

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Pleasant Ridge, Michigan	County Oakland
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted to State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).
- yes no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 100	City Troy	State MI	Zip 48098
 Accountant Signature Thomas E. Darling, CPA			



**CITY OF PLEASANT RIDGE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2004**

CITY OF PLEASANT RIDGE, MICHIGIAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2004

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Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2004

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 17, 2004

To the Honorable Mayor and City Commission
City of Pleasant Ridge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Pleasant Ridge, Michigan**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Pleasant Ridge, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Pleasant Ridge, Michigan**, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General Fund, Local Streets Fund, and I-696 Segregated Capital Asset Fund, for the year then ended in conformity with accounting principles general accepted in the United States of America.

As described in Note IV-G, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004, on our consideration of the ***City of Pleasant Ridge, Michigan***'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 13 and the Schedule of Funding Progress on Page 48 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Pleasant Ridge, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2004.

Financial Highlights

- Net assets increased \$857,104 as a result of this year's operations. Net assets of our governmental activities increased \$871,462 or 9.8%. Net assets of our business-type activities decreased (\$14,358) or 1.3%.
- Total cost of all of the City's programs was \$ 4,014,157.
- Comerica Bank purchased City property for its auxiliary parking lot south of Maywood Avenue for \$245,000 and also contributed \$225,000 to the General Fund of the City.
- The General Fund had a \$533,042 increase in fund balance to \$656,479. This was due to revenue and net transfers-in exceeding expenditures by \$63,042 plus the above Comerica transactions.
- The City invested \$2,447,926 in capital assets including a new swimming pool and fitness center; replacing parts of Oakland Park roadways; replacing water mains and continuing to complete the George W. Kuhn drain project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 legislative, general government, public safety, public works, highways and streets, building and planning, culture and recreation, and other functions. The business-type activities of the City include water distribution and sanitary sewer operations.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

The government-wide financial statements include not only the City of Pleasant Ridge itself (known as the *primary government*), but also a legally separate downtown development authority known as the Pleasant Ridge Downtown Development Authority, for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

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.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the 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, Local Streets, I-696 Segregated Capital Asset fund, and the Pool and Fitness Center capital projects fund which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* after the *Notes to the Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General, Segregated Capital Asset, Major Streets and Local Streets funds.

2. **Proprietary funds.** The City maintains one type of proprietary fund: *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sanitary sewer operations.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water and sewer fund is considered to be a major fund of the City.

3. **Fiduciary funds.** The 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 statements 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 City has one agency fund used to account for tax collection.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

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 Pleasant Ridge, assets exceeded liabilities by \$10,857,343 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (37%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City'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.

Since this is the first year of implementation of GASB Statement Number 34, only current year financial information is presented. In subsequent years, the City will present comparative information.

CITY OF PLEASANT RIDGE, MICHIGAN
Management's Discussion and Analysis

City of Pleasant Ridge's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 5,664,406	\$ 744,167	\$ 6,408,573
Capital assets, net	7,574,380	1,816,237	9,390,617
Total assets	<u>13,238,786</u>	<u>2,560,404</u>	<u>15,799,190</u>
Current liabilities	692,605	176,313	868,918
Noncurrent liabilities	2,789,916	1,283,013	4,072,929
Total liabilities	<u>3,482,521</u>	<u>1,459,326</u>	<u>4,941,847</u>
Net assets:			
Invested in capital assets, net of related debt	4,773,174	474,357	5,247,531
Restricted assets	4,476,797	-	4,476,797
Unrestricted	506,294	626,721	1,133,015
Total net assets	<u>\$ 9,756,265</u>	<u>\$ 1,101,078</u>	<u>\$ 10,857,343</u>

An additional portion of the City's net assets, \$4,476,797 or 41% represents resources that are subject to external or code restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$1,133,015 or 10%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City 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 City's net assets increased by \$857,104 during the current fiscal year. This was due predominantly to the results of Governmental activities as described below.

Governmental activities. Governmental activities increased the City's net assets by \$871,462 from \$8.9 million to \$9.8 million. This accounts for 102% of the City's change in total net assets. Key elements of this are as follows:

- Comerica Bank purchased City property for its auxiliary parking lot south of Maywood Avenue for \$245,000 and also contributed \$225,000 to the City's General Fund.
- Part of the Segregated Capital Asset Fund (SCAF) investment earnings is used to repay debt principal.
- All of the Infrastructure Fund tax revenue went to the Local Streets Fund to build new roads.

CITY OF PLEASANT RIDGE, MICHIGAN
Management's Discussion and Analysis

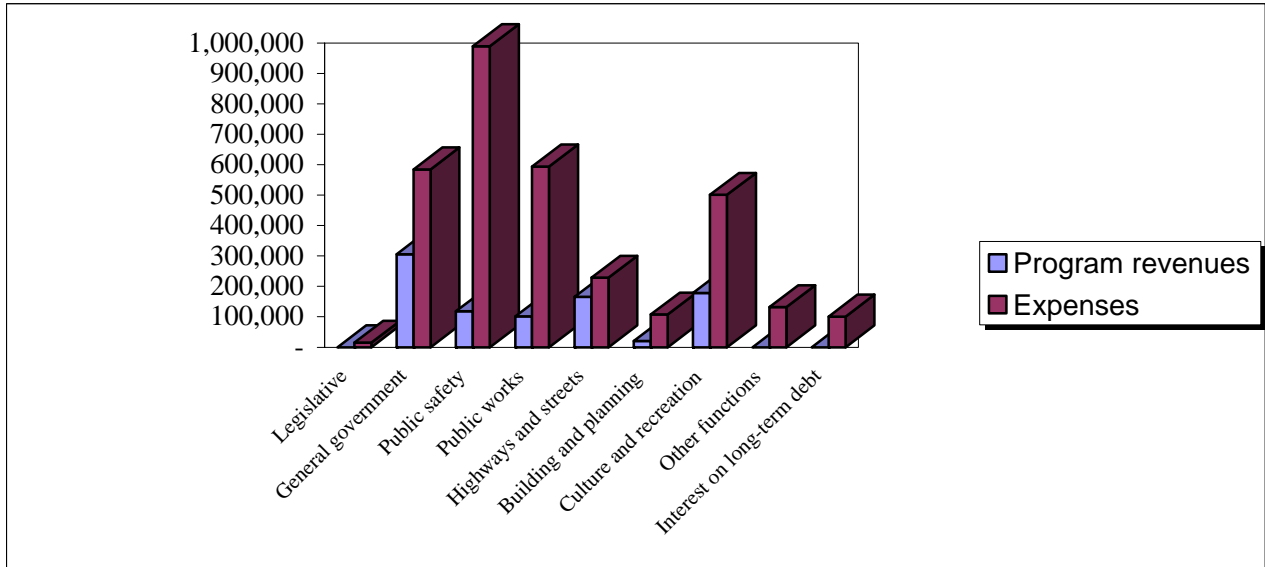
City of Pleasant Ridge's Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenue:			
Program revenues:			
Charges for services	\$ 692,717	\$ 727,292	\$ 1,420,009
Operating grants and contributions	197,795	-	197,795
Capital grants and contributions	33,000	-	33,000
General revenues:			
Property taxes	2,064,449	-	2,064,449
State shared revenue	275,798	-	275,798
Other	825,699	54,511	880,210
Total revenues	4,089,458	781,803	4,871,261
Expenses:			
Legislative	15,032	-	15,032
General government	584,536	-	584,536
Public safety	989,912	-	989,912
Public works	594,400	-	594,400
Highways and streets	228,659	-	228,659
Building and planning	107,747	-	107,747
Culture and recreation	501,280	-	501,280
Other functions	131,699	-	131,699
Interest on long-term debt	100,647	-	100,647
Water supply and sewage disposal system	-	760,245	760,245
Total expenses	3,253,912	760,245	4,014,157
Increase in net assets before transfers	835,546	21,558	857,104
Transfers	35,916	(35,916)	-
Increase in net assets	871,462	(14,358)	857,104
Net assets-beginning	8,884,803	1,115,436	10,000,239
Net assets-ending	\$ 9,756,265	\$ 1,101,078	\$ 10,857,343

