229,054</u>	<u>(187,385)</u>
Excess (deficiency) of revenues over (under) expenditures	(19,752)	(63,239)	153,762	217,001
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	20,729	20,729
Total other financing sources	-	-	20,729	20,729
Net change in fund balance	<u>\$ (19,752)</u>	<u>\$ (63,239)</u>	174,491	<u>\$ 237,730</u>
Fund balance - beginning			619,125	
Fund balance - ending			<u>\$ 793,616</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**State Construction Code Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 1,959,500	\$ 1,959,500	\$ 1,662,623	\$ (296,877)
Charges for services	135,000	135,000	2,850	(132,150)
Other revenue	-	-	12,271	12,271
Total revenues	<u>2,094,500</u>	<u>2,094,500</u>	<u>1,677,744</u>	<u>(416,756)</u>
<b>EXPENDITURES</b>				
Public safety	<u>2,063,238</u>	<u>2,063,238</u>	<u>1,567,017</u>	<u>(496,221)</u>
Total expenditures	<u>2,063,238</u>	<u>2,063,238</u>	<u>1,567,017</u>	<u>(496,221)</u>
Excess of revenues over expenditures	<u>31,262</u>	<u>31,262</u>	110,727	<u>79,465</u>
Net change in fund balance	<u>\$ 31,262</u>	<u>\$ 31,262</u>	110,727	<u>\$ 79,465</u>
Fund balance - beginning			<u>865,471</u>	
Fund balance - ending			<u>\$ 976,198</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Acorn Fund**  
**For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ 9,460	\$ 9,460
Contributions and donations	-	50,000	46,845	(3,155)
Total revenues	-	50,000	56,305	6,305
<b>EXPENDITURES</b>				
Public safety	-	60,000	55,657	(4,343)
Recreation and culture	-	10,000	6,714	(3,286)
Total expenditures	-	70,000	62,371	(7,629)
Excess (deficiency) of revenues over (under) expenditures	-	(20,000)	(6,066)	13,934
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(60,000)	(56,533)	(3,467)
Total other financing sources	-	(60,000)	(56,533)	3,467
Net change in fund balance	\$ -	\$ (80,000)	(62,599)	\$ 17,401
Fund balance - beginning			215,893	
Fund balance - ending			\$ 153,294	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Grants Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Federal grants	\$ -	\$ 367,550	\$ 226,766	\$ (140,784)
State grants	-	11,000	46,724	35,724
Charges for services	-	18,000	19,240	1,240
Fines and forfeitures	-	60,800	60,113	(687)
Interest	-	-	2,055	2,055
Contributions and donations	-	101,636	22,725	(78,911)
Total revenues	-	558,986	377,623	(181,363)
<b>EXPENDITURES</b>				
Public safety	-	1,018,686	371,586	(647,100)
Total expenditures	-	1,018,686	371,586	(647,100)
Excess (deficiency) of revenues over (under) expenditures	-	(459,700)	6,037	465,737
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	30,000	471,133	441,133
Total other financing sources	-	30,000	471,133	441,133
Net change in fund balance	\$ -	\$ (429,700)	477,170	\$ 906,870
Fund balance - beginning			-	
Fund balance - ending			\$ 477,170	

**City of Royal Oak, Michigan**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2007**

	<u>Recreation Administration</u>	<u>Ice Arena</u>	<u>Farmers Market</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents		\$ 868,351	\$ 140,939	\$ 1,009,290
Receivables, net of allowance for uncollectibles		239		239
Deposits and other assets	\$ 3,075			3,075
Due from other funds	59,579		60,533	120,112
Total current assets	<u>62,654</u>	<u>868,590</u>	<u>201,472</u>	<u>1,132,716</u>
Noncurrent assets:				
Capital assets	4,474,564	4,791,043	2,360,328	11,625,935
Less accumulated depreciation	(436,970)	(2,119,651)	(490,739)	(3,047,360)
Total capital assets (net of accumulated depreciation)	<u>4,037,594</u>	<u>2,671,392</u>	<u>1,869,589</u>	<u>8,578,575</u>
Total assets	<u>4,100,248</u>	<u>3,539,982</u>	<u>2,071,061</u>	<u>9,711,291</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	17,077	54,409	12,721	84,207
Accrued and other liabilities	17,340	28,391	1,692	47,423
Due to other funds		56,505		56,505
Bonds payable		280,000		280,000
Total current liabilities	<u>34,417</u>	<u>419,305</u>	<u>14,413</u>	<u>468,135</u>
Noncurrent liabilities:				
Accrued compensated absences	23,551	14,872	598	39,021
Other long-term liabilities	2,000	1,000		3,000
Bonds payable		932,167		932,167
Total noncurrent liabilities	<u>25,551</u>	<u>948,039</u>	<u>598</u>	<u>974,188</u>
Total liabilities	<u>59,968</u>	<u>1,367,344</u>	<u>15,011</u>	<u>1,442,323</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,037,594	1,459,225	1,869,589	7,366,408
Restricted for cultural activities	2,653			2,653
Unrestricted	33	713,413	186,461	899,907
Total net assets	<u>\$ 4,040,280</u>	<u>\$ 2,172,638</u>	<u>\$ 2,056,050</u>	<u>\$ 8,268,968</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2007**

	<b>Recreation Administration</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 602,045	\$ 1,307,531	\$ 275,334	\$ 2,184,910
Other			390	390
Total operating revenues	<u>602,045</u>	<u>1,307,531</u>	<u>275,724</u>	<u>2,185,300</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	260,385	110,938	28,134	399,457
Supplies	18,730	68,221	6,812	93,763
Other services and charges	339,788	797,350	176,015	1,313,153
Depreciation	89,955	144,279	56,659	290,893
Total operating expenses	<u>708,858</u>	<u>1,120,788</u>	<u>267,620</u>	<u>2,097,266</u>
Operating income (loss)	<u>(106,813)</u>	<u>186,743</u>	<u>8,104</u>	<u>88,034</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal grants			6,562	6,562
Interest income		30,508	7,845	38,353
Contributions and donations	3,025			3,025
Interest expense		(67,359)		(67,359)
Total nonoperating revenue (expenses)	<u>3,025</u>	<u>(36,851)</u>	<u>14,407</u>	<u>(19,419)</u>
Change in net assets	(103,788)	149,892	22,511	68,615
Total net assets - beginning	<u>4,144,068</u>	<u>2,022,746</u>	<u>2,033,539</u>	<u>8,200,353</u>
Total net assets - ending	<u>\$ 4,040,280</u>	<u>\$ 2,172,638</u>	<u>\$ 2,056,050</u>	<u>\$ 8,268,968</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2007**

	<b>Recreation Administration</b>	<b>Ice Arena</b>	<b>Farmers Market</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 650,412	\$ 1,302,567	\$ 276,195	\$ 2,229,174
Payments to vendors	(303,227)	(820,900)	(160,732)	(1,284,859)
Payments to employees	(173,652)	(61,499)	(28,659)	(263,810)
Payments of benefits on behalf of employees	(74,623)	(22,378)	(7,673)	(104,674)
Internal activity - payments to other funds	(97,835)	(94,926)	(116,430)	(309,191)
Net cash provided by (used in) operating activities	<u>1,075</u>	<u>302,864</u>	<u>(37,299)</u>	<u>266,640</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Donations and grant proceeds	3,025		6,562	9,587
Decrease in other long-term liabilities	(4,100)	(2,100)		(6,200)
Net cash provided by (used in) noncapital financing activities	<u>(1,075)</u>	<u>(2,100)</u>	<u>6,562</u>	<u>3,387</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets		(62,766)	(18,149)	(80,915)
Principal paid on capital debt		(261,500)		(261,500)
Interest paid on capital debt		(67,359)		(67,359)
Net cash used in capital and related financing activities		<u>(391,625)</u>	<u>(18,149)</u>	<u>(409,774)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments		30,508	7,845	38,353
Net decrease in cash and cash equivalents	-	(60,353)	(41,041)	(101,394)
Balances - beginning	-	928,704	181,980	1,110,684
Balances - ending	<u>\$ -</u>	<u>\$ 868,351</u>	<u>\$ 140,939</u>	<u>\$ 1,009,290</u>

**Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:**

Operating income (loss)	\$ (106,813)	\$ 186,743	\$ 8,104	\$ 88,034
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	89,955	144,279	56,659	290,893
Changes in assets and liabilities:				
Receivables, net	49,242	3,501	471	53,214
Deposits and other assets	(875)			(875)
Due from other funds	(37,604)		(60,533)	(98,137)
Accounts payable	(2,185)	(17,534)	(2,260)	(21,979)
Accrued and other liabilities	6,008	23,086	(6,580)	22,514
Due to other funds		(27,508)	(31,143)	(58,651)
Unearned revenue		(8,465)		(8,465)
Accrued compensated absences	3,347	(1,238)	(2,017)	92
Net cash provided by (used in) operating activities	<u>\$ 1,075</u>	<u>\$ 302,864</u>	<u>\$ (37,299)</u>	<u>\$ 266,640</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2007**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Workers Compensation</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents		\$ 300	\$ 5,000	\$ 5,300
Receivables, net of uncollectibles	\$ 5,086	38,943		44,029
Due from other funds	1,303,362	2,905,394	1,399,599	5,608,355
Inventories		190,550		190,550
Total current assets	<u>1,308,448</u>	<u>3,135,187</u>	<u>1,404,599</u>	<u>5,848,234</u>
Noncurrent assets:				
Capital assets	2,215,014	13,172,800		15,387,814
Less accumulated depreciation	(1,747,596)	(8,681,454)		(10,429,050)
Total capital assets (net of accumulated depreciation)	<u>467,418</u>	<u>4,491,346</u>		<u>4,958,764</u>
Total assets	<u>1,775,866</u>	<u>7,626,533</u>	<u>1,404,599</u>	<u>10,806,998</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	12,606	75,769	29,467	117,842
Accrued and other liabilities	28,824	48,170	648,431	725,425
Due to other funds			5,611	5,611
Due to component units			302	302
Total current liabilities	<u>41,430</u>	<u>123,939</u>	<u>683,811</u>	<u>849,180</u>
Noncurrent liabilities:				
Accrued compensated absences	<u>67,506</u>	<u>111,747</u>		<u>179,253</u>
Total noncurrent liabilities	<u>67,506</u>	<u>111,747</u>		<u>179,253</u>
Total liabilities	<u>108,936</u>	<u>235,686</u>	<u>683,811</u>	<u>1,028,433</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	467,418	4,491,346		4,958,764
Unrestricted	1,199,512	2,899,501	720,788	4,819,801
Total net assets	<u>\$ 1,666,930</u>	<u>\$ 7,390,847</u>	<u>\$ 720,788</u>	<u>\$ 9,778,565</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Revenues, Expenses, and Changes in Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Workers Compensation</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,179,242	\$ 2,805,469	\$ 852,855	\$ 4,837,566
Other revenue		38,865	12,141	51,006
Total operating revenues	<u>1,179,242</u>	<u>2,844,334</u>	<u>864,996</u>	<u>4,888,572</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	524,513	1,112,664	369,897	2,007,074
Supplies	14,533	766,450		780,983
Other services and charges	171,964	437,229	145,399	754,592
Depreciation	164,187	886,528		1,050,715
Total operating expenses	<u>875,197</u>	<u>3,202,871</u>	<u>515,296</u>	<u>4,593,364</u>
Operating income (loss)	<u>304,045</u>	<u>(358,537)</u>	<u>349,700</u>	<u>295,208</u>
<b>NONOPERATING REVENUES</b>				
Interest income			24,546	24,546
Gain on sale of capital assets	295	19,492		19,787
Total nonoperating revenue	<u>295</u>	<u>19,492</u>	<u>24,546</u>	<u>44,333</u>
Income (loss) before transfers	304,340	(339,045)	374,246	339,541
<b>TRANSFERS OUT</b>		<u>(147,355)</u>		<u>(147,355)</u>
Change in net assets	304,340	(486,400)	374,246	192,186
Total net assets - beginning, as restated	<u>1,362,590</u>	<u>7,877,247</u>	<u>346,542</u>	<u>9,586,379</u>
Total net assets - ending	<u>\$ 1,666,930</u>	<u>\$ 7,390,847</u>	<u>\$ 720,788</u>	<u>\$ 9,778,565</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<u>Information Systems</u>	<u>Motor Pool</u>	<u>Workers Compensation</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users		\$ 312,463		\$ 312,463
Internal activity - receipts from other funds	\$ 869,882	2,034,104	\$ (165,901)	2,738,085
Other operating receipts		208,327	12,141	220,468
Payments to vendors	(165,334)	(1,127,926)	(119,863)	(1,413,123)
Payments to employees	(376,982)	(645,689)	66,949	(955,722)
Payments of benefits on behalf of employees	(156,340)	(428,880)	(369,897)	(955,117)
Internal activity - payments to other funds	(22,102)	(224,536)	(12,390)	(259,028)
Net cash provided by (used in) operating activities	<u>149,124</u>	<u>127,863</u>	<u>(588,961)</u>	<u>(311,974)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds		(147,355)		(147,355)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(149,419)			(149,419)
Proceeds from sale of capital assets	295	19,492		19,787
Net cash provided by (used in) capital and related financing activities	<u>(149,124)</u>	<u>19,492</u>		<u>(129,632)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments			590,347	590,347
Purchase of investment securities			(25,932)	(25,932)
Interest received on investments			24,546	24,546
Net cash provided by investment activities			<u>588,961</u>	<u>588,961</u>
Net increase in cash and cash equivalents	-	-	-	-
Balances - beginning	-	300	5,000	5,300
Balances - ending	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 5,000</u>	<u>\$ 5,300</u>

**Reconciliation of operating income (loss) to net cash provided by operating activities:**

Operating income (loss)	\$ 304,045	\$ (358,537)	\$ 349,700	\$ 295,208
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	164,187	886,528		1,050,715
Changes in assets and liabilities:				
Receivables	(5,086)	169,462	1,867	166,243
Due from other funds	(309,360)	(458,902)	(1,018,756)	(1,787,018)
Inventories		(32,783)		(32,783)
Accounts payable	5,654	3,664	5,366	14,684
Accrued and other liabilities	8,588	12,927	66,949	88,464
Due to other funds		(94,603)	5,611	(88,992)
Due to component units			302	302
Accrued compensated absences	(18,904)	107		(18,797)
Net cash provided by (used in) operating activities	<u>\$ 149,124</u>	<u>\$ 127,863</u>	<u>\$ (588,961)</u>	<u>\$ (311,974)</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2007**

	<u>Agency</u>	<u>Tax Collection Fund</u>	<u>44th District Court</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents		\$ 4,134	\$ 580,727	\$ 584,861
Receivables, net	\$ 61,401			61,401
Due from other governmental units		28,595		28,595
Total assets	<u>\$ 61,401</u>	<u>\$ 32,729</u>	<u>\$ 580,727</u>	<u>\$ 674,857</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 19,351	\$ 31,375		\$ 50,726
Due to other governmental units	60		\$ 492,487	492,547
Cash bonds and deposits	41,990	1,354	88,240	131,584
Total liabilities	<u>\$ 61,401</u>	<u>\$ 32,729</u>	<u>\$ 580,727</u>	<u>\$ 674,857</u>

**City of Royal Oak, Michigan**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2007**

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2007</b>
<b>AGENCY FUND</b>				
Assets:				
Cash and cash equivalents	\$ 317,444	\$ 136,718,286	\$ 137,035,730	\$ -
Receivables, net	-	11,857,809	11,796,408	61,401
Total assets	<u>\$ 317,444</u>	<u>\$ 148,576,095</u>	<u>\$ 148,832,138</u>	<u>\$ 61,401</u>
Liabilities:				
Accounts payable	\$ 52,545	\$ 274,227	\$ 307,421	\$ 19,351
Due to other governmental units	141,276	48,249,233	48,390,449	60
Cash bonds and deposits	123,623	98,906,840	98,988,473	41,990
Total liabilities	<u>\$ 317,444</u>	<u>\$ 147,430,300</u>	<u>\$ 147,686,343</u>	<u>\$ 61,401</u>
<b>TAX COLLECTION FUND</b>				
Assets:				
Cash and cash equivalents	\$ -	\$ 64,104,334	\$ 64,100,200	\$ 4,134
Due from other governmental units	-	2,947,194	2,918,599	28,595
Total assets	<u>\$ -</u>	<u>\$ 67,051,528</u>	<u>\$ 67,018,799</u>	<u>\$ 32,729</u>
Liabilities:				
Accounts payable	\$ -	\$ 13,517,438	13,486,063	\$ 31,375
Due to other governmental units	-	17,027,579	17,027,579	-
Cash bonds and deposits	-	32,291,819	32,290,465	1,354
Total liabilities	<u>\$ -</u>	<u>\$ 62,836,836</u>	<u>\$ 62,804,107</u>	<u>\$ 32,729</u>
<b>44TH DISTRICT COURT</b>				
Assets, cash and cash equivalents	<u>\$ 661,980</u>	<u>\$ 6,483,171</u>	<u>\$ 6,564,424</u>	<u>\$ 580,727</u>
Liabilities:				
Accounts payable	\$ 405,036	\$ -	\$ 405,036	\$ -
Due to other governmental units	121,791	5,689,665	5,318,969	492,487
Cash bonds and deposits	135,153	793,506	840,419	88,240
Total liabilities	<u>\$ 661,980</u>	<u>\$ 6,483,171</u>	<u>\$ 6,564,424</u>	<u>\$ 580,727</u>
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets:				
Cash and cash equivalents	\$ 979,424	\$ 207,305,791	\$ 207,700,354	\$ 584,861
Receivables, net	-	11,857,809	11,796,408	61,401
Due from other governmental units	-	2,947,194	2,918,599	28,595
Total assets	<u>\$ 979,424</u>	<u>\$ 222,110,794</u>	<u>\$ 222,415,361</u>	<u>\$ 674,857</u>
Liabilities:				
Accounts payable	\$ 457,581	\$ 13,791,665	\$ 14,198,520	\$ 50,726
Due to other governmental units	263,067	70,966,477	70,736,997	492,547
Cash bonds and deposits	258,776	131,992,165	132,119,357	131,584
Total liabilities	<u>\$ 979,424</u>	<u>\$ 216,750,307</u>	<u>\$ 217,054,874</u>	<u>\$ 674,857</u>

**City of Royal Oak, Michigan**  
**Balance Sheets**  
**Component Units**  
**June 30, 2007**

	<b>Tax Increment Financing Authority</b>	<b>Downtown Development Authority</b>	<b>Housing Commission</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,213,722		\$ 188,094
Investments	2,474,835		
Receivables, net of uncollectibles	120,427	\$ 2,959	
Deposits and other assets			93,840
Due from primary government		33,215	302
Due from other governmental units	202,871	2,153	36,086
Total assets	<u>4,011,855</u>	<u>38,327</u>	<u>318,322</u>
<b>LIABILITIES</b>			
Accounts payable	67,088	296	3,745
Accrued and other liabilities	3,654	1,922	4,467
Due to primary government	625,332		100,598
Deferred revenue	88,894	2,958	
Total liabilities	<u>784,968</u>	<u>5,176</u>	<u>108,810</u>
<b>FUND BALANCES</b>			
Unreserved	<u>3,226,887</u>	<u>33,151</u>	<u>209,512</u>
Total fund balances	3,226,887	33,151	209,512

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	3,939,873		4,099
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures	88,894	2,958	
- Long-term liabilities are not due and payable in the current period and are not reported at the fund level	(414,825)	(8,591)	(16,421)
- Interest on long-term debt is not accrued at fund level, but rather is recognized as an expenditure when due	(6,375)		
Total net assets for component units	<u>\$ 6,834,454</u>	<u>\$ 27,518</u>	<u>\$ 197,190</u>

**City of Royal Oak, Michigan**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Component Units**  
**For the Year Ended June 30, 2007**

