

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Pleasant Ridge	County Oakland
Fiscal Year End June 30, 2006	Opinion Date October 27, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

YES
NO

Check each applicable box below. (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.12.21 16:21:19 -0500</small>		Printed Name Thomas E. Darling		License Number A246550



**CITY OF PLEASANT RIDGE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2006

CITY OF PLEASANT RIDGE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2006

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Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 27, 2006

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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City 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, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparisons of the General Fund, I-696 Segregated Capital Asset Fund, Local Streets Fund, and the Infrastructure Improvements Fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 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 black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

***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, 2006.

Financial Highlights

- Total net assets increased \$449,706 as a result of this year's operations. Net assets of our governmental activities increased \$284,548 or 2.8%. Net assets of our business-type activities increased \$165,158 or 16.2%. The largest increase in governmental activities was the reconstruction of Wellesley Avenue and the alley between Oxford and the south city limits. The business-type activity increase is primarily the result of a dry summer where variable costs increase with increased water consumption while fixed costs remain constant.
- Total cost of all of the City's programs was \$4,541,480, compared to \$4,583,051 in FY 2005. This decrease, although less than one percent, represents a citywide effort to reduce expenses.
- The City's net capital assets increased by \$474,119. Additions were \$935,618 less depreciation of \$461,499. Major additions during the year included \$264,580 for Wellesley Avenue Reconstruction, \$109,918 for reconstruction of the alley between Oxford and the south city limits, \$64,579 for the Woodward Avenue streetscape project, \$189,645 for improvements and equipment at Moberly Park, the Community Center and Wellness Center, and \$186,573 for construction in progress on the George W. Kuhn Drain Project.
- The General Fund had an increase of \$61,928 in fund balance to \$844,888. This increase was the result of departments reducing expenditures, including reducing the Police Department by one full-time officer.

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).

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

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.

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 fifteen 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, I-696 Segregated Capital Asset fund, the Local Streets fund, and the Infrastructure Improvements fund which are considered to be major funds. Data from the other eleven 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.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

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.

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 \$11,702,994 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (56%) 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.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

City of Pleasant Ridge's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 5,377,427	\$ 5,251,478	\$ 548,821	\$ 511,673	\$ 5,926,248	\$ 5,763,151
Capital assets, net	8,495,747	8,221,439	2,178,390	1,978,579	10,674,137	10,200,018
Total assets	13,873,174	13,472,917	2,727,211	2,490,252	16,600,385	15,963,169
Current liabilities	674,141	440,689	207,344	122,111	881,485	562,800
Noncurrent liabilities	2,678,863	2,796,606	1,337,043	1,350,475	4,015,906	4,147,081
Total liabilities	3,353,004	3,237,295	1,544,387	1,472,586	4,897,391	4,709,881
Net assets:						
Invested in capital assets,						
net of related debt	5,818,884	5,420,746	777,867	567,937	6,596,751	5,988,683
Restricted assets	3,869,918	4,122,850	-	-	3,869,918	4,122,850
Unrestricted	831,368	692,026	404,957	449,729	1,236,325	1,141,755
Total net assets	\$ 10,520,170	\$ 10,235,622	\$ 1,182,824	\$ 1,017,666	\$ 11,702,994	\$ 11,253,288

An additional portion of the City's net assets, \$4,007,068 or 34%, represents resources that are subject to external or code restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$1,099,175 or 9%, 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 \$449,706 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 \$284,548 from \$10.2 million to \$10.5 million. This accounts for 63% of the City's change in total net assets. Key elements of this are as follows:

- Wellesley Avenue reconstruction \$264,580
- Alley between Oxford and south city limits 109,918
- Woodward Avenue Streetscape 64,579
- Improvement and equipment at Moberly Park Community Center, Pool/Wellness Center 186,573
- Smaller additions increased this more, but depreciation reduced the net increase to \$284,548.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

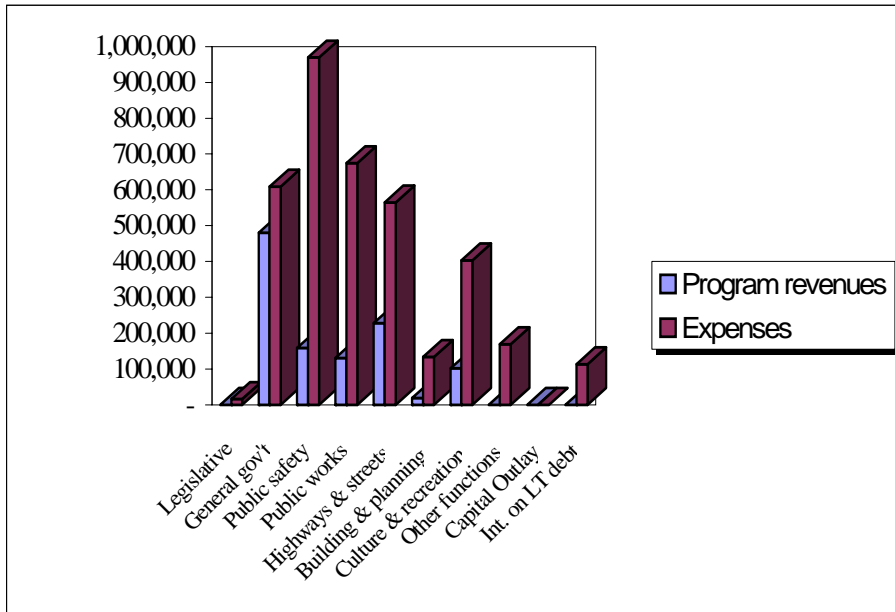
City of Pleasant Ridge's Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$ 702,197	\$ 735,411	\$ 1,006,797	\$ 882,369	\$ 1,708,994	\$ 1,617,780
Operating grants and contributions	188,503	198,449	-	-	188,503	198,449
Capital grants and contributions	228,526	112,348	29,035	-	257,561	112,348
General revenues:						
Property taxes	2,247,383	2,155,666	-	-	2,247,383	2,155,666
State shared revenue	269,757	272,792	-	-	269,757	272,792
Other	303,672	580,013	15,316	41,948	318,988	621,961
Total revenues	<u>3,940,038</u>	<u>4,054,679</u>	<u>1,051,148</u>	<u>924,317</u>	<u>4,991,186</u>	<u>4,978,996</u>
Expenses:						
Legislative	16,772	12,493	-	-	16,772	12,493
General government	609,262	613,037	-	-	609,262	613,037
Public safety	969,480	1,016,791	-	-	969,480	1,016,791
Public works	674,880	593,132	-	-	674,880	593,132
Highways and streets	565,195	315,507	-	-	565,195	315,507
Building and planning	133,680	116,946	-	-	133,680	116,946
Culture and recreation	403,221	605,377	-	-	403,221	605,377
Other functions	169,494	147,817	-	-	169,494	147,817
Interest on long-term debt	113,506	154,222	-	-	113,506	154,222
Water supply and sewage disposal system	-	-	885,990	1,007,729	885,990	1,007,729
Total expenses	<u>3,655,490</u>	<u>3,575,322</u>	<u>885,990</u>	<u>1,007,729</u>	<u>4,541,480</u>	<u>4,583,051</u>
Increase in net assets	284,548	479,357	165,158	(83,412)	449,706	395,945
Net assets-beginning	10,235,622	9,756,265	1,017,666	1,101,078	11,253,288	10,857,343
Net assets-ending	<u>\$ 10,520,170</u>	<u>\$ 10,235,622</u>	<u>\$ 1,182,824</u>	<u>\$ 1,017,666</u>	<u>\$ 11,702,994</u>	<u>\$ 11,253,288</u>