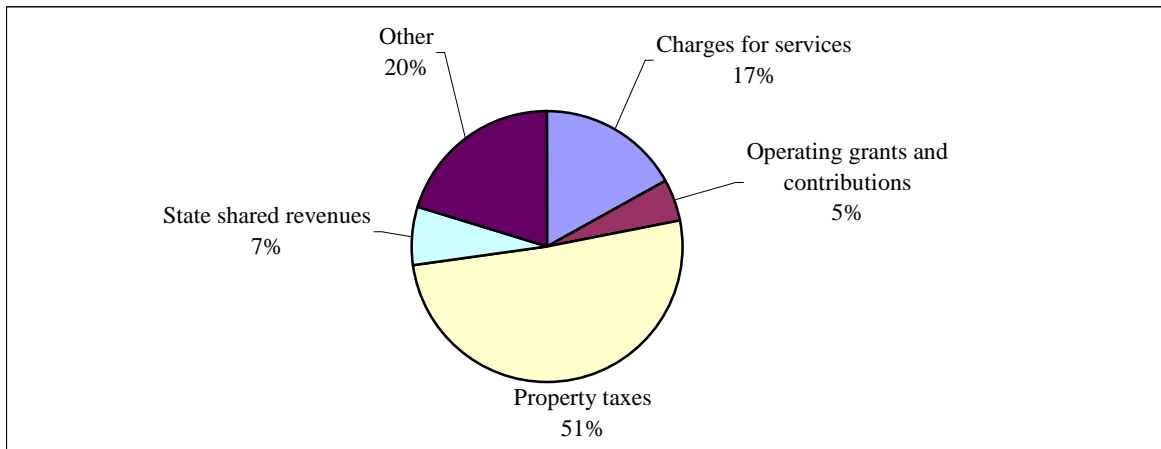
CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



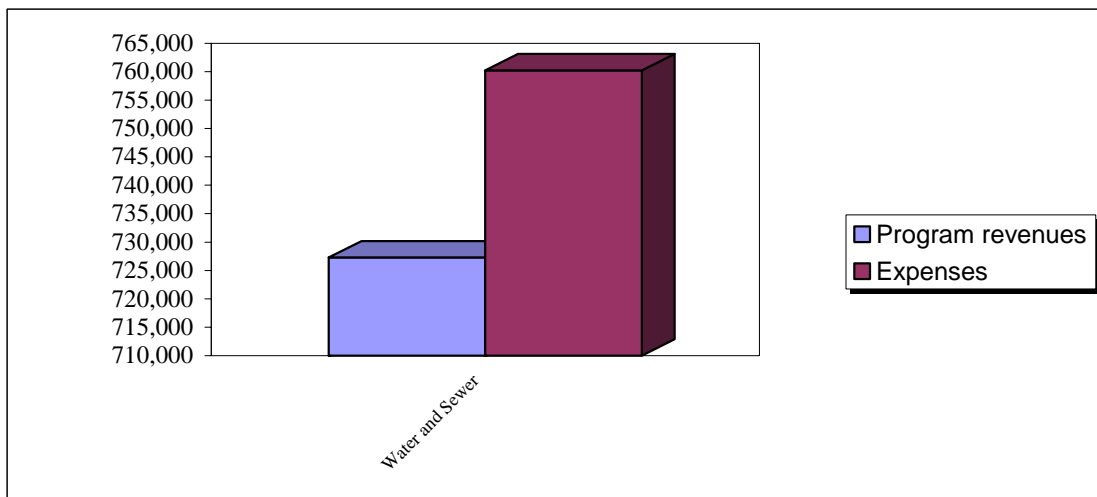
CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

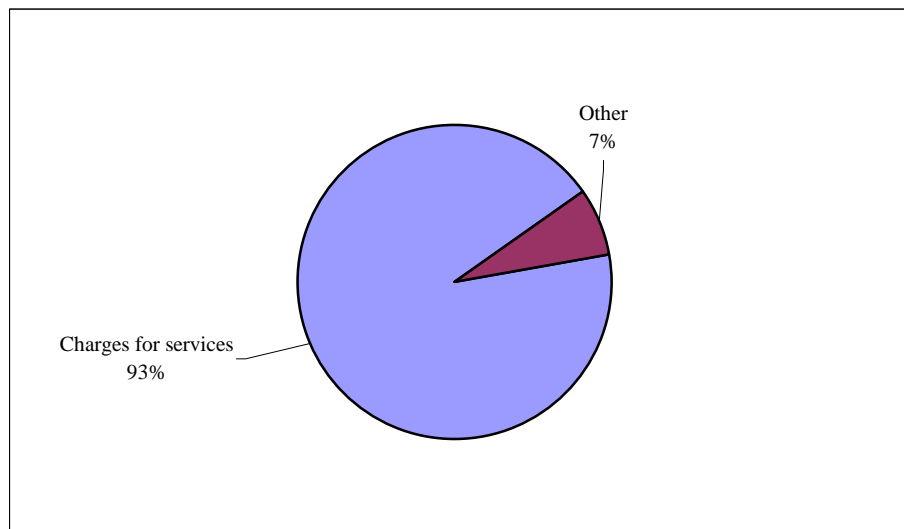
Business-type Activities. Business-type activities decreased the City's net assets by (\$14,358), offsetting the City's total increase in net assets. Key elements of this decrease are as follows:

- Water and sewer charges declined due to a 2,323 CCF (14%) decrease in units billed.
- Interfund charges for general administration were raised to all operating funds: water and sewer costs increased \$68,147.

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources – Business-Type Activities



CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City'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'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's governmental funds reported combined ending fund balances of \$5,192,584 , a decrease of (\$1,242,122) in comparison with the prior year. Approximately 26% of this total amount, \$1,341,211 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

Major Governmental Funds:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$619,772 , while total fund balance was \$656,479 . As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 26.9% of total general fund expenditures, while total fund balance represents 28.5% of the same amount.

The fund balance of the City's general fund increased by \$533,042 during the current fiscal year. This is attributable primarily to \$470,000 received from Comerica Bank in June: \$245,000 for the sale of City land that the bank had been renting for parking space plus a \$225,000 contribution to the City.

The Local Streets Fund receives state shared gas and weight tax revenue for street maintenance. The City is using Infrastructure tax receipts to fund street reconstruction. The Local Street Fund is reconstructing Elm Park Boulevard at June 30, 2004. Construction was well ahead of schedule; \$48,486 was accrued for contract payments. Transfers-in from the Infrastructure Fund was increased from \$180,000 to \$280,000 by accelerating appropriations that were scheduled for the 2004/2005 fiscal year budget. Cash on hand was sufficient to complete the contract.

The I-696 Segregated Capital Asset fund was established in 1986 to account for the funds received from the State of Michigan in connection with condemnation proceedings instituted by the State to acquire City-owned property. The funds that were received, after various deductions, are restricted for use by the City Code primarily for capital acquisitions as described in Chapter Two, Article II, Division Nine, Sections 2-131 through 2-139. The restricted principal amount is \$3,242,872, which is reflected as reserved fund balance in the special revenue funds. During the current fiscal year, the unreserved fund balance decreased by (\$31,913) as a result of a \$45,783 internal loan to the General Fund being forgiven.

The Pool/Fitness Center capital project fund was started in the prior fiscal year to account for \$2,550,000 in bond proceeds from general obligation debt. Construction during the year totaled \$1,943,000. Fund balance at June 30, 2004 was \$459,168. Uncommitted funds are expected to exceed \$300,000.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Proprietary fund. The City's proprietary fund provides the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$626,721 . The decrease in net assets for the fund was (\$14,358). The decrease was a result of lower units sold and an increase in general administrative charges.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were modest. The increase in budgeted revenues of \$145,139 and increase in budgeted expenditures of \$228,255 can be briefly summarized as follows:

- The revenue budget for general administrative charges to other funds increased \$136,000.
- The Police Department budget was increased \$81,500 due to added labor and equipment costs incurred in the mid-August from the hand-off of dispatch services to the City of Berkley. In addition, the department incurred additional expenditures from union contract settlements and higher than anticipated police vehicle repairs.
- The Public Works budget increased \$50,000 as mild weather reduced winter maintenance outlays, shifting costs to the General Fund.
- The Recreation budget increased \$30,000 despite incurring over \$42,000 of insured repairs and equipment replacement following a January 2004 automobile crash into the Community Center.
- The Treasurer's and Attorney's budgets were increased \$35,000 primarily for known costs prior to the 24000 Woodward sale.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$9,390,617 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$2,447,926 or 35% which represents an increase in governmental activities of \$2,003,765 or 36%, and an increase in business-type activities of \$444,161 or 32%.

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

- Demolition of a 40 year old swimming pool and bathhouse in September 2003. Substantial completion of a replacement swimming pool and fitness center addition to the Community Center.
- Oakland Park road and water main replacement were completed in late 2003.
- Elm Park road and water main replacement were well underway by June 30, 2004.
- Comerica Bank purchased the City parking lot southeast of Woodward and Maywood Avenues.
- Construction-in-progress continued on the George W. Kuhn drain system.