	<b>Tax</b>			
	<b>Increment</b>	<b>Downtown</b>	<b>Economic</b>	<b>Housing</b>
	<b>Financing</b>	<b>Development</b>	<b>Development</b>	<b>Commission</b>
	<b>Authority</b>	<b>Authority</b>	<b>Corporation</b>	
<b>REVENUES</b>				
Taxes	\$ 2,086,487	\$ 48,556		
Federal grants				\$ 1,422,909
Interest and rentals	339,300		\$ 2	2,272
Contributions and donations	23,816			
Other revenues	254,397			
Total revenues	<u>2,704,000</u>	<u>48,556</u>	<u>2</u>	<u>1,425,181</u>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits		44,388		96,170
Supplies		2,973		3,087
Other services and charges		5,222		19,625
Housing assistance payments				1,096,787
Community and economic development	3,595,529		9,853	
Debt service:				
Principal payments	100,000			
Interest expense	28,500			
Total expenditures	<u>3,724,029</u>	<u>52,583</u>	<u>9,853</u>	<u>1,215,669</u>
Net change in fund balance	(1,020,029)	(4,027)	(9,851)	209,512
Fund balances - beginning, as restated	4,246,916	37,178	9,851	-
Fund balances - ending	<u>\$ 3,226,887</u>	<u>\$ 33,151</u>	<u>\$ -</u>	<u>\$ 209,512</u>

**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, 2007**

	<u>Tax Increment Financing Authority</u>	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Housing Commission</u>
Net change in fund balances - component units	\$ (1,020,029)	\$ (4,027)	\$ (9,851)	\$ 209,512
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 (\$1,980,038) exceeded depreciation (\$56,740) in the current period for the Tax Increment Financing Authority and the amount of depreciation for the Housing Commission.	1,923,298			(3,049)
- Taxes receivable are expected to be collected over several years, and are not available to pay current year expenditures.	28,666	287		
- 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	(11,528)			
Amortization of bond discount	340			
Compensated absences		(8,591)		(1,814)
Noncurrent portion of general liability claims				(2,000)
Combined adjustment	<u>(11,188)</u>	<u>(8,591)</u>		<u>(3,814)</u>
Change in net assets of component units	<u>\$ 1,020,747</u>	<u>\$ (12,331)</u>	<u>\$ (9,851)</u>	<u>\$ 202,649</u>

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Tax Increment Financing Authority**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,019,468	\$ 1,925,971	\$ 2,086,487	\$ 160,516
Interest and rentals	70,000	100,000	339,300	239,300
Contributions and donations	70,000	31,500	23,816	(7,684)
Other revenue	-	250,000	254,397	4,397
Total revenues	<u>4,159,468</u>	<u>2,307,471</u>	<u>2,704,000</u>	<u>396,529</u>
<b>EXPENDITURES</b>				
Community and economic development	7,780,968	6,425,871	3,595,529	(2,830,342)
Debt service:				
Principal payments	128,500	128,500	100,000	(28,500)
Interest and paying agents fees	-	-	28,500	28,500
Total expenditures	<u>7,909,468</u>	<u>6,554,371</u>	<u>3,724,029</u>	<u>(2,830,342)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,750,000)</u>	<u>(4,246,900)</u>	<u>(1,020,029)</u>	<u>3,226,871</u>
Net change in fund balance	<u>\$ (3,750,000)</u>	<u>\$ (4,246,900)</u>	<u>(1,020,029)</u>	<u>\$ 3,226,871</u>
Fund balance - beginning			4,246,916	
Fund balance - ending			<u>\$ 3,226,887</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Downtown Development Authority**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 48,800	\$ 48,800	\$ 48,556	\$ (244)
Interest and rentals	100	100	-	(100)
Total revenues	<u>48,900</u>	<u>48,900</u>	<u>48,556</u>	<u>(344)</u>
<b>EXPENDITURES</b>				
Salaries and benefits	30,400	30,400	44,388	13,988
Supplies	11,000	11,000	2,973	(8,027)
Other services and charges	15,500	44,678	5,222	(39,456)
Total expenditures	<u>56,900</u>	<u>86,078</u>	<u>52,583</u>	<u>(33,495)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,000)</u>	<u>(37,178)</u>	<u>(4,027)</u>	<u>33,151</u>
Net change in fund balance	<u>\$ (8,000)</u>	<u>\$ (37,178)</u>	<u>(4,027)</u>	<u>\$ 33,151</u>
Fund balance - beginning			<u>37,178</u>	
Fund balance - ending			<u>\$ 33,151</u>	

**City of Royal Oak, Michigan**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual**  
**Housing Commission**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
<b>REVENUES</b>				
Federal grants	\$ -	\$ 2,227,000	\$ 1,422,909	\$ (804,091)
Interest and rentals	-	-	2,272	2,272
Total revenues	-	2,227,000	1,425,181	(801,819)
<b>EXPENDITURES</b>				
Salaries and benefits	89,640	90,840	96,170	5,330
Supplies	-	3,500	3,087	(413)
Other services and charges	7,870	16,670	19,625	2,955
Housing assistance payments	-	1,100,000	1,096,787	(3,213)
Total expenditures	97,510	1,211,010	1,215,669	4,659
Excess (deficiency) of revenues over (under) expenditures	(97,510)	1,015,990	209,512	(806,478)
Net change in fund balance	\$ (97,510)	\$ 1,015,990	209,512	\$ (806,478)
Fund balance - beginning			-	
Fund balance - ending			\$ 209,512	

## STATISTICAL SECTION

This part of the City of Royal Oak's comprehensive annual financial report presents detailed information as context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends .....	80-84
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity .....	85-90
These schedules contain trend information to help the reader assess the factors affecting the City's ability to generate its property taxes.	
Debt Capacity . .....	91-97
These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information .....	98-99
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	
Operating Information .....	100-103
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

*Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year. The City implemented GASB Statement 34 in the fiscal year ended 6/30/03; schedules presenting government-wide information include information beginning in that year.*

**City of Royal Oak, Michigan**  
**Financial Trends**  
**Net Assets by Component**  
(accrual basis of accounting)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 102,083,257	\$ 108,113,604	\$ 109,014,440	\$ 116,963,284	\$ 118,453,656
Restricted	15,710,666	16,080,945	20,087,516	19,737,682	22,836,277
Unrestricted	(1,295,989)	920,013	3,704,314	2,737,267	2,958,906
Total governmental activities net assets	\$ 116,497,934	\$ 125,114,562	\$ 132,806,270	\$ 139,438,233	\$ 144,248,839
Business-type activities:					
Invested in capital assets, net of related debt	\$ 39,723,931	\$ 40,189,816	\$ 42,629,281	\$ 49,403,430	\$ 58,089,326
Restricted	1,399,095	2,496,788	2,574,741	2,764,237	2,653
Unrestricted	17,856,461	16,092,490	13,424,771	10,863,254	8,330,833
Total business-type activities net assets	\$ 58,979,487	\$ 58,779,094	\$ 58,628,793	\$ 63,030,921	\$ 66,422,812
Primary government:					
Invested in capital assets, net of related debt	\$ 141,807,188	\$ 148,303,420	\$ 151,643,721	\$ 166,366,714	\$ 176,542,982
Restricted	17,109,761	18,577,733	22,662,257	22,501,919	22,838,930
Unrestricted	16,560,472	17,012,503	17,129,085	13,600,521	11,289,739
Total primary government net assets	\$ 175,477,421	\$ 183,893,656	\$ 191,435,063	\$ 202,469,154	\$ 210,671,651

**City of Royal Oak, Michigan**  
**Financial Trends**  
**Changes in Net Assets**  
(accrual basis of accounting)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
<b>Expenses</b>					
Governmental activities:					
General government	\$ 11,234,438	\$ 10,723,060	\$ 9,509,493	\$ 11,837,178	\$ 11,820,682
Public safety	17,619,573	16,542,881	17,608,033	19,853,374	20,540,025
Public works	14,587,704	7,801,142	11,505,812	11,130,782	11,677,027
Health and welfare	499,650	457,109	489,725	488,655	469,999
Community and economic development	1,798,736	1,579,285	1,356,084	1,779,318	1,532,163
Recreation and culture	3,186,534	2,977,851	3,216,412	3,237,185	3,581,434
Interest and paying agent fees	747,718	728,469	708,760	733,419	793,776
Total governmental activities expenses	<u>49,674,353</u>	<u>40,809,797</u>	<u>44,394,319</u>	<u>49,059,911</u>	<u>50,415,106</u>
Business-type activities:					
Water & sewer	14,300,232	14,577,922	14,771,560	15,649,024	16,358,489
Parking	1,877,865	2,019,263	1,966,791	2,143,135	2,136,181
Recreation	2,668,982	2,716,899	2,537,582	1,973,325	1,886,696
Farmers market	217,957	194,120	213,301	259,037	266,310
Total business-type activities expenses	<u>19,065,036</u>	<u>19,508,204</u>	<u>19,489,234</u>	<u>20,024,521</u>	<u>20,647,676</u>
Total primary government expenses	<u>\$ 68,739,389</u>	<u>\$ 60,318,001</u>	<u>\$ 63,883,553</u>	<u>\$ 69,084,432</u>	<u>\$ 71,062,782</u>
<b>Program Revenues</b>					
Governmental activities:					
Charges for services	\$ 8,818,079	\$ 9,924,191	\$ 10,917,828	\$ 12,343,287	\$ 10,386,571
Operating grants and contributions	2,484,230	2,899,089	2,605,739	2,842,985	3,146,627
Capital grants and contributions	1,127,952	682,829	173,218	1,972,423	1,079,263
Total governmental activities program revenues	<u>12,430,261</u>	<u>13,506,109</u>	<u>13,696,785</u>	<u>17,158,695</u>	<u>14,612,461</u>
Business-type activities:					
Charges for services					
Water & sewer	14,676,181	15,179,686	16,728,932	19,083,625	19,659,036
Parking	1,839,840	1,948,505	2,028,753	2,075,657	2,215,151
Recreation	2,675,818	2,621,140	2,200,673	1,922,617	1,909,576
Farmers market	327,354	319,241	272,295	276,736	275,334
Operating grants and contributions	436,160	695,144	817,252	775,879	602,074
Capital grants and contributions	1,626,280	29,802	20,490	911,845	41,939
Total business-type activities program revenues	<u>21,581,633</u>	<u>20,793,518</u>	<u>22,068,395</u>	<u>25,046,359</u>	<u>24,703,110</u>
Total primary government program revenues	<u>\$ 34,011,894</u>	<u>\$ 34,299,627</u>	<u>\$ 35,765,180</u>	<u>\$ 42,205,054</u>	<u>\$ 39,315,571</u>