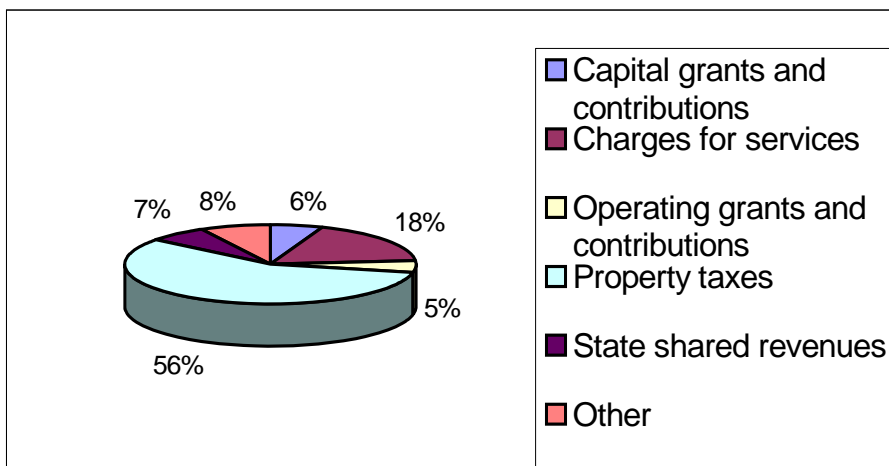
CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



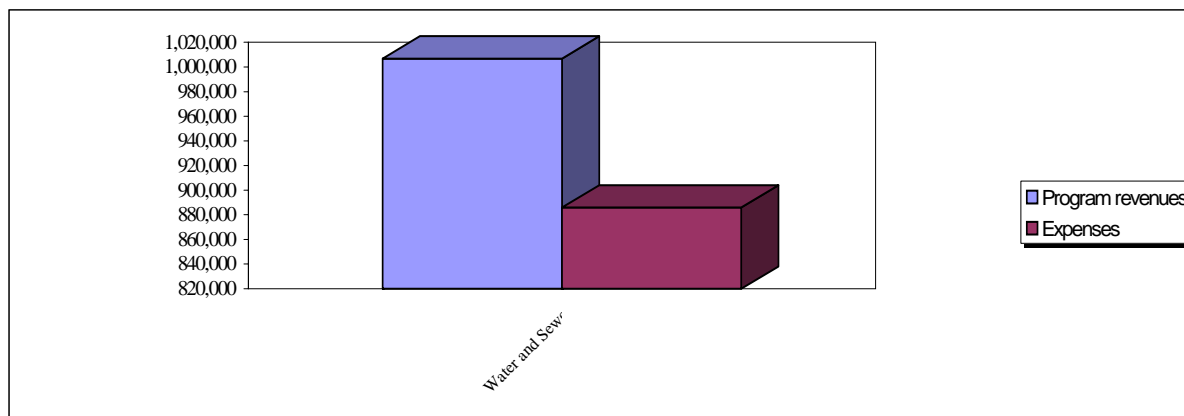
CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

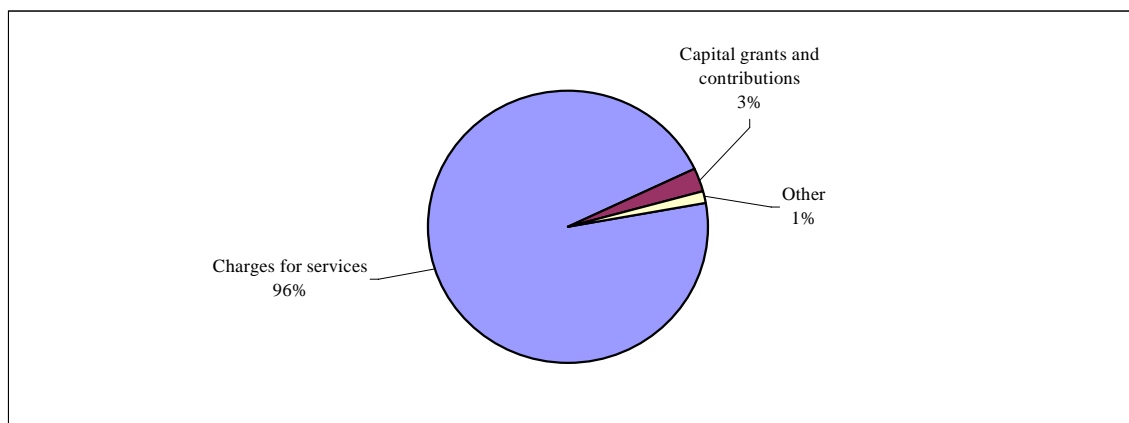
Business-type Activities. Business-type activities increased the City's net assets by \$165,158, adding to the City's total increase in net assets. The key elements of this increase are as follows:

- Increased sales of water due to very dry summer.
 - Addition of capital grant revenue in 2006.
 - Decreased maintenance expenses.
-

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources – Business-Type Activities



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.

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

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 \$4,912,723, a decrease of \$117,935 in comparison with the prior year. Approximately 28% of this total amount, \$1,361,375, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to 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 \$830,906, while total fund balance was \$844,888. 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 approximately 33% of total general fund expenditures.