CITY OF PLEASANT RIDGE, MICHIGAN
Management's Discussion and Analysis

City of Pleasant Ridge's Capital Assets
(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 1,746,700	\$ -	\$ 1,746,700
Construction in process	2,427,096	1,210,455	3,637,551
Land improvements	286,472	-	286,472
Buildings and improvements	789,358	-	789,358
Equipment	31,992	119,983	151,975
Infrastructure	2,292,762	-	2,292,762
Water and sewer system	-	485,799	485,799
Total	\$ 7,574,380	\$ 1,816,237	\$ 9,390,617

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$4,354,736. Debt consists of general obligation bonds (community center loan, pool/fitness center loan, and the city hall addition loan,) accrued compensated absences, and drain bonds.

City of Pleasant Ridge's Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
Community Center Loan	\$ 246,507	\$ -	\$ 246,507
Pool/Fitness Facility Loan	2,525,000	-	2,525,000
City Hall Addition Loan	29,700	-	29,700
Accrued Compensated Absence	211,649		211,649
George W. Kuhn Drain Bonds	-	1,341,880	1,341,880
	\$ 3,012,856	\$ 1,341,880	\$ 4,354,736

The City's total debt increased by \$212,174 during the current fiscal year. There were no new issues of general obligation debt during the year ended June 30, 2004. Governmental long-term debt decreased by (\$109,750). There was a net increase in business-type debt outstanding related to George W. Kuhn Drain Bonds of \$321,924.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Headlee Act generally will cap tax revenue increases at 2.3%.
- Sluggish Michigan economy: especially legislative cuts in state shared sales tax revenues.
- Depressed interest rates seriously affecting SCAF funds for road construction.
- Retirement contributions increasing 8% because of poor investment returns.
- Increased water and sewer rates due to George W. Kuhn debt service requirements; expected low consumption of units and operating deficits.

Requests for Information

This financial report is designed to provide a general overview of the City of Pleasant Ridge'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 City Treasurer, 23925 Woodward Avenue, City of Pleasant Ridge, Pleasant Ridge, Michigan 48069-1199.

***BASIC FINANCIAL
STATEMENTS***

City of Pleasant Ridge, Michigan
Statement of Net Assets
June 30, 2004

	Governmental	Business-type		Component Unit
	Activities	Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 2,397,783	\$ 344,348	\$ 2,742,131	\$ 242,744
Investments	3,020,669	-	3,020,669	-
Receivables (net)	172,165	399,819	571,984	17,645
Due from component unit	22,916	-	22,916	-
Prepays	50,873	-	50,873	-
Capital assets:				
Non-depreciable capital assets	4,173,796	1,210,455	5,384,251	-
Depreciable capital assets, net	3,400,584	605,782	4,006,366	-
Total assets	13,238,786	2,560,404	15,799,190	260,389
Liabilities				
Accounts payable	418,906	107,446	526,352	23,564
Due to primary government	-	-	-	22,916
Accrued liabilities	50,759	10,000	60,759	-
Noncurrent liabilities:				
Due within one year	222,940	58,867	281,807	-
Due in more than one year	2,789,916	1,283,013	4,072,929	-
Total liabilities	3,482,521	1,459,326	4,941,847	46,480
Net assets				
Invested in capital assets, net of related debt	4,773,173	474,357	5,247,530	-
Restricted for:				
Debt service	22,753	-	22,753	-
Highways and streets	484,797	-	484,797	-
Public works	84,280	-	84,280	-
Recreation and culture	110,033	-	110,033	-
Capital projects	532,062	-	532,062	-
Segregated capital-corpus	3,242,872	-	3,242,872	-
Unrestricted	506,295	626,721	1,133,016	213,909
Total net assets	\$ 9,756,265	\$ 1,101,078	\$ 10,857,343	\$ 213,909

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Activities
For the year ended June 30, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Legislative	\$ 15,032	\$ -	\$ -	\$ -	\$ (15,032)
General government	584,536	295,960	10,000	-	(278,576)
Public safety	989,912	113,904	4,357	-	(871,651)
Public works	594,400	101,495	-	-	(492,905)
Highways and streets	228,659	-	165,314	-	(63,345)
Building and planning	107,747	11,895	8,797	-	(87,055)
Culture and recreation	501,280	169,463	9,327	-	(322,490)
Other functions	131,699	-	-	33,000	(98,699)
Interest on long-term debt	100,647	-	-	-	(100,647)
Total governmental activities	<u>3,253,912</u>	<u>692,717</u>	<u>197,795</u>	<u>33,000</u>	<u>(2,330,400)</u>
Business-type activities:					
Water and sewer	<u>760,245</u>	<u>727,292</u>	<u>-</u>	<u>-</u>	<u>(32,953)</u>
Total primary government	<u>\$ 4,014,157</u>	<u>\$ 1,420,009</u>	<u>\$ 197,795</u>	<u>\$ 33,000</u>	<u>\$ (2,363,353)</u>
Component unit:					
Downtown development Authority	<u>\$ 97,779</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (97,779)</u>

continued...

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Activities (Concluded)
For the year ended June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net assets				
Net (expense) revenue	\$ (2,330,400)	\$ (32,953)	\$ (2,363,353)	\$ (97,779)
General revenues:				
Property taxes	2,064,449	-	2,064,449	65,939
State shared revenue	275,798	-	275,798	-
Unrestricted investment earnings	151,391	6,368	157,759	2,084
Gain on sale of capital assets	245,000	-	245,000	-
Other revenue	429,308	48,143	477,451	16,125
Transfers - internal activities	35,916	(35,916)	-	-
Total general revenues and transfers	<u>3,201,862</u>	<u>18,595</u>	<u>3,220,457</u>	<u>84,148</u>
Change in net assets	871,462	(14,358)	857,104	(13,631)
Net assets, beginning of year, as restated	<u>8,884,803</u>	<u>1,115,436</u>	<u>10,000,239</u>	<u>227,540</u>
Net assets, end of year	<u><u>\$ 9,756,265</u></u>	<u><u>\$ 1,101,078</u></u>	<u><u>\$ 10,857,343</u></u>	<u><u>\$ 213,909</u></u>

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Balance Sheet
Governmental Funds
June 30, 2004

	General	Local Streets	I-696 Segregated Capital Asset	Pool/Fitness Center Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 616,837	\$ 177,274	\$ 239,626	\$ 714,288	\$ 649,758	\$ 2,397,783
Investments	-	-	3,020,669	-	-	3,020,669
Receivables:						
Accounts receivable (net)	8,238	-	-	-	24,153	32,391
Taxes-delinquent	12,130	-	-	-	-	12,130
Less: allowance for doubtful accounts	(9,973)	-	-	-	-	(9,973)
Interest	296	97	18,969	275	516	20,153
Due from other governments	90,538	6,848	-	-	20,078	117,464
Advances to component unit	-	-	22,916	-	-	22,916
Prepaid expenditures	21,318	-	-	7,325	22,230	50,873
Total assets	\$ 739,384	\$ 184,219	\$ 3,302,180	\$ 721,888	\$ 716,735	\$ 5,664,406
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 40,021	\$ 99,878	\$ -	\$ 262,720	\$ 16,287	\$ 418,906
Accrued payroll	25,141	-	-	-	10,032	35,173
Accrued liabilities	15,586	-	-	-	-	15,586
Deferred revenue	2,157	-	-	-	-	2,157
Total liabilities	82,905	99,878	-	262,720	26,319	471,822
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	18,675	18,675
SCAF corpus	-	-	3,242,872	-	-	3,242,872
Capital projects	-	-	-	459,168	70,979	530,147
Prepays	21,318	-	-	-	22,230	43,548
Unreserved, designated for:						
Subsequent years budget	15,389	-	-	-	742	16,131
Unreserved, undesignated for:						
General funds	619,772	-	-	-	-	619,772
Special revenue funds	-	84,341	59,308	-	577,790	721,439
Total fund balances	656,479	84,341	3,302,180	459,168	690,416	5,192,584
Total liabilities and fund balances	\$ 739,384	\$ 184,219	\$ 3,302,180	\$ 721,888	\$ 716,735	\$ 5,664,406

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2004

Fund balances - total governmental funds	\$ 5,192,584
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: non-depreciable capital assets	4,173,796
Add: depreciable capital assets	8,101,006
Deduct: accumulated depreciation	(4,700,422)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	2,157
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable and loans	(2,801,207)
Deduct: compensated absences	(211,649)

Net assets of governmental activities	\$ 9,756,265
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The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2004