**City of Royal Oak, Michigan**  
**Financial Trends**  
**Changes in Net Assets, continued**  
(accrual basis of accounting)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (37,244,092)	\$ (27,303,688)	\$ (30,697,534)	\$ (31,901,216)	\$ (35,802,645)
Business-type activities	2,516,597	1,285,314	2,579,161	5,021,838	4,055,434
Total primary government net expense	<u>\$ (34,727,495)</u>	<u>\$ (26,018,374)</u>	<u>\$ (28,118,373)</u>	<u>\$ (26,879,378)</u>	<u>\$ (31,747,211)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Property taxes	\$ 20,598,307	\$ 23,137,213	\$ 24,296,152	\$ 25,266,467	\$ 26,898,481
State-shared revenues	10,235,529	9,877,965	9,675,450	9,562,574	9,350,955
Unrestricted investment earnings	525,365	343,078	553,041	1,471,827	1,938,968
Gain on sale of capital assets	44,730	13,118	38,195	32,618	30,958
Reimbursements	-	400,749	482,231	20,431	806,267
Miscellaneous	1,159,023	499,698	338,787	872,555	299,913
Transfers	35,554	1,648,495	2,044,358	1,306,707	1,287,709
Total governmental activities	<u>32,598,508</u>	<u>35,920,316</u>	<u>37,428,214</u>	<u>38,533,179</u>	<u>40,613,251</u>
Business-type activities:					
Unrestricted investment earnings	275,411	142,708	237,707	366,520	602,023
Gain on sale of capital assets	2,500	1,600	-	308,829	-
Miscellaneous	10,579	18,480	38,217	11,648	22,143
Transfers	(35,554)	(1,648,495)	(2,044,358)	(1,306,707)	(1,287,709)
Total business-type activities	<u>252,936</u>	<u>(1,485,707)</u>	<u>(1,768,434)</u>	<u>(619,710)</u>	<u>(663,543)</u>
Total primary government	<u>\$ 32,851,444</u>	<u>\$ 34,434,609</u>	<u>\$ 35,659,780</u>	<u>\$ 37,913,469</u>	<u>\$ 39,949,708</u>
<b>Change in Net Assets</b>					
Governmental activities	\$ (4,645,584)	\$ 8,616,628	\$ 6,730,680	\$ 6,631,963	\$ 4,810,606
Business-type activities	2,769,533	(200,393)	810,727	4,402,128	3,391,891
Total primary government	<u>\$ (1,876,051)</u>	<u>\$ 8,416,235</u>	<u>\$ 7,541,407</u>	<u>\$ 11,034,091</u>	<u>\$ 8,202,497</u>

**City of Royal Oak, Michigan**  
**Financial Trends**  
**Fund Balances - Governmental Funds**  
(modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
General Fund					
Reserved	\$ 83,202	\$ 109,018	\$ 121,270	\$ 107,957	\$ 106,943
Unreserved	3,231,839	4,340,265	6,637,473	6,575,442	6,576,574
Total general fund	<u>\$ 3,315,041</u>	<u>\$ 4,449,283</u>	<u>\$ 6,758,743</u>	<u>\$ 6,683,399</u>	<u>\$ 6,683,517</u>
All Other Governmental Funds					
Reserved	\$ 3,771,374	\$ 1,747,334	\$ 474,760	\$ 292,457	\$ 430,082
Unreserved, reported in:					
Special revenue funds	8,978,230	10,694,901	12,160,318	13,044,833	14,652,413
Debt service funds	544,725	680,823	1,046,485	1,437,900	1,765,680
Capital projects funds	1,826,137	1,402,123	3,056,376	494,641	266,930
Permanent fund	27,522	1,825	28,353	3,318	3,896
Total all other governmental funds	<u>\$ 15,147,988</u>	<u>\$ 14,527,006</u>	<u>\$ 16,766,292</u>	<u>\$ 15,273,149</u>	<u>\$ 17,119,001</u>

**City of Royal Oak, Michigan**  
**Financial Trends**  
**Changes in Fund Balances - Governmental Funds**  
(modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	2003	2004	2005	2006	2007
<b>Revenues</b>					
Taxes	\$ 20,363,469	\$ 22,901,870	\$ 24,308,407	\$ 25,401,427	\$ 26,843,146
Licenses and permits	1,937,879	2,184,584	3,139,452	3,176,333	2,889,242
Federal grants	2,638,283	1,722,152	1,259,964	3,698,693	3,082,224
State grants	10,605,532	10,282,660	10,062,113	9,970,737	9,803,930
Charges for services	3,567,137	4,363,152	3,857,659	4,812,481	3,589,406
Fines and forfeitures	3,417,929	3,705,665	3,992,629	4,412,285	4,145,185
Interest and rentals	671,312	512,219	772,796	1,699,490	2,120,566
Contributions and donations	103,896	536,753	1,036,809	624,994	507,954
Reimbursements	-	400,749	482,231	20,431	806,267
Other revenue	1,159,023	499,695	338,787	872,555	299,913
Total revenues	<u>44,464,460</u>	<u>47,109,499</u>	<u>49,250,847</u>	<u>54,689,426</u>	<u>54,087,833</u>
<b>Expenditures</b>					
General government	10,516,595	10,596,597	9,160,702	11,810,472	12,155,896
Public safety	17,708,881	17,078,156	18,045,357	19,978,522	20,426,500
Public works	17,583,547	15,058,320	15,693,263	19,420,647	15,152,352
Health and welfare	488,231	447,452	473,915	474,420	455,470
Community and economic development	1,835,118	1,622,347	1,349,101	1,766,681	1,569,772
Recreation and culture	2,981,456	2,870,755	2,954,605	3,232,077	3,284,964
Debt service:					
Principal payments	485,000	500,000	520,000	675,000	715,000
Interest and paying agent fees	742,415	723,310	692,014	817,317	772,931
Total expenditures	<u>52,341,243</u>	<u>48,896,937</u>	<u>48,888,957</u>	<u>58,175,136</u>	<u>54,532,885</u>
Excess (deficiency) of revenues over (under) expenditures	(7,876,783)	(1,787,438)	361,890	(3,485,710)	(445,052)
<b>Other Financing Sources (Uses)</b>					
Bond proceeds	-	-	3,700,000	5,680,000	825,000
Payment to refunded bond escrow agent	-	-	-	(5,581,777)	-
Transfers in	3,535,417	3,681,666	5,974,462	9,824,549	4,992,029
Transfers from component units	500,000	500,000	-	-	-
Transfers out	(3,499,863)	(2,075,086)	(5,525,801)	(8,073,240)	(3,556,965)
Sale of capital assets	42,980	194,118	38,195	67,691	30,958
Total other financing sources (uses)	<u>578,534</u>	<u>2,300,698</u>	<u>4,186,856</u>	<u>1,917,223</u>	<u>2,291,022</u>
Net change in fund balances	<u>\$ (7,298,249)</u>	<u>\$ 513,260</u>	<u>\$ 4,548,746</u>	<u>\$ (1,568,487)</u>	<u>\$ 1,845,970</u>

Debt service as a percentage of noncapital expenditures	2.58%	2.68%	2.79%	3.10%	3.00%
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**City of Royal Oak  
Revenue Capacity Information  
Taxable Value and Assessed Value of Taxable Property  
Last Ten Fiscal Years**

Tax Year	Fiscal Year	Real Property Taxable Value				Industrial Facilities Tax (IFT)	Total Real
		Residential	Commercial	Industrial			
2006	2007	\$ 1,760,779,950	\$ 355,053,760	\$ 54,154,390	\$ -	\$ 2,169,988,100	
2005	2006	1,636,065,740	337,410,500	52,529,200	-	2,026,005,440	
2004	2005	1,527,187,417	320,080,826	51,323,010	-	1,898,591,253	
2003	2004	1,438,121,583	308,954,576	56,238,050	599,240	1,803,913,449	
2002	2003	1,369,407,389	294,349,479	46,791,030	2,349,370	1,712,897,268	
2001	2002	1,287,075,230	285,334,539	39,472,710	3,225,490	1,615,107,969	
2000	2001	1,212,745,473	273,779,259	38,940,290	1,806,490	1,527,271,512	
1999	2000	1,153,595,130	266,104,669	35,024,260	4,770,690	1,459,494,749	
1998	1999	1,099,527,905	251,924,129	33,345,540	5,008,590	1,389,806,164	
1997	1998	1,048,816,665	245,525,839	33,526,440	4,967,000	1,332,835,944	

Note: Under Michigan law, the revenue base is Taxable Value.

Personal Property Taxable Value				Direct Tax Rate (mills)	Assessed Value	Taxable as a % of Assessed Value
Personal	Industrial Facilities Tax (IFT)	Total Personal	Total Taxable Value			
\$ 130,043,660	\$ 3,177,250	\$ 133,220,910	\$ 2,303,209,010	11.6701	\$ 3,012,515,470	76.45%
131,155,090	265,640	131,420,730	2,157,426,170	11.7816	2,871,525,690	75.13%
139,785,294	577,080	140,362,374	2,038,953,627	11.9556	2,746,054,460	74.25%
135,071,970	5,385,880	140,457,850	1,944,371,299	11.7980	2,602,654,075	74.71%
130,743,970	8,106,841	138,850,811	1,851,748,079	11.0001	2,439,739,530	75.90%
126,792,710	10,388,770	137,181,480	1,752,289,449	10.4159	2,209,484,430	79.31%
126,311,840	8,040,473	134,352,313	1,661,623,825	11.9057	2,074,699,490	80.09%
121,958,500	14,925,268	136,883,768	1,596,378,517	12.4369	1,921,398,510	83.08%
113,886,000	18,217,300	132,103,300	1,521,909,464	13.1910	1,743,314,170	87.30%
104,806,700	15,403,500	120,210,200	1,453,046,144	13.5215	1,561,444,550	93.06%

**City of Royal Oak  
Revenue Capacity Information  
Property Tax Rates - Direct and Overlapping  
Last Ten Fiscal Years**

Direct City Taxes - Millage Rates (\$1 per 1,000) (1)

Tax Year	Fiscal Year	General Operating		Solid Waste Operating		Library Operating	Debt	Total Direct Taxes
		Charter	Publications	Refuse	Recycling			
2006	2007	7.4207	0.0222	2.0235	0.9304	0.9631	0.3102	11.6701
2005	2006	7.4806	0.0227	2.0399	0.9380	0.9709	0.3295	11.7816
2004	2005	7.5769	0.0240	2.0662	0.9501	0.9834	0.3550	11.9556
2003	2004	7.7048	0.0253	2.1011	0.5989	1.0000	0.3679	11.7980
2002	2003	7.8349	0.0268	2.1366	0.6133	-	0.3885	11.0001
2001	2002	7.9737	0.0282	1.9790	0.3500	-	0.0850	10.4159
2000	2001	8.0993	0.0297	2.2088	0.2360	-	1.3319	11.9057
1999	2000	8.3535	0.0314	2.0520	0.5000	-	1.5000	12.4369
1998	1999	8.5113	0.0327	2.2694	0.8276	-	1.5500	13.1910
1997	1998	8.5636	0.0342	2.2837	1.0000	-	1.6400	13.5215

Notes:

- (1) General Operating millage includes the Charter operating rate and for fiscal years 1997-1998, 1998-1999 and 1999-2000, a drain millage of 0.1500, 0.1900 and 0.1900 mills respectively. The Refuse rate is authorized by State statute and the Recycling rate is local voted authority.

Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents, as follows:

Tax Year	Fiscal Year	General Operating		Solid Waste Operating		Library Operating	Debt
		Charter	Publications	Refuse	Recycling		
2006	2007	7.4207	2.6983	2.0235	0.9304	0.9631	no limit
			not to exceed \$50,000 / year				

- (2) County Rate includes Oakland County, Oakland County Park, Oakland County Public Transit Authority, and Huron Clinton Metropolitan Park Authority rates
- (3) Royal Oak Schools serve 98.98% of the taxable value of the city. Berkley and Clawson school districts serve the remaining area.
- (4) A Homeowner's Principal Residence Exemption (P.R.E.) grants up to 18 mills of school tax relief to qualified homeowners (Public Act 15 of 2003, MCL 211.7cc as amended). It is administered by the local assessor and affects the local tax bill. An independent state homestead property tax credit (MCL 206.508 et seq.) to qualified homeowners and renters is administered directly by the Michigan Department of Treasury as additional property tax relief.
- (5) DDA tax rates apply only to parcels within a Downtown Development Authority district.

County Taxes (2)	Overlapping Taxes			Total Tax Rate	Overlapping Taxes Royal Oak Schools		Total (3)		Downtown Development Authority (DDA) (5)
	Intermediate School District	Oakland Community College	State Education Tax (SET)	Before School Taxes	(3) School P.R.E.	School Non-P.R.E.	Tax Rate for P.R.E.	Tax Rate for Non-P.R.E.	
5.2361	3.3690	1.5844	6.0000	27.8596	7.7030	22.7100	35.5626	50.5696	1.6831
5.2411	3.3690	1.5844	6.0000	27.9761	6.0130	20.3161	33.9891	48.2922	1.6831
5.2438	3.3789	1.5889	6.0000	28.1672	7.5000	21.2061	35.6672	49.3733	1.7156
5.2471	3.3991	1.5983	5.0000	27.0425	7.8000	20.6061	34.8425	47.6486	1.7156
5.2523	3.4224	1.6090	6.0000	27.2838	8.1500	21.2061	35.4338	48.4899	1.7156
4.9645	3.4526	1.5952	6.0000	26.4282	8.6500	21.5028	35.0782	47.9310	1.7453
4.9714	2.0752	1.6109	6.0000	26.5632	8.7700	21.6000	35.3332	48.1632	1.7452
4.9792	2.0998	1.6310	6.0000	27.1469	8.8000	21.4000	35.9469	48.5469	1.7776
4.6564	2.1208	1.6500	6.0000	27.6182	8.9000	21.2000	36.5182	48.8182	1.7600
4.8180	2.1294	1.6600	6.0000	28.1289	9.2500	21.0500	37.3789	49.1789	1.7536

**City of Royal Oak  
Revenue Capacity Information  
Principal Property Taxpayers  
Current Year and Nine Years Ago**

Taxpayer	1997			2006		
	Taxable Value	Rank	Percentage of Total	Taxable Value	Rank	Percentage of Total
Detroit Edison	\$ 17,789,000	1	1.22%	\$ 24,131,770	1	1.05%
Spirit Holdings / Form Tech			-	23,664,650	2	1.03%
Beaumont Hospital	13,314,440	3	0.92%	15,069,880	3	0.66%
Amber Equities, LLC			-	14,535,200	4	0.63%
Flex-N-Gate			-	13,784,850	5	0.60%
Consumer's Energy	11,094,300	4	0.76%	9,636,920	6	0.42%
Co-op Services	8,027,750	7	0.55%	9,562,570	7	0.42%
National City Bank			-	8,047,980	8	0.35%
Meijer, Inc.	7,523,570	10	0.52%	7,592,030	9	0.33%
Woodland Gardens			-	5,612,700	10	0.24%
Masco	17,147,050	2	1.18%			-
Hawthorn Metal	10,572,450	5	0.73%			-
First of America	10,541,840	6	0.73%			-
Detroit Cellular	7,854,160	8	0.54%			-
Amber Management	6,719,489	9	0.46%			-
Total taxable value of ten largest taxpayers	110,584,049		7.61%	131,638,550		5.72%
Total taxable value of all other taxpayers	1,342,462,095		92.39%	2,168,393,210		94.28%
Total taxable value of all taxpayers	<u>\$ 1,453,046,144</u>		<u>100.00%</u>	<u>\$ 2,300,031,760</u>		<u>100.00%</u>

**City of Royal Oak  
Revenue Capacity Information  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

Tax Year	Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percent of Levy		Amount	Percent of Levy
2006	2007	\$32,444,117	\$30,394,067	93.68%	\$2,024,403	\$32,418,470	99.92%
2005	2006	30,379,835	28,584,387	94.09%	1,691,315	30,275,702	99.65%
2004	2005	28,929,702	27,362,635	94.58%	1,392,526	28,755,161	99.39%
2003	2004	26,869,041	25,491,315	94.87%	1,168,274	26,659,589	99.22%
2002	2003	23,982,743	22,721,005	94.73%	1,061,254	23,782,259	99.16%
2001	2002	21,552,468	20,483,366	95.03%	902,441	21,385,807	99.22%
2000	2001	23,035,265	21,827,216	94.75%	1,018,101	22,845,317	99.17%
1999	2000	19,054,112	18,594,405	97.58%	316,801	18,911,206	99.24%
1998	1999	19,204,791	18,778,793	97.78%	272,359	19,051,152	99.19%
1997	1998	18,865,152	18,432,796	97.70%	404,983	18,837,779	99.85%

**City of Royal Oak  
Debt Capacity Information  
Ratios of Outstanding Debt  
Last Ten Fiscal Years**

	1998	1999	2000	2001
<b>Governmental Activities</b>				
General obligation bonds	\$ 6,505,000	\$ 11,955,000	\$ 9,585,000	\$ 7,155,000
Installment purchase agreements	38,496	-	-	-
Special assessment bonds	-	-	-	-
Capital leases	-	-	-	-
Loans & other contractual obligations	594,231	222,727	-	-
Total	7,137,727	12,177,727	9,585,000	7,155,000
<b>Business-type Activities</b>				
General obligation bonds	11,400,000	9,415,000	7,385,000	30,089,872
Installment purchase agreements	-	-	-	-
Special assessment bonds	-	-	-	-
Revenue bonds	-	-	-	-
Capital leases	-	-	-	-
Loans and Contractual obligations	1,710,691	1,670,068	1,620,417	6,983,973
Total	13,110,691	11,085,068	9,005,417	37,073,845
<b>Component Unit Activities</b>				
General obligation bonds	1,100,000	1,050,000	1,000,000	950,000
Loans and Contractual obligations	3,367,896	3,167,896	1,900,000	1,400,000
Total	4,467,896	4,217,896	2,900,000	2,350,000
Total debt of the City	<u>\$ 24,716,314</u>	<u>\$ 27,480,691</u>	<u>\$ 21,490,417</u>	<u>\$ 46,578,845</u>
Total taxable value	\$ 1,453,046,144	\$ 1,521,909,464	\$ 1,596,378,517	\$ 1,661,623,825
Ratio of total debt to taxable value	1.70%	1.81%	1.35%	2.80%
Total population	64,336	63,700	60,062	59,707
Total debt per capita	\$384	\$431	\$358	\$780

	2002	2003	2004	2005	2006	2007
\$	15,975,000	\$ 15,490,000	\$ 14,990,000	\$ 18,170,000	\$ 17,700,000	\$ 17,810,000
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	15,975,000	15,490,000	14,990,000	18,170,000	17,700,000	17,810,000
	27,412,387	25,517,387	24,437,387	23,327,387	23,757,387	22,437,387
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	17,866,420	23,320,729	31,280,486	32,744,671	32,447,026	31,164,996
	45,278,807	48,838,116	55,717,873	56,072,058	56,204,413	53,602,383
	875,000	800,000	725,000	625,000	525,000	425,000
	-	-	-	-	-	-
	875,000	800,000	725,000	625,000	525,000	425,000
\$	62,128,807	\$ 65,128,116	\$ 71,432,873	\$ 74,867,058	\$ 74,429,413	\$ 71,837,383
\$	1,752,289,449	\$ 1,851,748,079	\$ 1,994,371,299	\$ 2,038,953,627	\$ 2,157,426,170	\$ 2,303,209,010
	3.55%	3.52%	3.58%	3.67%	3.45%	3.12%
	59,223	58,834	58,485	58,279	57,984	55,777
	\$1,049	\$1,107	\$1,221	\$1,285	\$1,284	\$1,288