The fund balance of the City's general fund increased by \$61,928 during the current fiscal year. This was primarily due to only hiring one full-time police officer to replace two that retired.

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 \$404,957. The increase in net assets for the fund was \$165,158. This was the result of a dry summer where more water was sold. Rates are established on an average year which causes a profit in dry years and a loss in wet years because while variable costs increase with sales volumes, fixed costs do not.

General Fund Budgetary Highlights

The final budget was amended to increase budgeted revenues by \$131,200 and to increase budgeted expenditures by the same amount. This can be briefly summarized as follows:

- Increases in salary and benefits to reflect a salary increase granted after adoption of the budget.
- Increase in Elections salaries and supplies for Special Election.
- Increase in various supply and maintenance accounts in the General Government category.
- Increase in Police to pay accrued benefits to two retiring officers.
- Increased Inspector's fees due to increased electrical, mechanical and building permits.
- Revenue accounts increased to reflect actual results being achieved including:
 - Interest on taxes \$17,700
 - Building related permits 25,000
 - District Court fines 15,000
 - Interest income 33,300
 - Insurance recoveries and lawsuits 33,100

CITY OF PLEASANT RIDGE, MICHIGAN

Management's Discussion and Analysis

General Fund revenues were less than budgeted because:

- Estimated building, mechanical, and electrical permits in the amended budget were overly optimistic.
- Only a portion of the Administrative Service Charges was transferred for Major Street, Local Street, and Water and Sewer Funds.
- Less postage was sold.

General Fund expenditures were less than budgeted because:

- Mayor and Commissioners did not accept their salaries.
- Individual departments spent less for office supplies.
- Less postage was purchased.
- Oakland County Assessment Services billed were less.
- The Police Department only hired one officer to replace the two that retired.
- The Police Department purchased less operating supplies.
- The City Treasurer spent less for printing.
- Less was spent on the Public Works contract.
- Several small Recreation capital projects such as resurfacing the tennis courts were deferred.
- Maintenance on the Recreation Center was less than anticipated.
- Purchase of park tables in the Community Pool/Wellness Center area were purchased from that fund rather than the General Fund.

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, 2006, amounted to \$10,674,137 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, vehicles, and roads, highways, and other infrastructure. The total net increase in the City's investment in capital assets for the current fiscal year was \$474,119 or 5% which represents an increase in governmental activities of \$274,308 or 3%, and an increase in business-type activities of \$199,811 or 10%.

Governmental activity capital asset additions totaled \$691,324 and included renovation of Moberly Park adjacent to the Community Pool/Wellness Center, improvements at the Recreation and Wellness Center, and renovation of the alley between Oxford and the south city limits.

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	269,096	1,601,545	1,870,641
Land improvements	465,557	-	465,557
Buildings and improvements	3,022,535	-	3,022,535
Vehicles	19,847		19,847
Equipment	182,985	86,949	269,934
Infrastructure	2,789,027	-	2,789,027
Water and sewer system	-	489,896	489,896
Total	<u>\$ 8,495,747</u>	<u>\$ 2,178,390</u>	<u>\$ 10,674,137</u>

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$4,264,864. Debt consists of general obligation bonds (community center loan, pool/fitness center loan, city hall addition loan, and the DPW building improvement note payable) accrued compensated absences, and drain bonds.

City of Pleasant Ridge's Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
Community Center Loan	\$ 84,602	\$ -	\$ 84,602
Pool/Fitness Facility Loan	2,475,000	-	2,475,000
City Hall Addition Loan	16,500	-	16,500
DPW Building Note Payable	100,761	-	100,761
Accrued Compensated Absences	187,476		187,476
George W. Kuhn Drain Bonds	-	1,400,525	1,400,525
	<u>\$ 2,864,339</u>	<u>\$ 1,400,525</u>	<u>\$ 4,264,864</u>

The City's total debt decreased by \$130,127 during the current fiscal year. Governmental long-term debt decreased by \$120,010. There was a net decrease in business-type debt outstanding related to George W. Kuhn Drain Bonds of \$10,117.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

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 2006-07 fiscal year:

- State Shared Revenue is expected to remain at the same level as fiscal year 2006.
- Other revenue sources are expected to experience a slight overall decrease.
- The City will continue to employ only five full-time and one part-time police officers.
- The General Fund will pick up two-thirds of the personnel costs of the Recreation Assistant based on the results of the time spent in fiscal year 2006.
- Recreation capital outlay includes replacement picnic tables and improvements at the dog run, tennis courts, and senior activity center totaling \$22,800.
- Capital outlay also includes \$15,000 to upgrade the City Hall's computer network and a new copier lease.
- The Water and Sewer Fund plans to replace the reading equipment of all water meters at a cost of \$160,000 using a \$20 per quarter charge for two years to defray the cost.
- The Downtown Development Authority is budgeting \$83,844 for projects including a new park fountain, façade improvement grants, residential street signage, and Woodward Avenue median maintenance.

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, 2006

	Governmental	Business-type		Component Unit
	Activities	Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 2,125,613	\$ 263,075	\$ 2,388,688	\$ 93,646
Investments	3,020,669	-	3,020,669	-
Receivables (net)	192,136	286,517	478,653	3,323
Internal balances	771	(771)	-	-
Due from component unit	2,663	-	2,663	-
Prepays	35,575	-	35,575	-
Capital assets:				
Non-depreciable capital assets, net	2,015,796	1,601,545	3,617,341	-
Depreciable capital assets, net	6,479,951	576,845	7,056,796	-
Total assets	13,873,174	2,727,211	16,600,385	96,969
Liabilities				
Accounts payable	410,860	134,430	545,290	1,352
Due to primary government	-	-	-	2,663
Accrued liabilities	77,805	9,434	87,239	-
Noncurrent liabilities:				
Due within one year	185,476	63,480	248,956	-
Due in more than one year	2,678,863	1,337,043	4,015,906	-
Total liabilities	3,353,004	1,544,387	4,897,391	4,015
Net assets				
Invested in capital assets, net of related debt	5,818,884	777,867	6,596,751	-
Restricted for:				
Debt service	245,419	-	245,419	-
Highways and streets	248,828	-	248,828	-
Public safety	2,749	-	2,749	-
Public works	59,713	-	59,713	-
Recreation and culture	55,686	-	55,686	-
Capital projects	14,651	-	14,651	-
Segregated capital-corpus	3,242,872	-	3,242,872	-
Unrestricted	831,368	404,957	1,236,325	92,954
Total net assets	\$ 10,520,170	\$ 1,182,824	\$ 11,702,994	\$ 92,954