	<u>General</u>	<u>Local Streets</u>	<u>I-696 Segregated Capital Asset</u>	<u>Pool/Fitness Center Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 1,307,235	\$ -	\$ -	\$ -	\$ 757,144	\$ 2,064,379
Licenses and permits	63,751	-	-	-	-	63,751
Fines and forfeitures	49,196	-	-	-	-	49,196
Intergovernmental	288,027	47,281	-	-	151,033	486,341
Charges for services	357,891	-	-	-	213,410	571,301
Investment earnings	4,778	956	115,585	21,782	8,290	151,391
Other	424,957	-	-	-	33,072	458,029
Total revenues	<u>2,495,835</u>	<u>48,237</u>	<u>115,585</u>	<u>21,782</u>	<u>1,162,949</u>	<u>3,844,388</u>
Expenditures						
Current:						
Legislative	15,032	-	-	-	-	15,032
General government	544,103	-	-	-	-	544,103
Public safety	981,019	-	-	-	-	981,019
Public works	281,286	-	-	-	311,628	592,914
Highways and streets	-	310,641	-	-	24,490	335,131
Building and planning	107,747	-	-	-	-	107,747
Culture and recreation	245,802	-	-	-	210,716	456,518
Other functions	131,699	-	-	-	-	131,699
Debt service						
Principal	-	-	-	-	106,589	106,589
Interest and fees	-	-	-	-	100,647	100,647
Capital Outlay	-	-	-	1,943,893	52,134	1,996,027
Total expenditures	<u>2,306,688</u>	<u>310,641</u>	<u>-</u>	<u>1,943,893</u>	<u>806,204</u>	<u>5,367,426</u>
Revenues over (under) expenditures	<u>189,147</u>	<u>(262,404)</u>	<u>115,585</u>	<u>(1,922,111)</u>	<u>356,745</u>	<u>(1,523,038)</u>
Other financing sources (uses)						
Transfers in	198,885	280,000	-	-	99,990	578,875
Transfers out	(99,990)	-	(147,498)	-	(295,471)	(542,959)
Proceeds from sale of capital assets	245,000	-	-	-	-	245,000
Total other financing sources (uses)	<u>343,895</u>	<u>280,000</u>	<u>(147,498)</u>	<u>-</u>	<u>(195,481)</u>	<u>280,916</u>
Net change in fund balances	533,042	17,596	(31,913)	(1,922,111)	161,264	(1,242,122)
Fund balances, beginning of year	<u>123,437</u>	<u>66,745</u>	<u>3,334,093</u>	<u>2,381,279</u>	<u>529,152</u>	<u>6,434,706</u>
Fund balances, end of year	<u>\$ 656,479</u>	<u>\$ 84,341</u>	<u>\$ 3,302,180</u>	<u>\$ 459,168</u>	<u>\$ 690,416</u>	<u>\$ 5,192,584</u>

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2004

Net change in fund balances - total governmental funds \$ (1,242,122)

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.

Add: capital outlay	2,258,182
Deduct: depreciation expense	(254,417)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to

Deduct: net difference deferred revenue	70
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: principal payments on long-term liabilities	106,589
Deduct: increase in the accrual for compensated absences	3,160
	3,160

Change in net assets of governmental activities	\$ 871,462
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The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Revenues				
Property taxes	\$ 1,301,317	\$ 1,314,300	\$ 1,307,235	\$ (7,065)
Licenses and permits	80,150	66,430	63,751	(2,679)
Fines and forfeitures	55,400	52,400	49,196	(3,204)
Intergovernmental	306,778	290,294	288,027	(2,267)
Charges for services	221,672	347,885	357,891	10,006
Investment earnings	25,000	4,600	4,778	178
Other	145,437	204,984	424,957	219,973
Total revenues	<u>2,135,754</u>	<u>2,280,893</u>	<u>2,495,835</u>	<u>214,942</u>
Expenditures				
Legislative	19,960	21,438	15,032	(6,406)
General government	468,741	542,318	544,103	1,785
Public safety	916,635	998,206	981,019	(17,187)
Public works	236,620	278,420	281,286	2,866
Building and planning	129,380	129,505	107,747	(21,758)
Culture and recreation	221,506	251,210	245,802	(5,408)
Other	157,351	157,351	131,699	(25,652)
Total expenditures	<u>2,150,193</u>	<u>2,378,448</u>	<u>2,306,688</u>	<u>(71,760)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,439)</u>	<u>(97,555)</u>	<u>189,147</u>	<u>286,702</u>
Other financing sources (uses)				
Transfers in	152,631	152,631	198,885	46,254
Transfers out	(99,990)	(99,990)	(99,990)	-
Proceeds from sale of capital assets	-	-	245,000	245,000
Total other financing sources (uses)	<u>52,641</u>	<u>52,641</u>	<u>343,895</u>	<u>291,254</u>
Net change in fund balances	38,202	(44,914)	533,042	577,956
Fund balance, beginning of year	<u>123,437</u>	<u>123,437</u>	<u>123,437</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 161,639</u></u>	<u><u>\$ 78,523</u></u>	<u><u>\$ 656,479</u></u>	<u><u>\$ 577,956</u></u>

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 38,275	\$ 38,275	\$ 47,281	\$ 9,006
Investment earnings	450	450	956	506
Total revenues	<u>38,725</u>	<u>38,725</u>	<u>48,237</u>	<u>9,512</u>
Expenditures				
Construction	180,500	180,500	262,155	81,655
Routine maintenance	18,654	18,654	29,412	10,758
Winter maintenance	20,744	20,744	14,173	(6,571)
Traffic services	3,745	3,745	4,901	1,156
Total expenditures	<u>223,643</u>	<u>223,643</u>	<u>310,641</u>	<u>86,998</u>
Excess (deficiency) of revenues over (under) expenditures	(184,918)	(184,918)	(262,404)	(77,486)
Other financing sources (uses)				
Transfers in	<u>180,500</u>	<u>180,500</u>	<u>280,000</u>	<u>99,500</u>
Net change in fund balances	(4,418)	(4,418)	17,596	22,014
Fund balance, beginning of year	<u>66,745</u>	<u>66,745</u>	<u>66,745</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 62,327</u></u>	<u><u>\$ 62,327</u></u>	<u><u>\$ 84,341</u></u>	<u><u>\$ 22,014</u></u>

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
I-696 Segregated Capital
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Investment earnings	\$ 104,571	\$ 104,571	\$ 115,585	\$ 11,014
Other financing sources (uses)				
Transfers in	7,468	7,468	-	(7,468)
Transfers out	(101,715)	(101,715)	(147,498)	(45,783)
Total other financing sources (uses)	(94,247)	(94,247)	(147,498)	(53,251)
Net change in fund balances	10,324	10,324	(31,913)	(42,237)
Fund balance, beginning of year	3,334,093	3,334,093	3,334,093	-
Fund balance, end of year	<u>\$ 3,344,417</u>	<u>\$ 3,344,417</u>	<u>\$ 3,302,180</u>	<u>\$ (42,237)</u>

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Net Assets
Proprietary Fund
June 30, 2004

	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 344,348
Receivables:	
Accounts receivable (net)	173,758
Interest	249
Due from other governments	225,812
Total current assets	744,167
Noncurrent assets:	
Capital assets	
Construction in progress	1,210,455
Water and sewer system	1,511,518
Less accumulated depreciation	(905,736)
Total noncurrent assets	1,816,237
Total assets	2,560,404
Liabilities	
Current liabilities:	
Accounts payable	107,446
Accrued liabilities	10,000
Current portion of long-term debt	58,867
Total current liabilities	176,313
Noncurrent liabilities:	
Long term debt	1,283,013
Total liabilities	1,459,326
Net Assets	
Investment in capital assets, net of related debt	474,357
Unrestricted	626,721
Total net assets	\$ 1,101,078

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the year ended June 30, 2004

	Water and Sewer
Operating revenues	
Charges for services	\$ 717,885
Fines and penalties	9,407
Other	48,143
	775,435
Operating expenses	
Water purchases	146,102
Sewage disposal	326,955
Operating supplies	3,030
Public works	31,666
Interfund charges	125,291
Contractual services	38
Repairs and maintenance	37,889
Depreciation	46,881
Other	9,102
	726,954
Operating income	48,481
Non-operating revenues (expenses)	
Investment earnings	6,368
Interest expense	(33,291)
	(26,923)
Income before transfers	21,558
Transfer out	(35,916)
Change in net assets	(14,358)
Net assets, beginning of year	1,115,436
Net assets, end of year	\$ 1,101,078

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2004

	Water/Sewer
Cash flows from operating activities	
Cash received from customers and others	\$ 757,181
Cash received from interfund services	37,121
Cash payments to suppliers for goods and services	(524,629)
Cash payments for interfund services	(182,660)
Net cash provided (used) by operating activities	87,013
Cash flows from investing activities	
Investment income	6,368
Cash flows from capital and related financing activities	
Purchase of capital assets	(491,042)
Proceeds from issuance of long-term debt	372,014
Bond/note principal payments	(50,092)
Bond/note interest payments	(33,291)
Net cash provided (used) by capital and related financing activities	(202,411)
Cash flows from non-capital financing activities	
Transfer to other fund	(35,916)
Net increase (decrease) in cash and cash equivalents	(144,946)
Cash and cash equivalents, beginning of year	489,294
Cash and cash equivalents, end of year	\$ 344,348

Continued....