**City of Royal Oak  
Debt Capacity Information  
Ratios of General Bond Debt Outstanding  
Last Ten Fiscal Years**

Fiscal Year	Limited tax General Obligation Bonds (LTGO)	Tax Supported Bonds (UTGO)	Less Pledged Debt Service Funds	Other General Obligation Debt	Net General Bonded Debt	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
2007	\$ 10,390,000	\$ 7,420,000	\$ 1,765,680	\$ -	\$ 16,044,320	\$ 2,303,209,010	0.70%	55,777	\$ 288
2006	9,940,000	7,760,000	1,437,900	-	16,262,100	2,157,426,170	0.75%	57,984	280
2005	10,085,000	8,085,000	1,046,485	-	17,123,515	2,038,953,627	0.84%	58,485	293
2004	6,590,000	8,400,000	680,823	-	14,309,177	1,944,371,299	0.74%	58,834	243
2003	6,785,000	8,705,000	666,776	-	14,823,224	1,851,748,079	0.80%	59,223	250
2002	6,975,000	9,000,000	396,657	-	15,578,343	1,752,289,449	0.89%	59,707	261
2001	7,155,000	-	600	-	7,154,400	1,661,623,825	0.43%	59,707	120
2000	9,585,000	600,000	108,025	-	10,076,975	1,596,378,517	0.63%	60,062	168
1999	11,955,000	1,100,000	102,801	222,727	13,174,926	1,521,909,464	0.87%	63,700	207
1998	6,505,000	1,600,000	129,831	632,727	8,607,896	1,453,046,144	0.59%	64,336	134

**City of Royal Oak  
Debt Capacity Information  
Direct and Overlapping Governmental Activities Debt  
June 30, 2007**

Government Unit	Gross	Self-Supporting	Net	Net Debt (2)	
				Per Capita	% of Taxable Value
Direct Debt - City of Royal Oak	\$ 78,790,205	\$ 67,060,205	\$ 11,730,000	\$210	0.51%
Overlapping Debt (1):	Gross	City share as % of Gross	Net City Share		
Royal Oak School District	86,189,000	96.08%	82,810,391		
Berkley School District	32,650,000	1.96%	639,940		
Clawson School District	26,750,000	1.16%	310,300		
Oakland County at large	109,296,247	3.70%	4,043,961		
Okland Intermediate School District	55,185,000	3.71%	2,047,364		
Oakland County Community College	8,995,000	3.72%	334,614		
Total Overlapping Debt	<u>319,065,247</u>		<u>90,186,570</u>	<u>\$1,617</u>	<u>3.92%</u>
Total Direct and Overlapping Debt	<u>\$ 397,855,452</u>		<u>\$ 101,916,570</u>	<u>\$1,827</u>	<u>4.42%</u>

(1) Overlapping debt figures, as of 10/31/07, supplied by the Municipal Advisory Commission of Michigan. Future schedules will be prepared as of June 30th.

(2) Based upon the City's 2007 SEMCOG estimate of \$55,777 and 2006 ad Valorem Taxable Valuation of \$2,303,209,010.

**City of Royal Oak  
Debt Capacity Information  
Computation of Legal Debt Margin  
Last Ten Fiscal Years**

As of June 30	1998	1999	2000	2001
Valuation base				
State equalized valuation - excluding IFT values	\$ 1,544,074,050	\$ 1,720,088,280	\$ 1,901,702,552	\$ 2,064,852,527
Plus: equivalent valuation of Act 198 exemptions	10,185,250	11,612,945	9,847,979	4,923,482
Total valuation	<u>\$ 1,554,259,300</u>	<u>\$ 1,731,701,225</u>	<u>\$ 1,911,550,531</u>	<u>\$ 2,069,776,009</u>
Legal debt limitation - 10% of total valuation	\$ 155,425,930	\$ 173,170,122	\$ 191,155,053	\$ 206,977,600
Calculation of debt subject to limit:				
Debt outstanding	24,672,193	27,441,637	21,453,006	46,403,753
Less: Bonds not subject to limit	-	-	-	(18,972,592)
Net debt subject to limit	<u>20,417,193</u>	<u>24,186,637</u>	<u>19,228,006</u>	<u>26,311,161</u>
Additional Debt which can be legally incurred	<u>\$ 135,008,737</u>	<u>\$ 148,983,485</u>	<u>\$ 171,927,047</u>	<u>\$ 180,666,439</u>
Non-exempt debt as a percent of debt limit	13.14%	13.97%	10.06%	12.71%

Section 21 of Article VII of the Michigan Constitution establishes the City, subject to statutory and constitutional limitations, for municipalities to incur debt for public purposes:

"The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for other public purposes, subject to the limitations and prohibitions provided by the constitution or by law."

In accordance with the foregoing authority granted to the State Legislature, the Home Rule Cities Act limits the amount of debt a home rule city may have outstanding at any time. Section 4-a of the Home Rule Cities Act provides:

"The net indebtedness incurred for all public purposes may be as much as but shall not exceed the greater of the following:

- (a) Ten percent of all the real and personal property of the city adjusted for tax abated property.
- (b) Fifteen percent of the assessed value of all the real and personal property in the city if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities."

Significant exceptions to the debt limitation have been permitted by the Home Rule Cities Act for certain types of indebtedness which include: special assessment bonds and Michigan transportation fund bonds (formerly motor vehicle highway fund bonds), even though they are a general obligation of the City; revenue bonds payable from revenues only, whether secured by a mortgage or not; bonds issued or contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage or refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; and bonds issued for construction, improvements and replacement of a combined sewer overflow abatement facility. The resources of a sinking fund pledged for the retirement of outstanding bonds shall also be excluded in computing the debt limitation.

The ten percent limit may be exceeded by 3/8 of 1% in case of flood, fire or other calamity.

2002	2003	2004	2005	2006	2007
\$ 2,195,870,170	\$ 2,429,283,319	\$ 2,596,668,955	\$ 2,745,477,380	\$ 2,871,260,050	\$ 3,009,338,220
6,807,130	5,228,106	2,992,560	288,540	132,820	1,588,625
<u>\$ 2,202,677,300</u>	<u>\$ 2,434,511,425</u>	<u>\$ 2,599,661,515</u>	<u>\$ 2,745,765,920</u>	<u>\$ 2,871,392,870</u>	<u>\$ 3,010,926,845</u>
\$ 220,267,730	\$ 243,451,142	\$ 259,966,151	\$ 274,576,592	\$ 287,139,287	\$ 301,092,684
61,960,931	65,128,116	71,432,873	74,867,058	75,282,703	71,837,383
(29,601,232)	(34,469,219)	(41,917,168)	(42,864,058)	(46,219,294)	(44,273,335)
<u>32,359,699</u>	<u>30,658,897</u>	<u>29,515,705</u>	<u>32,003,000</u>	<u>29,063,409</u>	<u>27,564,048</u>
<u>\$ 187,908,031</u>	<u>\$ 212,792,245</u>	<u>\$ 230,450,446</u>	<u>\$ 242,573,592</u>	<u>\$ 258,075,878</u>	<u>\$ 273,528,636</u>
14.69%	12.59%	11.35%	11.66%	10.12%	9.15%

**City of Royal Oak  
Debt Capacity Information  
Pledged Revenue Coverage  
Last Ten Fiscal Years**

Water Revenue Bonds							
Fiscal Year	Water & Sewer Operating Revenue	Less: Applicable Operating Expenses (1)	Net Revenue Available for Debt Service	Debt Service Requirement			Coverage
				Principal	Interest	Total	
2007	\$19,714,401	\$14,563,795	\$5,150,606	\$1,972,419	\$379,445	\$2,351,864	219%
2006	19,115,763	14,109,712	5,006,051	2,163,984	204,050	2,368,034	211%
2005	16,777,421	14,082,981	2,694,440	1,964,171	196,159	2,160,330	125%
2004	15,196,867	13,044,416	2,152,451	896,906	206,890	1,103,796	195%
2003	14,949,750	13,118,699	1,831,051	964,235	807,551	1,771,786	103%
2002	14,076,381	11,793,151	2,283,230	1,821,622	521,794	2,343,416	97%
2001	13,283,849	10,470,116	2,813,733	1,167,108	231,228	1,398,336	201%
2000	12,120,192	11,068,257	1,051,935	1,087,595	222,457	1,310,052	80%
1999	12,125,741	10,536,047	1,589,694	1,048,567	270,239	1,318,806	121%
1998	10,652,646	9,950,567	702,079	972,944	227,134	1,200,078	59%

Note: (1) Operating expenses net of depreciation and amortization.

**City of Royal Oak  
Demographic and Economic Information  
Demographic Statistics  
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Population (1)	Number of Households (2)	Per Capita Income (3)	School Enrollment (4)	Median Age (5)	Royal Oak (6)		Michigan (7)
						Labor Force	Unemployment Rate	Unemployment Rate
2007	55,777	28,889	\$40,324	5,301	39.5	35,610	3.9%	7.0%
2006	57,984	28,760	\$39,579	5,496	39.3	35,655	3.5%	6.9%
2005	58,279	28,722	\$26,554	5,726	36.2	35,860	3.5%	6.8%
2004	58,485	28,678	\$36,469	6,017	38.6	36,073	3.5%	7.0%
2003	58,834	28,712	*	6,311	*	36,510	3.4%	7.1%
2002	59,223	28,902	*	6,555	*	36,971	3.2%	6.2%
2001	59,707	28,893	*	6,634	*	37,840	2.7%	5.2%
2000	60,062	28,788	*	6,620	36.9	38,663	1.7%	3.7%
1999	63,700	*	\$30,990	6,687	*	42,558	2.4%	3.8%
1998	64,336	*	*	6,723	*	*	*	4.0%

Source:

- \* Information not available.
- (1) 2000 U.S. Census and SEMCOG July 1, 2007 estimate.
- (2) 2000 U.S. Census and SEMCOG July 1 estimates for 1998-2006 and Oct 1, 2007.
- (3) Per capita numbers are provided by Oakland County Planning and Economic Department based on 2000 US Census data using 2004-2007 Business Analyst ESRI estimates.
- (4) Royal Oak Schools 4th Monday count.
- (5) Median Ages per 2000 Census and 2004-2007 Business Analyst ESRI estimates.
- (6) Michigan Dept. of Labor & Economic Growth: Labor Market Information. Data is not seasonally adjusted. Current year is as of August; prior years are annual averages.
- (7) MDLEG LMI seasonally adjusted rates. Current year is as of August; prior years are annual averages.