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, 2006

Functions / Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Legislative	\$ 16,772	\$ -	\$ -	\$ -	\$ (16,772)
General government	609,262	307,058	15,000	158,124	(129,080)
Public safety	969,480	154,207	4,550	-	(810,723)
Public works	674,880	131,091	-	-	(543,789)
Highways and streets	565,195	-	158,108	70,402	(336,685)
Building and planning	133,680	11,025	8,031	-	(114,624)
Culture and recreation	403,221	98,816	2,814	-	(301,591)
Other functions	169,494	-	-	-	(169,494)
Interest on long-term debt	113,506	-	-	-	(113,506)
Total governmental activities	3,655,490	702,197	188,503	228,526	(2,536,264)
Business-type activities:					
Water and sewer	885,990	1,006,797	-	29,035	149,842
Total primary government	\$ 4,541,480	\$ 1,708,994	\$ 188,503	\$ 257,561	\$ (2,386,422)
Component unit:					
Downtown development authority	\$ 89,703	\$ -	\$ -	\$ -	\$ (89,703)

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, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net assets				
Net (expense) revenue	\$ (2,536,264)	\$ 149,842	\$ (2,386,422)	\$ (89,703)
General revenues:				
Property taxes	2,247,383	-	2,247,383	84,539
State shared revenue	269,757	-	269,757	-
Unrestricted investment earnings	191,555	13,529	205,084	4,139
Gain on sale of capital assets	3,940	-	3,940	-
Proceeds from bond issuance	-	-	-	-
Other revenue	108,177	1,787	109,964	-
Total general revenues	2,820,812	15,316	2,836,128	88,678
Change in net assets	284,548	165,158	449,706	(1,025)
Net assets, beginning of year	10,235,622	1,017,666	11,253,288	93,979
Net assets, end of year	<u>\$ 10,520,170</u>	<u>\$ 1,182,824</u>	<u>\$ 11,702,994</u>	<u>\$ 92,954</u>

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

City of Pleasant Ridge, Michigan

Balance Sheet

Governmental Funds

June 30, 2006

	General	I-696 Segregated Capital Asset	Local Streets
Assets			
Cash and cash equivalents	\$ 726,715	\$ 279,999	\$ 23,026
Investments	-	3,020,669	-
Receivables:			
Accounts receivable	9,689	-	-
Taxes-delinquent	20,876	-	-
Less: allowance for doubtful accounts	(12,943)	-	-
Interest	2,669	20,859	91
Due from other funds	82,089	-	258,927
Due from other governments	93,609	-	6,356
Advances to component unit	-	2,663	-
Prepaid expenditures	13,982	-	-
Total assets	\$ 936,686	\$ 3,324,190	\$ 288,400
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 47,563	\$ -	\$ 288,400
Accrued payroll	29,484	-	-
Accrued liabilities	6,364	-	-
Due to other funds	-	81,318	-
Due to other governments	454	-	-
Advances from other funds	-	-	-
Deferred revenue	7,933	-	-
Total liabilities	91,798	81,318	288,400
Fund balances			
Reserved for:			
Debt service	-	-	-
SCAF corpus	-	3,242,872	-
Capital projects	-	-	-
Special revenue funds	-	-	-
Prepays	13,982	-	-
Other purposes	-	-	-
Unreserved, designated for subsequent years budget:			
General fund	15,389	-	-
Historic Commission fund	-	-	-
Unreserved, undesignated for:			
General fund	815,517	-	-
Special revenue funds	-	-	-
Total fund balances	844,888	3,242,872	-
Total liabilities and fund balances	\$ 936,686	\$ 3,324,190	\$ 288,400

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

Infrastructure Improvements	Other Governmental Funds	Total Governmental Funds
\$ 394,661	\$ 701,212	\$ 2,125,613
-	-	3,020,669
-	28,409	38,098
-	-	20,876
-	-	(12,943)
1,416	2,493	27,528
-	-	341,016
-	18,612	118,577
-	-	2,663
-	21,593	35,575
\$ 396,077	\$ 772,319	\$ 5,717,672
\$ -	\$ 74,897	\$ 410,860
-	9,609	39,093
-	-	6,364
258,927	-	340,245
-	-	454
-	-	-
-	-	7,933
258,927	84,506	804,949
-	242,119	242,119
-	-	3,242,872
-	14,651	14,651
-	-	-
-	21,593	35,575
-	-	-
-	-	15,389
-	742	742
-	-	815,517
137,150	408,708	545,858
137,150	687,813	4,912,723
\$ 396,077	\$ 772,319	\$ 5,717,672

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, 2006

Fund balances - total governmental funds	\$ 4,912,723
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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: capital assets, net	8,495,747
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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	7,933
------------------------	-------

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	(2,676,863)
Deduct: accrued interest on bonds payable and loans	(31,894)
Deduct: compensated absences	<u>(187,476)</u>

Net assets of governmental activities	<u>\$ 10,520,170</u>
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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, 2006

		I-696	
	General	Segregated Capital Asset	Local Streets
Revenues			
Property taxes	\$ 1,421,418	\$ -	\$ -
Licenses and permits	70,004	-	-
Fines and forfeitures	78,690	-	-
Intergovernmental	352,740	-	45,389
Charges for services	375,863	-	-
Investment earnings	46,131	105,859	1,748
Other	137,200	-	-
Total revenues	<u>2,482,046</u>	<u>105,859</u>	<u>47,137</u>
Expenditures			
Current:			
Legislative	16,772	-	-
General government	596,458	-	-
Public safety	970,017	-	-
Public works	337,608	-	-
Highways and streets	-	-	38,175
Building and planning	133,517	-	-
Culture and recreation	268,156	-	-
Other functions	169,494	-	-
Debt service			
Principal	-	-	-
Interest and fees	-	-	-
Capital Outlay	-	-	325,600
Total expenditures	<u>2,492,022</u>	<u>-</u>	<u>363,775</u>
Revenues over (under) expenditures	<u>(9,976)</u>	<u>105,859</u>	<u>(316,638)</u>
Other financing sources (uses)			
Transfers in	81,318	-	258,927
Transfers out	(13,354)	(180,619)	-
Proceeds from the issuance of debt	-	-	-
Proceeds from sale of capital assets	3,940	-	-
Total other financing sources (uses)	<u>71,904</u>	<u>(180,619)</u>	<u>258,927</u>
Net change in fund balances	61,928	(74,760)	(57,711)
Fund balances, beginning of year	<u>782,960</u>	<u>3,317,632</u>	<u>57,711</u>
Fund balances, end of year	<u><u>\$ 844,888</u></u>	<u><u>\$ 3,242,872</u></u>	<u><u>\$ -</u></u>