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Cash Flows (Concluded)
Proprietary Funds
For the year ended June 30, 2004

	Water/Sewer
Reconciliation of operating income (loss)	
to net cash provided by operating activities	
Operating income (loss)	\$ 48,481
Adjustments to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	46,881
Changes in assets and liabilities:	
Accounts receivable	(9,054)
Due from other governments	(9,200)
Due from other funds	37,121
Accounts payable	30,342
Accrued liabilities	(189)
Due to other funds	(57,369)
	<u>87,013</u>
Net cash provided (used) by	
operating activities	\$ 87,013

The accompanying notes are an integral part of these financial statements.

City of Pleasant Ridge, Michigan
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ -
LIABILITIES	
Accounts payable	\$ -

The accompanying notes are an integral part of these financial statements.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Pleasant Ridge, Michigan (the “City” or “government”) is a municipal corporation governed by an elected mayor and four member City Commission. A full-time City Manager is appointed by this body to carry out the policies that are established. The accompanying financial statements present the City (the primary government) and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely presented component unit

Downtown Development Authority. The members of the governing board of the Pleasant Ridge Downtown Development Authority are appointed by the City Commission. The City Commission approves the Downtown Development Authority’s annual budget and any required budget modifications. The City Commission also has the ability to significantly influence operations of the Downtown Development Authority.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

Government-wide financial statements. The statements of net assets and activities report information on all of the non-fiduciary activities of the primary government (the City) and its component unit. For the most part, eliminations have been made to remove the effect of double-counting inter-fund activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities rely to a significant extent on fees and charges for services. 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 direct expenses are offset by program revenues for the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable with a particular function or segment. Program revenues include (1) fees, fines and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes and other items, are presented as general revenues.

Fund financial statements. The fund financial statements report in separate statements, information for governmental, proprietary and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

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

Government-wide, proprietary and fiduciary fund financial statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenue of the City's enterprise fund is charges to customers for sales and services. Operating expenses for the enterprise fund 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 non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. The City considers all revenues reported in the governmental funds to be available if they are collected within ninety days after year-end, with the exception of property tax revenues that are available if collected within sixty days of year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The City reports the following major governmental funds:

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

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

Local Streets fund. This fund accounts for the accumulation of state shared revenues and local contributions along with expenditures related to the activity with the City's local street system.

I-696 segregated capital asset fund. This fund was established in 1986 to account for the funds received from the State of Michigan in connection with condemnation proceedings instituted by the State to acquire City-owned property for the construction of interstate highway 696.

Pool and fitness center. This fund accounts for the acquisition of capital assets and construction activities of the pool and fitness center.

The City reports the following major proprietary fund:

Water and sewer fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Capital projects fund. This fund accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Debt service fund. This fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Agency fund. This fund accounts for assets held for other governments in an agency capacity.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with 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 City has elected not to follow subsequent private-sector guidance.

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

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities and Equity

Deposits and investments

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

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.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Receivables and payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Prepaid items and other assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

defines capital assets as assets with an initial, individual cost of more than \$5,000 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. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Buildings	50
Building improvements	15
Vehicles	3
Equipment	3-15
Streets and alleys	12-20
Water and wastewater system	25

Compensated absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 100 percent of earned and unused leave hours in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

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 debt

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

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.

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 a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year-end. The legal level of budgetary control is the activity level for the general fund and the fund level for special revenue funds.

The City Commission requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year on or before April 10 of each year. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Commission approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the City incurred expenditures in excess of the amounts appropriated as follows:

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

	Final Budget	Actual	Variance
General Fund:			
General Government			
Treasurer	\$ 116,413	\$ 124,360	\$ 7,947
Assessment	22,481	22,873	392
Public Works			
Department of public works	246,300	248,606	2,306
Street lighting	32,120	32,680	560
Culture and Recreation			
Woodward dream cruise	19,653	28,495	8,842
Special Revenue Funds:			
Local Streets	223,643	310,641	86,998
Solid Waste	304,386	311,628	7,242
Library	36,304	36,596	292
Community Pool	94,200	100,078	5,878
Historic Commission	800	1,865	1,065

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2004:

	Primary Government	Component Unit	Total
Statement of Net Assets			
Cash and cash equivalents	\$ 2,742,131	\$ 242,744	\$ 2,984,875
Investments	3,020,669	-	3,020,669
Statement of Fiduciary Net Assets			
Cash and cash equivalents	-	-	-
Total	\$ 6,762,800	\$ 242,744	\$ 6,005,544

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

Deposits and Investments

Bank deposits (checking accounts, savings accounts and CDs)	\$ 3,032,668
Investments in mutual funds and similar vehicles	2,971,616
Cash on hand	<u>1,260</u>
Total	<u><u>\$ 6,005,544</u></u>

Deposits. At year-end, the carrying amount of deposits was \$3,032,668. The bank balance was \$3,083,350. Of the bank balance, \$262,681 was covered by federal depository insurance and \$2,820,669 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits at all times. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments. The City's investments have been classified into the following three categories of credit risk: (1) insured or registered, or securities held by the government or its agent in the government's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name. As of June 30, 2004 the City held no investments that met any risk categories as described above.

The City's investments include \$2,971,616 of investments in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required by GASB Statement 3 to be classified according to credit risk since they are not evidenced by securities that exist in physical or book entry form.

B. Receivables

Receivables in the governmental activities are 68.2 percent due from other governments, 18.8 percent accounts receivables, 1.3 percent taxes and special assessments and 11.7 percent accrued interest. Business-type activities receivables are 43.5 percent due from customers, and 56.5 percent due from other governments.

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

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of \$2,157 was unavailable in the governmental funds as a result of personal property taxes not yet received.

C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated -				
Land	\$ 1,746,700	\$ -	\$ -	\$ 1,746,700
Construction in progress	168,914	2,258,182	-	2,427,096
Total capital assets not being depreciated	<u>1,915,614</u>	<u>2,258,182</u>	<u>-</u>	<u>4,173,796</u>
Capital assets, being depreciated:				
Land improvements	762,575	-	-	762,575
Buildings and building improvements	1,164,032	-	-	1,164,032
Vehicles	66,326	-	-	66,326
Equipment	399,669	-	-	399,669
Infrastructure	5,708,404	-	-	5,708,404
Total capital assets being depreciated	<u>8,101,006</u>	<u>-</u>	<u>-</u>	<u>8,101,006</u>
Less accumulated depreciation for				
Land improvements	\$ (428,922)	\$ (47,181)	\$ -	\$ (476,103)
Buildings and building improvements	(340,199)	(34,475)	-	(374,674)
Vehicles	(59,942)	(6,384)	-	(66,326)
Equipment	(356,983)	(10,694)	-	(367,677)
Infrastructure	(3,259,959)	(155,683)	-	(3,415,642)
Total accumulated depreciation	<u>(4,446,005)</u>	<u>(254,417)</u>	<u>-</u>	<u>(4,700,422)</u>
Total capital assets being depreciated, net	<u>3,655,001</u>	<u>(254,417)</u>	<u>-</u>	<u>3,400,584</u>
Governmental activities capital assets, net	<u>\$ 5,570,615</u>	<u>\$ 2,003,765</u>	<u>\$ -</u>	<u>\$ 7,574,380</u>

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated -				
Construction in progress	\$ 845,179	\$ 365,276	\$ -	\$ 1,210,455
Capital assets, being depreciated:				
Water and sewer system	1,129,949	125,766	-	1,255,715
Water meters	247,764	-	-	247,764
Vehicles and misc. equipment	8,039	-	-	8,039
Total capital assets being depreciated	1,385,752	125,766	-	1,511,518
Less accumulated depreciation for				
Water and sewer system	(739,736)	(30,180)	-	(769,916)
Water meters	(111,263)	(16,518)	-	(127,781)
Vehicles and misc. equipment	(7,856)	(183)	-	(8,039)
Total accumulated depreciation	(858,855)	(46,881)	-	(905,736)
Total capital assets being depreciated, net	526,897	78,885	-	605,782
Business-type activities capital assets, net	\$ 1,372,076	\$ 444,161	\$ -	\$ 1,816,237

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

Governmental activities	
General government	\$ 41,286
Public safety	9,051
Public works	1,486
Highways and streets	155,683
Culture and recreation	46,911
Total depreciation expense - governmental activities	\$ 254,417
Business-type activities	
Water and sewer	\$ 46,881

The City has an active construction project as of June 30, 2004. The City is a participating community in the George W. Kuhn drain project along with thirteen other local municipalities: The total cost of the project is currently estimated at approximately \$123,000,000 with the City's share of total project costs at \$1,500,000.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

As of June 30, 2004 the City's financial activity as it relates to this project is as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
George W. Kuhn Drain	\$ 1,210,455	\$ 289,545

The project is being financed through the sale of drain bonds through the Oakland County Drain Commission and draw downs from the State of Michigan revolving fund. Future commitments related to construction in progress cannot readily be determined at this time due to the project management being conducted at the Oakland County, Michigan level.