**City of Royal Oak  
Demographic and Economic Information  
Principal Employers  
Current Year and Eight Years Ago**

Taxpayer	1998			2006		
	Employees	Rank	Percentage of Total	Employees	Rank	Percentage of Total
William Beaumont Hospital	11,400	1	70.02%	12,227	1	80.17%
Royal Oak School District	680	4	4.18%	605	2	3.97%
Meijer, Inc.	835	3	5.13%	450	3	2.95%
City of Royal Oak	390	6	2.40%	380	4	2.49%
National City Bank			-	302	5	1.98%
Form Tech Industries LLC	260	11	1.60%	298	6	1.95%
Flex-N-Gate Royal Oak			-	260	7	1.70%
Kroger			-	260	8	1.70%
Detroit Zoological Society			-	250	9	1.64%
Holiday Market			-	220	10	1.44%
First of America Bank	840	2	5.16%			-
Consumers Energy	615	5	3.78%			-
Masco Industries	340	7	2.09%			-
Hawthorne Metal Products	320	8	1.97%			-
Deco Grand Inc.	310	9	1.90%			-
Judson Center	290	10	1.78%			-
<b>Total</b>	<b>16,280</b>		<b>100.00%</b>	<b>15,252</b>		<b>100.00%</b>

Note: Sources include Oakland County Planning and Economic Development, School District of the City of Royal Oak and City of Royal Oak

**City of Royal Oak**  
**Operating Information**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

Function / Program	Fiscal Year Ending June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Election data</b> (calendar year)										
Registered voters	53,177	52,191	52,812	51,714	48,849	48,700	49,605	47,098	46,047	*
Elections held	3	4	4	4	3	2	3	3	3	*
Voters (at the polls or absentee)	24,791	8,493	32,102	11,455	24,575	10,808	3,523	16,645	27,746	*
Percent voting	46.6%	17.0%	60.8%	22.2%	50.3%	22.2%	71.0%	35.3%	60.3%	*
<b>Vital Records</b> (calendar year)										
Birth	2,731	6,496	7,013	6,787	6,825	7,114	6,658	6,230	6,094	*
Death	1,886	1,957	1,950	2,011	1,990	1,947	2,016	1,994	1,995	*
<b>District Court</b>										
Number of court cases by judges	6,157	6,022	5,494	4,408	6,297	7,402	6,934	6,946	7,689	7,404
Number of court cases by majistrates	6,128	5,780	4,997	4,567	6,976	8,818	8,233	9,441	10,725	8,463
Number of traffic tickets handled	19,347	21,611	18,312	13,555	15,130	28,091	23,940	25,503	27,157	28,146
Number of criminal cases handled	2,339	2,522	2,477	1,625	1,922	2,589	2,020	2,861	2,706	2,986
Number of civil cases handled	2,147	2,107	2,027	2,160	2,299	2,722	2,666	2,430	2,662	2,765
Number of parking tickets handled	67,148	58,325	50,625	59,291	61,039	72,772	90,700	81,211	68,526	86,140
<b>Assessing</b> (tax / calendar year)										
Parcels	22,717	22,857	22,874	22,909	23,029	23,053	23,209	23,328	24,172	24,280
Residential transfer applications processed	1,514	1,407	1,478	1,415	1,184	1,128	1,358	1,033	864	Inc.
<b>Building and Safety</b> (calendar year)										
Permits issued (through September 30, 2007)	2,024	2,150	1,911	1,044	2,053	2,012	1,907	1,730	1,522	998
Estimated permit value (\$000)	\$43,773	\$43,026	\$39,377	\$165,812	\$50,060	\$54,410	\$83,172	\$106,404	\$109,009	\$47,326
<b>Police</b> (calendar year)										
Calls for service	*	*	30,971	31,365	30,717	32,669	33,077	34,340	33,733	*
Group A offenses	*	*	*	3,462	3,277	3,401	3,286	3,635	3,899	*
Group B offenses	*	*	*	1,384	1,296	1,496	1,769	2,260	2,205	*
Traffic violations issued	*	*	9,720	11,869	22,695	21,884	23,832	25,586	26,956	*
Parking violations issued	*	*	*	*	*	*	*	80,314	67,519	*
<b>Fire</b>										
Fire runs	1,239	1,287	1,260	1,358	1,281	1,484	1,510	1,585	1,492	1,425
Emergency medical runs	3,431	3,577	3,610	3,434	3,388	3,518	3,608	3,648	3,573	2,913
Inspections	*	*	*	*	*	*	*	65	159	161
<b>Human Resources</b>										
Employment applications - full & part-time	*	*	1,149	926	1,844	489	975	1,383	985	986
Hires, position changes, retirements, terminations	*	*	105	78	99	67	89	55	64	45
Workers' comp. claims filed - medical & indemnity	*	*	120	114	119	123	102	93	59	Inc.
Health insurance enrollees - Employees	*	*	*	*	346	350	340	330	321	311
Health insurance enrollees - Retirees	*	*	*	*	379	369	382	387	386	389

Note: \* Information not available.

**City of Royal Oak**  
**Operating Information**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

Function / Program	Fiscal Year Ending June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Library (The library was closed for eight months in FY 2006 during remodeling.)										
Resident cardholders	30,310	33,795	25,335	23,087	22,817	22,656	23,894	27,077	29,812	24,364
Circulation - number of transactions	220,570	201,712	210,332	218,612	201,409	249,277	259,987	233,555	155,864	336,445
Number of visitors	276,660	257,470	251,432	257,592	249,140	257,121	252,705	232,888	75,000	296,578
Number of computer uses	*	*	19,084	28,600	24,388	38,428	33,888	38,902	31,037	104,043
Parks and recreation										
Ice rental and other use (hours) [2007 six months]	*	*	*	*	*	8,153	7,927	7,269	7,702	3,648
Recreation program participants	*	*	*	*	*	*	*	11,694	12,527	15,124
Golf Course										
Rounds of Golf - Normandy Oaks	*	*	*	*	*	*	*	*	*	15,107
Rounds of Golf - Royal Oak	*	*	*	*	*	*	*	*	*	25,883
Senior Programs (calendar year, 2007 projected)										
Senior activity sessions	*	*	*	*	*	5,501	5,500	4,654	4,585	4,000
Senior activity participants	*	*	*	*	*	115,610	115,000	103,699	98,685	70,909
Senior meals served on-site and delivered	*	*	*	*	*	36,983	33,320	37,439	55,712	62,100
Senior transportation trips	*	*	*	*	*	16,320	17,839	17,757	17,321	18,000
Senior AGE program - service hours	*	*	*	*	*	15,000	23,500	24,000	24,000	24,000
Senior ROSES program in-home support jobs	*	*	*	*	*	*	3,297	2,995	2,300	2,000
Public Works / Engineering										
Miles of street resurfaced	*	0.74	3.90	7.99	9.02	8.17	7.44	0.69	0.46	0.00
Suare feet of sidewalk - removed & replaced	255,963	284,335	166,990	277,183	236,280	247,653	329,240	230,710	329,738	
Suare feet of sidewalk - new	*	18,479	9,599	4,731	28,732	20,389	14,879	35,628	55,311	
Curbside refuse collected (tons)	*	*	*	*	*	31,785	32,403	30,185	28,620	27,778
Curbsite compost collected (tons)	*	*	*	*	*	11,073	9,739	8,830	6,706	9,006
Curbside recycleables collected (tons)	*	*	*	*	*	4,244	4,279	4,069	3,477	3,043
Leaf collection (tons)	*	*	*	*	*	7,005	6,611	6,662	9,680	3,900
Feet of watermain - replaced	2,581	0	3,600	2,421	1,792	428	3,620	3,892	3,830	3,693
Feet of watermain - new	1,547	647	292	202	4,200	0	270	1,395	306	1,165
Feet of sewer - replaced	2,587	1,000	556	3,318	245	0	612	0	3,111	579
Feet of sewer - new	265	121	2,721	427	1,638	0	95	0	0	1,708
Utilities - Water and Sewer										
Number of customers billed	*	*	23,541	23,563	23,584	23,605	23,669	23,743	23,802	23,848
Water units purchased (100 cubic feet)	*	*	*	*	349,899,600	349,899,600	318,265,000	308,870,900	315,553,300	332,034,800
Water units billed (100 cubic feet)	*	*	339,723,500	313,703,776	328,446,202	328,446,202	305,206,073	292,866,093	304,626,900	280,103,918
Wastewater units disposed (100 cubic feet)	*	*	*	*	*	*	*	*	311,874,000	302,249,700

Note: \* Information not available.

**City of Royal Oak**  
**Operating Information**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

<u>Function / Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>General Government</b>										
City hall	1	1	1	1	1	1	1	1	1	1
Court (in city hall to FY 2000)	-	-	-	1	1	1	1	1	1	1
<b>Police</b>										
Police stations	1	1	1	1	1	1	1	1	1	1
Marked patrol vehicles	*	*	33	33	33	32	33	32	32	31
Other police vehicles	*	*	20	21	21	23	23	23	21	15
<b>Fire</b>										
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire response vehicles	*	*	8	8	8	9	9	8	8	8
Ambulance vehicles	*	*	4	4	6	4	4	4	4	4
Mobile command center	-	-	-	-	-	-	-	-	1	1
<b>Public Parking</b>										
Spaces	3,250	3,250	3,250	3,250	3,459	3,464	3,719	3,557	3,445	3,445
Decks	1,041	1,041	1,041	1,041	1,532	1,532	1,532	1,532	1,532	1,532
Lots	1,036	1,036	1,036	1,036	862	867	923	923	778	821
Streets	671	671	678	682	690	690	696	675	757	757
Meters	1,848	1,848	1,855	1,859	1,693	1,693	1,760	1,739	1,676	1,717
<b>Parks and Recreation</b>										
Community center	1	1	2	2	2	2	2	2	2	2
Number of parks	50	50	50	50	50	50	50	50	50	50
Park acreage	310	310	310	310	310	310	310	310	310	310
Golf courses/holes	2 / 9 ea.									
Indoor ice skating surfaces	2	2	2	2	2	2	2	2	2	2
Tennis courts	35	35	33	33	33	33	33	33	33	33
<b>Library</b>										
Branches	1	1	1	1	1	1	1	1	1	1
Collection -number of volumes	138,737	114,448	111,007	115,217	111,080	117,596	131,989	139,309	132,186	139,843
Public computers	*	*	23	23	23	23	23	23	36	36
<b>Roads and Sidewalks</b>										
Miles of major streets	*	*	*	*	*	*	*	*	*	64.40
Miles of local streets	*	*	*	*	*	*	*	*	*	148.27
Miles of sidewalk	*	*	*	*	*	*	*	*	*	420
<b>Utilities</b>										
<b>Water</b>										
Miles of water main	*	*	*	*	215	215	215	215	215	215
Miles of sewer	*	*	*	*	357	357	357	357	357	357
Number of hydrants	*	*	*	*	*	*	*	*	*	*
<b>Forestry</b>										
Number of trees in rights-of-way	*	21,596	*	*	*	*	*	*	*	21,138