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

Infrastructure Improvements	Other Governmental Funds	Total Governmental Funds
\$ 284,994	\$ 548,376	\$ 2,254,788
-	-	70,004
-	505	79,195
-	270,843	668,972
-	162,462	538,325
11,871	25,655	191,264
-	3,464	140,664
<u>296,865</u>	<u>1,011,305</u>	<u>3,943,212</u>
-	-	16,772
-	-	596,458
-	-	970,017
-	326,422	664,030
1,706	30,395	70,276
-	-	133,517
-	215,036	483,192
-	-	169,494
-	123,829	123,829
-	117,000	117,000
-	394,902	720,502
<u>1,706</u>	<u>1,207,584</u>	<u>4,065,087</u>
<u>295,159</u>	<u>(196,279)</u>	<u>(121,875)</u>
-	313,702	653,947
(258,927)	(201,047)	(653,947)
-	-	-
-	-	3,940
<u>(258,927)</u>	<u>112,655</u>	<u>3,940</u>
36,232	(83,624)	(117,935)
100,918	771,437	5,030,658
<u>\$ 137,150</u>	<u>\$ 687,813</u>	<u>\$ 4,912,723</u>

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, 2006

Net change in fund balances - total governmental funds \$ (117,935)

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	691,324
Deduct: depreciation expense	(417,016)

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 revenue	(4,670)
--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes the current financial resources of governmental funds.

Add: principal payments on long-term liabilities	123,829
--	---------

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: increase in the accrual for compensated absences	3,818
Add: increase in accrued interest	5,198

Change in net assets of governmental activities	<u>\$ 284,548</u>
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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, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,408,604	\$ 1,425,404	\$ 1,421,418	\$ (3,986)
Licenses and permits	57,300	82,300	70,004	(12,296)
Fines and forfeitures	42,300	57,300	78,690	21,390
Intergovernmental	373,560	376,560	352,740	(23,820)
Charges for services	411,010	423,010	375,863	(47,147)
Investment earnings	12,000	45,300	46,131	831
Other	107,150	133,250	137,200	3,950
Total revenues	<u>2,411,924</u>	<u>2,543,124</u>	<u>2,482,046</u>	<u>(61,078)</u>
Expenditures				
Legislative	16,454	19,254	16,772	(2,482)
General government	579,462	641,262	596,458	(44,804)
Public safety	982,211	997,211	970,017	(27,194)
Public works	334,392	349,392	337,608	(11,784)
Building and planning	104,123	129,123	133,517	4,394
Culture and recreation	288,323	299,923	268,156	(31,767)
Other	188,183	188,183	169,494	(18,689)
Total expenditures	<u>2,493,148</u>	<u>2,624,348</u>	<u>2,492,022</u>	<u>(132,326)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(81,224)</u>	<u>(81,224)</u>	<u>(9,976)</u>	<u>71,248</u>
Other financing sources (uses)				
Transfers in	89,000	89,000	81,318	(7,682)
Transfers out	(50,354)	(50,354)	(13,354)	37,000
Proceeds from sale of capital assets	-	-	3,940	3,940
Total other financing sources (uses)	<u>38,646</u>	<u>38,646</u>	<u>71,904</u>	<u>33,258</u>
Net change in fund balances	<u>(42,578)</u>	<u>(42,578)</u>	<u>61,928</u>	<u>104,506</u>
Fund balance, beginning of year	<u>782,960</u>	<u>782,960</u>	<u>782,960</u>	<u>-</u>
Fund balance, end of year	<u>\$ 740,382</u>	<u>\$ 740,382</u>	<u>\$ 844,888</u>	<u>\$ 104,506</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 Asset Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues				
Investment earnings	\$ 115,919	\$ 115,919	\$ 105,859	\$ (10,060)
Other financing sources (uses)				
Transfers in	10,471	10,471	-	(10,471)
Transfers out	(151,301)	(151,301)	(180,619)	(29,318)
Total other financing sources (uses)	(140,830)	(140,830)	(180,619)	(39,789)
Net change in fund balances	(24,911)	(24,911)	(74,760)	(49,849)
Fund balance, beginning of year	3,317,632	3,317,632	3,317,632	-
Fund balance, end of year	<u><u>\$ 3,292,721</u></u>	<u><u>\$ 3,292,721</u></u>	<u><u>\$ 3,242,872</u></u>	<u><u>\$ (49,849)</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 Fund
For the Year Ended June 30, 2006

	<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	\$ 39,275	\$ 39,275	\$ 45,389	\$ 6,114
Investment earnings	500	500	1,748	1,248
Total revenues	<u>39,775</u>	<u>39,775</u>	<u>47,137</u>	<u>7,362</u>
Expenditures				
Construction	370,000	370,000	325,600	(44,400)
Routine maintenance	55,655	55,655	19,389	(36,266)
Winter maintenance	33,500	33,500	10,515	(22,985)
Traffic services	11,000	11,000	8,271	(2,729)
Total expenditures	<u>470,155</u>	<u>470,155</u>	<u>363,775</u>	<u>(106,380)</u>
Excess (deficiency) of revenues over (under) expenditures	(430,380)	(430,380)	(316,638)	113,742
Other financing sources (uses)				
Transfers in	<u>385,000</u>	<u>385,000</u>	<u>258,927</u>	<u>(126,073)</u>
Net change in fund balances	(45,380)	(45,380)	(57,711)	(12,331)
Fund balance, beginning of year	<u>57,711</u>	<u>57,711</u>	<u>57,711</u>	<u>-</u>
Fund balance, end of year	<u>\$ 12,331</u>	<u>\$ 12,331</u>	<u>\$ -</u>	<u>\$ (12,331)</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
Infrastructure Improvements Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 285,090	\$ 285,090	\$ 284,994	\$ (96)
Investment earnings	1,000	1,000	11,871	10,871
Total revenues	<u>286,090</u>	<u>286,090</u>	<u>296,865</u>	<u>10,775</u>
Expenditures				
Street Maintenance	-	-	1,706	(1,706)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,706</u>	<u>(1,706)</u>
Excess (deficiency) of revenues over (under) expenditures	286,090	286,090	295,159	9,069
Other financing sources (uses)				
Transfers out	<u>(385,000)</u>	<u>(385,000)</u>	<u>(258,927)</u>	<u>126,073</u>
Total other financing sources (uses)	<u>(385,000)</u>	<u>(385,000)</u>	<u>(258,927)</u>	<u>126,073</u>
Net change in fund balances	(98,910)	(98,910)	36,232	135,142
Fund balance, beginning of year	<u>100,918</u>	<u>100,918</u>	<u>100,918</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,008</u>	<u>\$ 2,008</u>	<u>\$ 137,150</u>	<u>\$ 135,142</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, 2006