D. Interfund Receivables, Payables and Transfers

At June 30, 2004, there were no amounts payable to or from other funds within the primary government. There is an advance of \$22,916 from the primary government to the component unit.

For the year then ended, interfund transfers consisted of the following:

<u>Transfers out</u>	<u>Transfer In</u>		
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General fund	\$ -	\$ 99,990	\$ 99,990
I-696 segregated capital asset fund	147,498	-	147,498
Non-major governmental funds	15,471	280,000	295,471
Water and sewer fund	35,916	-	35,916
	\$ 198,885	\$ 379,990	\$ 578,875

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

George W. Kuhn project bonds and revolving fund obligations 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 community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

the City's total obligation at the end of construction will be approximately \$1,563,330 or 1.271% of the projects total cost of \$123,000,000. Due to the current construction of the project, the sale of bonds and draw downs from the State of Michigan revolving fund are being incurred on an as needed basis and thus an accurate schedule of principal and interest payments cannot be determined at this time. Accordingly, it is not included in the following schedule of annual debt service requirements.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
Governmental activities			
Community Center Loan	5.21%	2006	\$ 246,507
Building Addition Loan	5.22%	2009	29,700
Pool/Fitness Center Loan	3.00% - 5.00%	2028	2,525,000
			<u>\$ 2,801,207</u>
Business-type activities			
George W. Kuhn drain	2.0% - 5.0%	Various	<u>\$ 1,341,880</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>
2005	\$ 110,325	\$ 118,186
2006	114,427	112,990
2007	141,555	107,581
2008	56,600	100,298
2009	53,300	97,454
2010-2014	350,000	453,182
2015-2020	650,000	439,583
2021-2025	750,000	224,996
2026-2028	575,000	51,273
	<u>\$ 2,801,207</u>	<u>\$ 1,705,542</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities					
Community center loan	\$ 321,496	\$ -	\$ (74,989)	\$ 246,507	\$ 78,725
Building addition loan	36,300	-	(6,600)	29,700	6,600
Pool/Fitness center loan	2,550,000	-	(25,000)	2,525,000	25,000
Accrued compensated Absences	214,810	-	(3,161)	211,649	112,615
	<u>\$ 3,122,606</u>	<u>\$ -</u>	<u>\$ (109,750)</u>	<u>\$ 3,012,856</u>	<u>\$ 222,940</u>

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Water meter loan	\$ 38,202	\$ -	\$ (38,202)	\$ -	\$ -
George W. Kuhn drain	981,756	372,014	(11,890)	1,341,880	58,867
	\$ 1,019,958	\$ 372,014	\$ (50,092)	\$ 1,341,880	\$ 58,867

For the governmental activities, compensated absences are generally liquidated by the general fund.

F. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal government's to establish fees that bear a reasonable relationship to the cost of operating their building departments. The City's fee structure is not intended to fully recover its costs, and accordingly, the operations of the City's building department are accounted for in the General Fund.

For the year ended June 30, 2004, the City's revenue and expenditures related to its building department were as follows:

<u>Revenues</u>	
Building Permits	\$ 49,145
Electrical Permits	7,125
Plumbing/Heating Permits	5,410
Other Revenue	2,071
Total Revenues	63,751
 <u>Expenditures</u>	
Salaries and Wages	87,338
Benefits	17,645
Operating Supplies	1,290
Total Expenditures	\$ 106,273

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

G. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government's water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded coverage during the past three years.

B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31st or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2003 levy was \$105,466,947. The government's general operating tax rate for fiscal 2003-04 was 12.2466 mills with an additional 1.8368 for refuse collection, 2.5861 for infrastructure, 0.4248 for library services, 1.3638 for pool and fitness center operations and 1.1100 mills for pool and fitness center debt.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally 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 government expects such amounts, if any, to be immaterial.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

D. Joint Venture

Southeastern Oakland County Resource Recovery Authority (SOCRRA)

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of twelve municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the Authority reported a reduction in net assets in the amount of \$1,119,139 resulting in ending net assets in the amount of \$6,966,199. During the year ended June 30, 2004, the City expended \$68,350 of payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

Southeastern Oakland County Water Authority (SOCWA)

The City is a member of the Southeastern Oakland County Water Authority (the "Authority"), which provides a water supply system primarily to eleven municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the Authority reported a reduction in net assets in the amount of \$386,668 resulting in ending net assets in the amount of \$11,787,102. During the year ended June 30, 2004, the City expended \$146,102 of payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

E. Postemployment Benefits

Defined Benefit Pension Plan

Plan description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan operated and administered by the MERS Retirement Board. Public Act No. 220 of the Public Acts of 1996, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

All full-time City employees are eligible to participate in the MERS. City employees who retire at or after age 60 with ten years of credited service, age 55 with 15 years service or age 50 with 25 years of service, are entitled to an annual retirement benefit, payable monthly for life. The normal retirement benefit is equal to 2.5% up to a maximum of 80% of final average compensation. MERS also provides death and disability benefits. These benefits are established by state statute.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is as follows:

General	0%
Police and Fire	8.88%
General Non-Union	14.00%
City Manager	20.59%

Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$75,825 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest available actuarial valuation, was 30 years.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$ 71,445	100%	\$ 0
6/30/02	40,818	100%	0
6/30/03	43,405	100%	0
6/30/04	75,825	100%	0

F. I-696 Segregated Capital Special Revenue Fund

The I-696 Segregated Capital Asset Fund (“SCAF”) was established in 1986 to account for the funds received from the State of Michigan in connection with condemnation proceedings instituted by the State to acquire City-owned property. The property is located along the City’s northern boundary and was acquired by the State for right-of-way for the I-696 highway. The property consisted of unimproved land used by the City for recreation purposes.

The State had remitted in prior years, its “good faith offer” of \$1,022,000 to the City together with related interest. During fiscal year 1995, the City of Pleasant Ridge and the State signed a settlement agreement ending the condemnation proceedings. The City received \$4,250,000 as final compensation covering unpaid principal and interest and any other costs or claims which the City had against the Department of Transportation arising out of the condemnation proceedings. Out of the proceeds, \$700,000 was earmarked under the settlement agreement for the repair and improvement of local roads that the City claimed were damaged by the I-696 project. In addition, the City was obligated, under a binding agreement, to pay one-third of the amount received, or \$1,416,667, to attorneys representing the City in the matter. The attorneys accepted \$1,250,000 in full settlement for their services.

The funds that were received, after the above deductions, are restricted for use by the City Code primarily for capital acquisitions as described in Chapter Two, Article II, Division Nine, Sections 2-131 through 2-139. The restricted principal amount is \$3,242,872, which is reflected as reserved fund balance in the special revenue funds.