Note: \* Information not available

**City of Royal Oak  
Operating Information  
Authorized Full-time Employees by Function/Program  
Last Ten Fiscal Years**

Function/Program	Fiscal Year ending June 30									
	1998 (2)	1999 (2)	2000	2001	2002	2003	2004	2005	2006	2007
<b>44th District Court/Probation</b>	-	-	20	20	22	23	23	23	20	22
<b>Administrative Services</b>										
Manager	-	-	2.5	2.5	2.5	2.5	2.5	2	2	2
Attorney	-	-	4	4	4	4	4	4	5	4
City Clerk	-	-	7	7	7	7	7	6.5	4	4
Human Resources	-	-	4.5	4.5	4.5	3.5	4.5	4	4	4
Purchasing	-	-	1	1	1	1	1	0.5	1	1
Building	-	-	17	18	19	12	12	12	11	11
Code Enforcement	-	-	-	-	-	7	7	7	6	5
Engineering	-	-	11	11	12	12	12	9	11	10
Planning	-	-	5	5	5	5	5	5	6	5
Block Grant	-	-	3	0	3	3	3	3	3	3
Housing	-	-	2	0	2	2	2	2	2	2
Finance Group	-	-	7	7	7	7	7	6	6	6
Assessing	-	-	5	5	5	5	5	5	5	4
Treasurer	-	-	5	5	5	5	5	5	5	5
Water Billing	-	-	2	2	2	1	2	2	2	2
Information Systems	-	-	5	5	5	6	6	6	6	6
Subtotal	-	-	81	77	84	83	85	79	79	74
<b>Library</b>	-	-	14	14	15	15	15	15	12	14
<b>Public Safety</b>										
Police	-	-	113	122	122	123	123	117	107	106
Fire	-	-	71	72	72	72	72	68	70	65
Subtotal	-	-	184	194	194	195	195	185	177	171
<b>Recreation &amp; Public Services</b>										
Public Service										
Parks & Forestry	-	-	16	16	16	16	16	14	13	8
CH Building Maintenance	-	-	2	2.5	2	2	2	2	2	2
Highway	-	-	23	23	22	23	23	20	14	16
Motor Pool	-	-	12	12	12	12	12	12	12	12
Electrical	-	-	2	2	2	2	2	2	2	2
Solid Waste	-	-	1	1	1	0	0	1	1	1
Water Maintenance	-	-	9	9	9	9	9	9	8	9
Water Meter Services	-	-	6	6	6	6	6	6	6	6
Sewer Maintenance	-	-	10	10	10	10	10	10	9	9
Auto Parking	-	-	3	3	3	3	3	3	3	3
Recreation	-	-	4	3.5	4	2	4	4	3	2
Ice Arena	-	-	1	1	1	0	1	1	1	1
Senior Services	-	-	2	2	2	2	2	2	2	2
Subtotal	-	-	91	91	90	87	90	86	76	73
<b>Total</b>	-	-	<b>390</b>	<b>396</b>	<b>405</b>	<b>403</b>	<b>408</b>	<b>388</b>	<b>364</b>	<b>354</b>

Note:

- (1) Positions are authorized budget positions as approved in the original budget.
- (2) Information is not available.

**CITY OF ROYAL OAK  
MICHIGAN**

**SINGLE AUDIT COMPLIANCE  
REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2007**

# CITY OF ROYAL OAK, MICHIGAN

## SINGLE AUDIT COMPLIANCE

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# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

November 28, 2007

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

We have audited the financial statements of the governmental activities, the business-type activities, the discreetly 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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

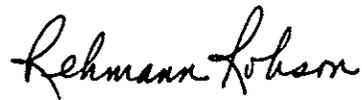
#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated November 28, 2007.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Commission and management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





# REHMANN ROBSON

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 28, 2007

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

### Compliance

We have audited the compliance of the **City of Royal Oak, Michigan** (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **City of Royal Oak, Michigan's** management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the City of Royal Oak, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Commission, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**City of Royal Oak**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Pass through Michigan Department of Natural Resources Cooperative Forestry Assistance	10.664	\$ 19,375
<u>U.S. Department of Homeland Security</u>		
Pass through Michigan Department of State Police State and Local Homeland Security Training Program	97.005	7,893
Fire Prevention & Safety	97.044	23,687
Total U.S. Department of Homeland Security		<u>31,580</u>
<u>U.S. Department of Housing and Urban Development:</u>		
Pass through Michigan State Housing Development Authority Community Development Block Grant Program: Entitlement Grants	14.218	2,221,101
Lower Income Housing Assistance Program (Section 8 Existing Housing): Voucher Program	14.871	1,215,669
Total U.S. Department of Housing and Urban Development		<u>3,436,770</u>
<u>U.S. Department of Justice</u>		
Grants to Encourage Arrest Policies Program	16.590	126,625
Bulletproof Vest Partnership Grant	16.607	3,182
Public Safety Partnership and Community Policing Grant	16.710	41,179
Justice Assistance Grant	16.738	13,083
Total U.S. Department of Justice		<u>184,069</u>
<u>U.S. Department of Transportation</u>		
Pass through Michigan Department of State Police State and Community Highway Safety	20.600	366
Alcohol Traffic Safety and Drunk Driving Prevention Grants	20.601	8,389
Safety Belt Performance Grants	20.609	9,974
Total U.S. Department of Transportation		<u>18,729</u>
 Total Federal Expenditures		 <u>\$ 3,690,523</u>

**City of Royal Oak**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements**

Federal grants revenue per audited financial statements	
Governmental funds	\$ 3,082,224
Component units	1,422,909
Business type activities	6,562
Federal revenue per financial statements	4,511,695
Program income of Community Development Block Grant Program	407,524
Program income of Low Income Housing Assistance Program	2,272
Housing Commission funds available for use	(209,512)
Federal awards administered by the State or other entities	
Main Street widening project - MDOT	(477,382)
13 Mile Rd Reconstruction - MDOT	(537,512)
Project Fresh-Mich Dept of Agriculture	(6,562)
Federal award expenditures per Schedule of Expenditures of Federal Awards	\$ 3,690,523

Amount of difference between reconciliation amount and Total Federal Expenditures -

**Notes to Schedule of Expenditures of Federal Awards**

The above Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Royal Oak and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

**CITY OF ROYAL OAK, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified not considered to be material weaknesses?  X  yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? \_\_\_\_\_ yes  X  no

Identification of Major Programs:

<b><u>CFDA Number</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
14.218	Community Development Block Grant

**CITY OF ROYAL OAK, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   yes        no

**CITY OF ROYAL OAK, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2007-1 Audit Adjustments**

**Criteria:** The City is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

**Condition:** Significant adjustments were necessary to agree key inventory accounts to their proper underlying balances.

**Cause:** Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year related to inventory.

**Effect:** As a result of this condition, the City did not provide accurate financial information related to inventory amounts and the related costs.

**View of  
Responsible**

**Officials:** In the inventory report submitted by the Department of Public Service, there was a typo in the quantity of salt reported. The Director of Public Service will review the report prior to submission to the Finance Department in the future.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters reported.

**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no audit findings in the prior year.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**November 28, 2007**

To the Audit Committee of the  
City of Royal Oak  
Royal Oak, Michigan

We have audited the financial statements of the City of Royal Oak for the year ended **June 30, 2007**, and have issued our report thereon dated **November 28, 2007**. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated June 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Royal Oak's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Royal Oak's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Royal Oak's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Royal Oak's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Royal Oak's compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Royal Oak are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Royal Oak during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of non-infrastructure capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Royal Oak's financial reporting process (that is, cause future financial statements to be materially misstated). There were adjustments, in our judgment, that indicate matters that could have a significant effect on the City of Royal Oak's financial reporting process. See 2007-1 in the Schedule of Findings and Questioned Costs within the Single Audit Report.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of

auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Royal Oak's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Lohman". The signature is written in black ink and is positioned below the closing text.

# City of Royal Oak

## Comments and Recommendations

For the Year Ended June 30, 2007

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In planning and performing our audit of the financial statements of the City of Royal Oak as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

### **Other Matters**

#### **Builders Permits**

During our auditing procedures we noted that the detail for builders performance deposit amounts did not reconcile to the general ledger. It is our understanding that this difference was caused during the City's conversion process to a new tracking system. We would recommend that the City reconcile this difference.

#### **Access to Petty Cash**

It came to our attention that more than one person may have access to petty cash in certain departments. We believe that internal controls over petty cash would be strengthened if only one person could have access to petty cash at any particular time which would allow for specific accountability.

#### **Review of Payroll Register**

During our audit, it came to our attention that the payroll register was not reviewed prior to the running of payroll checks. Although we noted that the payroll register is reviewed by department heads subsequent to the payroll run, we would suggest that an individual, who is not part of the payroll process, review the payroll register for reasonableness prior to the check run and document by initialing the payroll register or other means deemed appropriate by the City.

# City of Royal Oak

## Comments and Recommendations

For the Year Ended June 30, 2007

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### *New Accounts Payable Vendors*

During our planning procedures we noted that the Accounts Payable Clerk has the ability to setup vendors, process invoices and print checks. We believe that the City's internal controls would be strengthened by segregating the ability to setup new vendors from the functions of processing invoices and the printing of the check run.

### *New Auditing Standards for Upcoming Year*

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the risk assessment standards. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each significant area and financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

### Recommendation:

We would recommend that the City begin defining the significant areas and accounting cycles related to financial reporting, identifying "what could go wrong" scenarios and the controls that the City has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the City determines.

We believe that the City will benefit by having a working model to easily access the City's strengths and areas of improvement over internal controls, a physical resource to demonstrate the City's resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.

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