	<u>Water and Sewer</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 263,075
Receivables:	
Accounts receivable (net)	231,752
Interest	835
Due from other governments	53,930
Total current assets	<u>549,592</u>
Noncurrent assets:	
Capital assets	
Construction in progress	1,601,545
Water and sewer system	1,569,238
Less accumulated depreciation	(992,393)
Total noncurrent assets	<u>2,178,390</u>
Total assets	<u>2,727,982</u>
Liabilities	
Current liabilities:	
Accounts payable	134,430
Accrued liabilities	9,434
Due to other funds	771
Current portion of long-term debt	63,480
Total current liabilities	<u>208,115</u>
Noncurrent liabilities:	
Long term debt	<u>1,337,043</u>
Total liabilities	<u>1,545,158</u>
Net assets	
Investment in capital assets, net of related debt	777,867
Unrestricted	<u>404,957</u>
Total net assets	<u><u>\$ 1,182,824</u></u>

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, 2006

	<u>Water and Sewer</u>
Operating revenues	
Charges for services	\$ 995,543
Fines and penalties	11,254
Other	<u>1,787</u>
Total operating revenues	<u>1,008,584</u>
Operating expenses	
Wages	8,302
Water purchases	155,212
Sewage disposal	323,311
Operating supplies	3,507
Public works	17,260
Interfund charges	169,953
Contractual services	16,839
Repairs and maintenance	97,835
Depreciation	44,483
Other	<u>10,216</u>
Total operating expenses	<u>846,918</u>
Operating income	<u>161,666</u>
Non-operating revenues (expenses)	
Federal capital grant	29,035
Investment earnings	13,529
Interest expense	<u>(39,072)</u>
Total non-operating revenues (expenses)	<u>3,492</u>
Change in net assets	165,158
Net assets, beginning of year	<u>1,017,666</u>
Net assets, end of year	<u><u>\$ 1,182,824</u></u>

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, 2006

	<u>Water/Sewer</u>
Cash flows from operating activities	
Cash received from customers and others	\$ 952,121
Cash payments to suppliers for goods and services	(550,562)
Cash payments for interfund services	(169,182)
Net cash provided by operating activities	<u>232,377</u>
Cash flows from investing activities	
Investment income	<u>12,904</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(244,294)
Proceeds from issuance of long-term debt	51,673
Bond/note principal payments	(61,791)
Bond/note interest payments	(39,072)
Capital contributions	<u>133,212</u>
Net cash used by capital and related financing activities	<u>(160,272)</u>
Net increase in cash and cash equivalents	85,009
Cash and cash equivalents, beginning of year	<u>178,066</u>
Cash and cash equivalents, end of year	<u><u>\$ 263,075</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income	\$ 161,666
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	44,483
Changes in assets and liabilities:	
Accounts receivable	(56,462)
Accounts payable	83,404
Accrued liabilities	(1,485)
Due to other funds	771
Net cash provided by operating activities	<u><u>\$ 232,377</u></u>

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, 2006

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

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

NOTES TO THE 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 a 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 interfund 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

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.

Local Streets Fund. This fund provides for the maintenance of all major street surfaces which constitute 60 % of city mileage, in such a manner that they are structurally sound, reliable and safe.

Infrastructure Improvements fund. This fund accounts for the monies received from the Infrastructure Millage, earnings on the funds received, designed interest earnings transfers from S.C.A. fund, and the transfer of funds to the Road funds, General fund or Water and Sewer fund for ultimate disposition.

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 funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Debt service funds. These funds account 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 interfund 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.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

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>Year</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.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 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.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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, 2006, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Building and Planning	\$ 129,123	\$ 133,517	\$ 4,394
Special Revenue Funds:			
I-696 Segregated Capital Asset	151,301	180,619	29,318
Solid Waste	324,062	326,422	2,360
Library	35,402	35,683	281
Pool/Fitness Center	169,002	173,605	4,603
Historic Commission	1,935	5,747	3,812

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalent	\$ 2,388,688	\$ 93,646	\$ 2,482,334
Investments	3,020,669	-	3,020,669
Statement of Fiduciary Net Assets			
Cash and cash equivalent	-	-	-
Total	<u>\$ 5,409,357</u>	<u>\$ 93,646</u>	<u>\$ 5,503,003</u>

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

These balances are disclosed in the notes as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 4,098,660
Cash on hand	1,260
Investments in mutual funds and similar vehicles	<u>1,403,083</u>
Total	<u>\$ 5,503,003</u>

Investments

The City is authorized by the City Commission, in accordance with State law, to invest surplus funds in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- ◆ Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ Banker's acceptances of United States banks.
- ◆ Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- ◆ Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- ◆ External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

Investments	<u>Maturity</u>	<u>Value</u>	<u>Rating</u>
Comerica J Fund	N/A	\$ 1,403,083	N/A

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The City's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The investment listed above is not subject to credit ratings.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$3,786,678 of the \$4,161,618 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. The City's investments include \$1,403,083 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 to be classified according to credit risk since they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

B. Receivables

Receivables in the governmental activities are 61.7 percent due from other governments, 19.8 percent accounts receivables, 4.2 percent taxes and special assessments and 14.3 percent accrued interest. Business-type activities receivables are 80.9 percent due from customers, 0.3 percent accrued interest and 18.8 percent due from other governments.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue of \$7,933 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, 2006 was as follows:

Primary government

	Beginning Balance	Transfers	Increases	Decrease s	Ending Balance
Governmental activities					
Capital assets, not being depreciated -					
Land	\$ 1,746,700	\$ -	\$ -	\$ -	\$ 1,746,700
Construction in progress	64,577	(64,577)	269,096	-	269,096
Total capital assets not being depreciated	1,811,277	(64,577)	269,096	-	2,015,796
Capital assets, being depreciated:					
Land improvements	762,575	-	297,952	-	1,060,527
Buildings and building improvements	3,525,398	64,577	33,162	-	3,623,137
Vehicles	91,638	-	17,114	(19,150)	89,602
Equipment	585,126	-	-	-	585,126
Infrastructure	6,389,587	-	74,000	(207,800)	6,255,787
Total capital assets being depreciated	11,354,324	64,577	422,228	(226,950)	11,614,179
Less accumulated depreciation for					
Land improvements	(523,284)	-	(71,686)	-	(594,970)
Buildings and building improvements	(486,480)	-	(114,122)	-	(600,602)
Vehicles	(74,764)	-	(14,141)	19,150	(69,755)
Equipment	(385,444)	-	(16,697)	-	(402,141)
Infrastructure	(3,474,190)	-	(200,370)	207,800	(3,466,760)
Total accumulated depreciation	(4,944,162)	-	(417,016)	226,950	(5,134,228)
Total capital assets being depreciated, net	6,410,162	64,577	5,212	-	6,479,951
Governmental activities capital assets, net	\$ 8,221,439	\$ -	\$ 274,308	\$ -	\$ 8,495,747

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated -				
Construction in progress	\$ 1,414,971	\$ 186,574	\$ -	\$ 1,601,545
Capital assets, being depreciated:				
Water and sewer system	1,255,715	57,720	-	1,313,435
Water meters	247,764	-	-	247,764
Vehicles and misc. equipment	8,039	-	-	8,039
Total capital assets being depreciated	<u>1,511,518</u>	<u>57,720</u>	<u>-</u>	<u>1,569,238</u>
Less accumulated depreciation for				
Water and sewer system	(795,573)	(27,966)	-	(823,539)
Water meters	(144,298)	(16,517)	-	(160,815)
Vehicles and misc. equipment	(8,039)	-	-	(8,039)
Total accumulated depreciation	<u>(947,910)</u>	<u>(44,483)</u>	<u>-</u>	<u>(992,393)</u>
Total capital assets being depreciated, net	<u>563,608</u>	<u>13,237</u>	<u>-</u>	<u>576,845</u>
Business-type activities capital assets, net	<u><u>\$ 1,978,579</u></u>	<u><u>\$ 199,811</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,178,390</u></u>

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

Governmental activities	
General government	\$ 44,783
Public safety	18,825
Public works	12,062
Highways and streets	192,921
Culture and recreation	<u>148,425</u>
Total depreciation expense - governmental activities	<u>\$ 417,016</u>
Business-type activities	
Water and sewer	<u>\$ 44,483</u>

The City has an active construction project as of June 30, 2006. 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 \$136,000,000 with the City's share of total project costs at approximately \$1,700,000.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2006 the City's financial activity as it relates to this project is as follows:

<u>Project</u>	<u>Remaining Spent-to-Date</u>	<u>Commitment</u>
George W. Kuhn Drain	\$ 1,601,545	\$ 124,683

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 Oakland County, Michigan.

D. Interfund Receivables, Payables and Transfers

The amounts of interfund receivables, payables and transfers are as follows as of June 30, 2006:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 82,089	\$ -
Special Revenue Funds		
I-696 Segregated Capital Asset Fund	-	81,318
Local Streets Fund	258,927	-
Infrastructure Improvements Fund	-	258,927
Enterprise Funds		
Water & Sewer Fund	-	771
	<u>\$ 341,016</u>	<u>\$ 341,016</u>

Also, there is an advance of \$2,663 from the primary government to the component unit that was made to fund the DDA's commitment/match for a Streetscape project grant.

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

	<u>Transfers In</u>		
<u>Transfers out</u>	<u>General</u>	<u>Non-major Governmental</u>	<u>Total</u>
General Fund	\$ -	\$ 13,354	\$ 13,354
I-696 segregated capita asset fund	81,318	99,301	180,619
Non-major governmental funds	-	459,974	459,974
Total	<u>\$ 81,318</u>	<u>\$ 572,629</u>	<u>\$ 653,947</u>

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 communities is obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$1,726,228 or 1.271% of the projects total cost of \$135,816,457. 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%	2007	\$ 84,602
Building Addition Loan	5.22%	2009	16,500
DPW Building Note Payable	3.69%	2015	100,761
Pool/Fitness Center Loan	3.00% - 5.00%	2028	<u>2,475,000</u>
			<u>\$ 2,676,863</u>
Business-type activities			
George W. Kuhn drain	2.0% - 5.0%	Various	<u>\$ 1,400,523</u>

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 150,840	\$ 111,297
2008	66,594	103,658
2009	63,662	100,446
2010	60,745	97,476
2011	86,141	95,518
2012-2016	473,881	432,393
2017-2021	575,000	333,684
2022-2026	800,000	193,121
2027-2028	<u>400,000</u>	<u>26,249</u>
Total	<u>\$ 2,676,863</u>	<u>\$ 1,493,842</u>

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, 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	\$ 167,592	\$ -	\$ (82,990)	\$ 84,602	\$ 85,117
Building addition loan	23,100	-	(6,600)	16,500	6,600
DPW Building note payable	110,000	-	(9,239)	100,761	9,638
Pool/Fitness center loan	2,500,000	-	(25,000)	2,475,000	50,000
Accrued compensated absences	<u>183,658</u>	<u>3,818</u>	<u>-</u>	<u>187,476</u>	<u>34,121</u>
	<u>\$ 2,984,350</u>	<u>\$ 3,818</u>	<u>\$ (123,829)</u>	<u>\$ 2,864,339</u>	<u>\$ 185,476</u>
Business-type activities					
George W. Kuhn drain	<u>\$ 1,410,641</u>	<u>\$ 51,673</u>	<u>\$ (61,791)</u>	<u>\$ 1,400,523</u>	<u>\$ 63,480</u>

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 governments 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.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2006, the City's revenue and expenditures related to its building department were as follows:

<u>Revenues</u>	<u>Amount</u>
Building Permits	\$ 48,880
Electrical Permits	9,580
Plumbing/Heating Permits	9,235
Other revenue	<u>2,309</u>
Total revenue	<u>\$ 70,004</u>
<u>Expenditures</u>	
Salaries and wages	\$ 113,933
Benefits	12,924
Operating supplies	<u>460</u>
Total expenditures	<u>\$ 127,317</u>

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 2005 levy was \$117,241,420. The government's general operating tax rate for fiscal 2005-06 was 11.7853 mills with an additional 1.7675 for refuse collection, 2.4886

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

for infrastructure, 0.4811 for library services, 1.3124 for pool and fitness center operations and 1.2276 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. Committed and 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.