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

G. Restatements

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

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

Interpretation

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

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

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

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

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

CITY OF PLEASANT RIDGE, MICHIGAN

Notes To Financial Statements

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

Fund balances of general, special revenue, debt service and capital project as of 6/30/03	\$ 6,434,706
Add: governmental capital assets, including general fixed assets and infrastructure as of 6/30/03	10,016,620
Deduct: accumulated depreciation as of 6/30/03 on above governmental capital assets	(4,446,005)
Add: deferred revenue on taxes receivable as of 6/30/03	2,088
Deduct: general obligation bonds, and loans payable as of 6/30/03	(2,907,796)
Deduct: prior period adjustment to increase compensated absences payable as of 6/30/03	(78,897)
Deduct: governmental compensated absences payable as of 6/30/03	(135,913)
Governmental net assets, restated, as of 7/1/03	<u><u>\$ 8,884,803</u></u>

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds as follows:

Retained earnings as of 6/30/03	\$ 586,628
Add: contributed capital as of 6/30/03	<u>528,808</u>
Business-type activity net assets, restated, as of 7/1/03	<u><u>\$ 1,115,436</u></u>

Beginning net assets for the component unit (Downtown Development Authority) was determined as follows:

Fund balance of general fund as of 6/30/03	\$ 224,984
Add: deferred revenue on taxes receivable as of 6/30/03	<u>2,556</u>
Component unit net assets, restated, as of 7/1/03	<u><u>\$ 227,540</u></u>

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF PLEASANT RIDGE, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Plan

Trend Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/00	\$ 2,603,504	\$ 2,694,694	\$ 91,190	97%	\$ 484,025	19%
12/31/01	2,549,981	2,926,263	376,282	87%	498,462	75%
12/31/02	2,469,503	3,041,853	572,350	81%	523,352	109%
12/31/03	2,517,831	3,259,096	741,265	77%	588,952	126%

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

City of Pleasant Ridge, Michigan
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

	<u>Special Revenue</u>				
	<u>Major Streets</u>	<u>Infrastructure</u>	<u>Solid Waste</u>	<u>Library</u>	<u>Community Pool</u>
Assets					
Cash and cash equivalents	\$ 380,180	\$ 1,845	\$ 73,483	\$ 9,389	\$ -
Receivables:					
Accounts receivable	-	-	24,153	-	-
Interest	258	70	50	6	-
Due from other governments	20,078	-	-	-	-
Prepays	-	-	-	18,152	-
Total assets	<u>\$ 400,516</u>	<u>\$ 1,915</u>	<u>\$ 97,686</u>	<u>\$ 27,547</u>	<u>\$ -</u>
Liabilities					
Accounts payable	\$ 60	\$ -	\$ 13,406	\$ -	\$ -
Accrued payroll	-	-	-	-	-
Total liabilities	<u>60</u>	<u>-</u>	<u>13,406</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for:					
Prepays	-	-	-	18,152	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Unreserved, designated for:					
Subsequent years budget	-	-	-	-	-
Unreserved, undesignated for:					
Special revenue funds	400,456	1,915	84,280	9,395	-
Total fund balances	<u>400,456</u>	<u>1,915</u>	<u>84,280</u>	<u>27,547</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 400,516</u>	<u>\$ 1,915</u>	<u>\$ 97,686</u>	<u>\$ 27,547</u>	<u>\$ -</u>

Special Revenue		Debt Service		Capital Projects	Total Nonmajor Governmental Funds
Pool/Fitness Center (Operating)	Historic Commission	Pool/Fitness Center Debt Service	Non-Voted Debt Service	Streetscape Project	
\$ 91,158	\$ 4,112	\$ 7,782	\$ 10,879	\$ 70,930	\$ 649,758
-	-	-	-	-	24,153
66	3	14	-	49	516
-	-	-	-	-	20,078
-	-	-	4,078	-	22,230
<u>\$ 91,224</u>	<u>\$ 4,115</u>	<u>\$ 7,796</u>	<u>\$ 14,957</u>	<u>\$ 70,979</u>	<u>\$ 716,735</u>
\$ 2,821	\$ -	\$ -	\$ -	\$ -	\$ 16,287
10,032	-	-	-	-	10,032
<u>12,853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,319</u>
-	-	-	4,078	-	22,230
-	-	7,796	10,879	-	18,675
-	-	-	-	70,979	70,979
-	742	-	-	-	742
<u>78,371</u>	<u>3,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,790</u>
<u>78,371</u>	<u>4,115</u>	<u>7,796</u>	<u>14,957</u>	<u>70,979</u>	<u>690,416</u>
<u>\$ 91,224</u>	<u>\$ 4,115</u>	<u>\$ 7,796</u>	<u>\$ 14,957</u>	<u>\$ 70,979</u>	<u>\$ 716,735</u>

City of Pleasant Ridge, Michigan
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2004

	Special Revenue			
	Major Streets	Infrastructure	Solid Waste	Library
Revenues				
Property taxes	\$ -	\$ 267,443	\$ 189,952	\$ 43,926
Intergovernmental	118,033	-	-	-
Charges for services	-	-	101,495	-
Investment earnings	2,887	1,613	1,235	433
Other	-	-	-	-
Total revenues	<u>120,920</u>	<u>269,056</u>	<u>292,682</u>	<u>44,359</u>
Expenditures				
Current:				
Highways and streets	24,490	-	-	-
Sanitation	-	-	311,628	-
Culture and recreation	-	-	-	36,596
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital Outlay	-	-	-	-
Total expenditures	<u>24,490</u>	<u>-</u>	<u>311,628</u>	<u>36,596</u>
Revenues over (under) expenditures	<u>96,430</u>	<u>269,056</u>	<u>(18,946)</u>	<u>7,763</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	(280,000)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(280,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	96,430	(10,944)	(18,946)	7,763
Fund balances, beginning of year	<u>304,026</u>	<u>12,859</u>	<u>103,226</u>	<u>19,784</u>
Fund balances, end of year	<u>\$ 400,456</u>	<u>\$ 1,915</u>	<u>\$ 84,280</u>	<u>\$ 27,547</u>

Special Revenue			Debt Service		Capital Projects	Total Nonmajor Governmental Funds
Community Pool	Pool/Fitness Center	Historic Commission	Pool/Fitness Center Debt Service	Debt Service	Streetscape Project	
\$ -	\$ 141,035	\$ -	\$ 114,788	\$ -	\$ -	\$ 757,144
-	-	-	-	-	33,000	151,033
86,520	22,784	2,611	-	-	-	213,410
99	839	23	250	255	656	8,290
137	890	2,045	-	-	30,000	33,072
<u>86,756</u>	<u>165,548</u>	<u>4,679</u>	<u>115,038</u>	<u>255</u>	<u>63,656</u>	<u>1,162,949</u>
-	-	-	-	-	-	24,490
-	-	-	-	-	-	311,628
100,078	72,177	1,865	-	-	-	210,716
-	-	-	25,000	81,589	-	106,589
-	-	-	82,242	18,405	-	100,647
-	-	-	-	-	52,134	52,134
<u>100,078</u>	<u>72,177</u>	<u>1,865</u>	<u>107,242</u>	<u>99,994</u>	<u>52,134</u>	<u>806,204</u>
<u>(13,322)</u>	<u>93,371</u>	<u>2,814</u>	<u>7,796</u>	<u>(99,739)</u>	<u>11,522</u>	<u>356,745</u>
-	-	-	-	99,990	-	99,990
(471)	(15,000)	-	-	-	-	(295,471)
<u>(471)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>99,990</u>	<u>-</u>	<u>(195,481)</u>
(13,793)	78,371	2,814	7,796	251	11,522	161,264
<u>13,793</u>	<u>-</u>	<u>1,301</u>	<u>-</u>	<u>14,706</u>	<u>59,457</u>	<u>529,152</u>
<u>\$ -</u>	<u>\$ 78,371</u>	<u>\$ 4,115</u>	<u>\$ 7,796</u>	<u>\$ 14,957</u>	<u>\$ 70,979</u>	<u>\$ 690,416</u>

City of Pleasant Ridge, Michigan

**Detailed Schedule of Expenditures
Budget and Actual
General Fund
For the year ended June 30, 2004**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
LEGISLATIVE				
Commission	\$ 19,960	\$ 21,438	\$ 15,032	\$ (6,406)
GENERAL GOVERNMENT				
Manager	87,235	96,403	96,340	(63)
City clerk	59,736	59,736	59,441	(295)
Elections	12,121	12,121	11,513	(608)
Attorney	24,600	29,978	29,582	(396)
General government	122,846	149,334	146,703	(2,631)
Cable television	4,121	4,121	2,472	(1,649)
Post office	49,423	51,731	50,819	(912)
Treasurer	86,641	116,413	124,360	7,947
Assessment	22,018	22,481	22,873	392
TOTAL GENERAL GOVERNMENT	468,741	542,318	544,103	1,785
PUBLIC SAFETY				
Police	561,870	643,441	626,254	(17,187)
Fire	354,765	354,765	354,765	-
TOTAL PUBLIC SAFETY	916,635	998,206	981,019	(17,187)
PUBLIC WORKS				
Department of public works	204,500	246,300	248,606	2,306
Street lighting	32,120	32,120	32,680	560
TOTAL PUBLIC WORKS	236,620	278,420	281,286	2,866
BUILDING AND PLANNING				
Building department	123,455	123,455	106,273	(17,182)
Planning commission	5,925	6,050	1,474	(4,576)
TOTAL BUILDING AND PLANNING	129,380	129,505	107,747	(21,758)
CULTURE AND RECREATION				
Parks and recreation department	201,853	231,557	217,307	(14,250)
Woodward dream cruise	19,653	19,653	28,495	8,842
TOTAL CULTURE AND RECREATION	221,506	251,210	245,802	(5,408)
OTHER				
Internal debt service - interest expense	7,468	7,468	-	(7,468)
Retirement services	149,883	149,883	131,699	(18,184)
TOTAL OTHER	157,351	157,351	131,699	(25,652)
TOTAL EXPENDITURES	\$ 2,150,193	\$ 2,378,448	\$ 2,306,688	\$ (71,760)

City of Pleasant Ridge, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		Over (Under)
				Final Budget
Revenues				
Intergovernmental	\$ 110,200	\$ 110,200	\$ 118,033	\$ 7,833
Investment earnings	4,500	4,500	2,887	(1,613)
Total revenues	<u>114,700</u>	<u>114,700</u>	<u>120,920</u>	<u>6,220</u>
Expenditures				
Routine maintenance	13,951	13,951	8,507	(5,444)
Winter maintenance	19,985	19,985	11,191	(8,794)
Traffic services	6,908	6,908	4,792	(2,116)
Total expenditures	<u>40,844</u>	<u>40,844</u>	<u>24,490</u>	<u>(16,354)</u>
Net change in fund balances	73,856	73,856	96,430	22,574
Fund balance, beginning of year	<u>304,026</u>	<u>304,026</u>	<u>304,026</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 377,882</u></u>	<u><u>\$ 377,882</u></u>	<u><u>\$ 400,456</u></u>	<u><u>\$ 22,574</u></u>

City of Pleasant Ridge, Michigan
Comparative Statement of Net Assets
Water and Sewer Fund
June 30, 2004 and June 30, 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 344,348	\$ 489,294
Receivables:		
Accounts receivable (net)	173,758	164,683
Interest	249	270
Due from other funds	-	37,121
Due from other governments	225,812	216,612
Total current assets	<u>744,167</u>	<u>907,980</u>
Noncurrent assets:		
Capital assets		
Construction in progress	1,210,455	845,179
Water and sewer system	1,511,518	1,385,752
Less accumulated depreciation	<u>(905,736)</u>	<u>(858,855)</u>
Total noncurrent assets	<u>1,816,237</u>	<u>1,372,076</u>
Total assets	<u>2,560,404</u>	<u>2,280,056</u>
Liabilities		
Current liabilities:		
Accounts payable	107,446	77,104
Accrued liabilities	10,000	10,189
Due to other funds	-	57,369
Current portion of long-term debt	58,867	50,092
Total current liabilities	<u>176,313</u>	<u>194,754</u>
Noncurrent liabilities:		
Long term debt	<u>1,283,013</u>	<u>969,866</u>
Total liabilities	<u>1,459,326</u>	<u>1,164,620</u>
Net Assets		
Investment in capital assets, net of related debt	474,357	352,118
Restricted		
Unrestricted	<u>626,721</u>	<u>763,318</u>
Total net assets	<u>\$ 1,101,078</u>	<u>\$ 1,115,436</u>

City of Pleasant Ridge, Michigan
Comparative Statement of Revenues, Expenses
and Changes in Fund Net Assets
Water and Sewer Fund
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues		
Charges for services	\$ 717,885	\$ 743,305
Fines and penalties	9,407	11,630
Other	48,143	173,973
Total operating revenues	<u>775,435</u>	<u>928,908</u>
Operating expenses		
Water purchases	146,102	147,488
Sewage disposal	326,955	358,526
Operating supplies	3,030	4,263
Public works	31,666	21,126
Interfund charges	125,291	57,144
Contractual services	38	2,881
Repairs and maintenance	37,889	182,970
Depreciation	46,881	54,770
Other	9,102	7,595
Total operating expenses	<u>726,954</u>	<u>836,763</u>
Operating income (loss)	<u>48,481</u>	<u>92,145</u>
Non-operating revenues (expenses)		
Federal grant	-	26,816
Investment earnings	6,368	12,394
Interest expense	(33,291)	(27,941)
Total non-operating revenues (expenses)	<u>(26,923)</u>	<u>11,269</u>
Income before transfers	21,558	103,414
Transfer out	(35,916)	(33,283)
Capital contributions	-	-
Change in net assets	(14,358)	70,131
Net assets, beginning of year, as restated	<u>1,115,436</u>	<u>1,045,305</u>
Net assets, end of year	<u><u>\$ 1,101,078</u></u>	<u><u>\$ 1,115,436</u></u>

**City of Pleasant Ridge, Michigan
Downtown Development Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2004**

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 242,744	\$ -	\$ 242,744
Receivables:			
Accounts receivable	16,125	-	16,125
Taxes-delinquent	5,361	-	5,361
Less allowance for uncollectables	(4,016)	-	(4,016)
Interest	175	-	175
 Total assets	 <u>\$ 260,389</u>	 <u>-</u>	 <u>260,389</u>
Liabilities:			
Accounts payable	23,564	-	23,564
Advances from primary government	22,916	-	22,916
Deferred revenue	1,345	(1,345)	-
Total Liabilities	<u>47,825</u>	<u>(1,345)</u>	<u>46,480</u>
Fund Balance/Net Assets:			
Undesignated	<u>212,564</u>	<u>-</u>	<u>212,564</u>
Total liabilities and fund balance	<u>\$ 260,389</u>		
Net Assets:			
Unrestricted		<u>1,345</u>	<u>213,909</u>
Total net assets		<u>\$ 1,345</u>	<u>\$ 213,909</u>

City of Pleasant Ridge, Michigan
Downtown Development Authority
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Activities
June 30, 2004

Fund balance - Downtown Development Authority	\$ 212,564
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Amounts reported for governmental activities in the statement of net assets are different because:

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and

Add: deferred revenues	<u>1,345</u>
------------------------	--------------

Net assets of component unit	<u><u>\$ 213,909</u></u>
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**City of Pleasant Ridge, Michigan
Downtown Development Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the year ended June 30, 2004**

	Governmental Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 67,150	\$ (1,211)	\$ 65,939
Investment earnings	2,084	-	2,084
Other	16,125	-	16,125
Total revenues	<u>85,359</u>	<u>(1,211)</u>	<u>84,148</u>
Expenditures			
Economic and physical development	95,535	-	95,535
Debt service - interest and fees	2,244	-	2,244
Total expenditures	<u>97,779</u>	<u>-</u>	<u>97,779</u>
Change in fund balance/net assets	(12,420)	(1,211)	(13,631)
Beginning fund balance/net assets	<u>224,984</u>	<u>2,556</u>	<u>227,540</u>
Ending fund balance/net assets	<u><u>\$ 212,564</u></u>	<u><u>\$ 1,345</u></u>	<u><u>\$ 213,909</u></u>

City of Pleasant Ridge, Michigan
Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2003

Net change in fund balances - component unit \$ (12,420)

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenues (1,211)

Change in net assets of governmental activities \$ (13,631)



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

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

September 17, 2004

To the Honorable Mayor and Commission
City of Pleasant Ridge, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Pleasant Ridge, Michigan* as of and for the year ended June 30, 2004, which collectively comprise the *City of Pleasant Ridge, Michigan's* basic financial statements and have issued our report thereon dated September 17, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether *City of Pleasant Ridge, Michigan'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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *City of Pleasant Ridge, Michigan'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Commission, 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.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

September 17, 2004

To the Honorable Mayor and City Commission
City of Pleasant Ridge, Michigan

In planning and performing our audit of the basic financial statements of the *City of Pleasant Ridge, Michigan*, for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 17, 2004, on the basic financial statements of the *City of Pleasant Ridge, Michigan*.

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

We would like to thank the staff and management of the *City of Pleasant Ridge, Michigan* for their assistance and cooperation in completing the audit.

A.) BACK-UP PROCEDURES AND DISASTER RECOVERY PLAN

During our audit procedures we noted that the City typically does not perform daily backups of the accounting system. This situation increases the risk of loss of financial information, the supporting audit trail and the time that was required to process the information.

We believe that the City can reduce its risk of loss by implementing a backup and disaster recovery plan that would require the backup of accounting information on a daily basis. In addition, we would recommend that the City consider storing the backup information in a location outside of the City's offices to reduce the risk of loss due to fire or other natural disaster.

B.) APPROVE JOURNAL ENTRIES

Our review of the general journal entries revealed that the entries lack proper approval by another responsible employee other than the preparer. We recommend that the City consider a policy whereby all journal entries will be approved by a designated member of management. All entries should be initialed by the preparer and by the individual approving them.

C.) ACH POLICY

The State of Michigan enacted Public Act 738, which requires governmental entities to adopt by board resolution, a policy for ACH (Automated Clearing House) electronic transactions. During our procedures, we noted no such policy has been adopted. We recommend that the City consider adopting an ACH policy in accordance with Public Act 738.