The City has construction commitments and open change orders totaling approximately \$224,000 for the Wellesley Avenue Project. It is anticipated that these commitments and open change orders will be executed and completed in the subsequent fiscal year.

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, 2006, the Authority reported a reduction in net assets in the amount of \$769,224 resulting in ending net assets in the amount of \$5,522,441. During the year ended June 30, 2006, the City expended \$69,130 in 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.

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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, 2006, the Authority reported an increase in net assets in the amount of \$567,382 resulting in ending net assets in the amount of \$12,166,801. During the year ended June 30, 2006, the City expended \$151,314 in 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. Retirement 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 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 eight 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	13.87%
General Non-Union	13.19%
City Manager	24.11%

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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, 2006, the City's annual pension cost of \$102,210 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, 2005, the date of the latest available actuarial valuation, was 30 years.

Schedule of Employer Contributions			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$ 40,818	100%	\$ 0
6/30/03	43,405	100%	0
6/30/04	75,825	100%	0
6/30/05	100,455	100%	0
6/30/06	102,210	100%	0

F. I-696 Segregated Capital Asset 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

CITY OF PLEASANT RIDGE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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.

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***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)
12/31/01	\$ 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%
12/31/04	2,591,780	3,559,624	967,844	73%	677,849	143%
12/31/05	2,621,153	3,779,317	1,158,164	69%	536,996	216%

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

City of Pleasant Ridge, Michigan
Combining Balance Sheet
Non Major Governmental Funds
June 30, 2006

	Special Revenue					
	Major Streets	Solid Waste	Library	Pool/Fitness Center (Operating)	Historic Commission	Drug Forfeiture
Assets						
Cash and cash equivalents	\$ 250,122	\$ 41,612	\$ 31,177	\$ 76,962	\$ 6,559	\$ 2,739
Receivables:						
Accounts receivable	-	28,409	-	-	-	-
Interest	861	129	110	285	23	10
Due from other funds	-	-	-	-	-	-
Due from other governments	18,612	-	-	-	-	-
Prepays	-	-	17,903	390	-	-
Total assets	\$ 269,595	\$ 70,150	\$ 49,190	\$ 77,637	\$ 6,582	\$ 2,749
Liabilities						
Accounts payable	\$ 20,767	\$ 10,437	\$ -	\$ 7,261	\$ 86	\$ -
Accrued payroll	-	-	-	9,609	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	20,767	10,437	-	16,870	86	-
Fund balances						
Reserved for:						
Prepays	-	-	17,903	390	-	-
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Unreserved, designated for:						
Subsequent years budget	-	-	-	-	742	-
Unreserved, undesignated for						
Special revenue funds	248,828	59,713	31,287	60,377	5,754	2,749
Total fund balances	248,828	59,713	49,190	60,767	6,496	2,749
Total liabilities and fund balance	\$ 269,595	\$ 70,150	\$ 49,190	\$ 77,637	\$ 6,582	\$ 2,749

Debt Service		Capital Projects			Total Nonmajor Governmental Funds
Pool/Fitness Center Debt Service	Non-Voted Debt Service	Pool/Fitness Center	Streetscape Project	Capital Improvements	
\$ 224,862	\$ 16,384	\$ 8,182	\$ 39,571	\$ 3,042	\$ 701,212
-	-	-	-	-	28,409
807	66	47	144	11	2,493
-	-	-	-	-	-
-	-	-	-	-	18,612
-	3,300	-	-	-	21,593
<u>\$ 225,669</u>	<u>\$ 19,750</u>	<u>\$ 8,229</u>	<u>\$ 39,715</u>	<u>\$ 3,053</u>	<u>\$ 772,319</u>
\$ -	\$ -	\$ 490	\$ 35,856	\$ -	\$ 74,897
-	-	-	-	-	9,609
-	-	-	-	-	-
-	-	490	35,856	-	84,506
-	3,300	-	-	-	21,593
225,669	16,450	-	-	-	242,119
-	-	7,739	3,859	3,053	14,651
-	-	-	-	-	742
-	-	-	-	-	408,708
<u>225,669</u>	<u>19,750</u>	<u>7,739</u>	<u>3,859</u>	<u>3,053</u>	<u>687,813</u>
<u>\$ 225,669</u>	<u>\$ 19,750</u>	<u>\$ 8,229</u>	<u>\$ 39,715</u>	<u>\$ 3,053</u>	<u>\$ 772,319</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, 2006

	Special Revenue					
	Major Streets	Solid Waste	Library	Pool/Fitness Center (Operating)	Historic Commission	Drug Forfeiture
Revenues						
Property taxes	\$ -	\$ 202,412	\$ 55,090	\$ 150,293	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-	505
Intergovernmental	112,719	-	-	-	-	-
Charges for services	-	130,842	-	29,268	2,352	-
Investment earnings	7,280	2,650	1,291	3,508	266	92
Other	-	249	-	1,215	2,000	-
Total revenues	119,999	336,153	56,381	184,284	4,618	597
Expenditures						
Current:						
Highways and streets	30,395	-	-	-	-	-
Sanitation	-	326,422	-	-	-	-
Culture and recreation	-	-	35,683	173,605	5,748	-
Debt service						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Capital Outlay	15,233	-	-	-	-	-
Total expenditures	45,628	326,422	35,683	173,605	5,748	-
Revenues over (under) expenditures	74,371	9,731	20,698	10,679	(1,130)	597
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balances	74,371	9,731	20,698	10,679	(1,130)	597
Fund balances, beginning of year	174,457	49,982	28,492	50,088	7,626	2,152
Fund balances, end of year	\$ 248,828	\$ 59,713	\$ 49,190	\$ 60,767	\$ 6,496	\$ 2,749

Debt Service		Capital Projects			Total Nonmajor Governmental Funds
Pool/Fitness Center Debt Service	Non-Voted Debt Service	Pool/Fitness Center	Streetscape Project	Capital Improvements	
\$ 140,581	\$ -	\$ -	\$ -	\$ -	\$ 548,376
-	-	-	-	-	505
-	-	-	158,124	-	270,843
-	-	-	-	-	162,462
4,041	695	5,966	(228)	94	25,655
-	-	-	-	-	3,464
144,622	695	5,966	157,896	94	1,011,305
-	-	-	-	-	30,395
-	-	-	-	-	326,422
-	-	-	-	-	215,036
25,000	98,829	-	-	-	123,829
103,344	13,656	-	-	-	117,000
-	-	100,775	278,894	-	394,902
128,344	112,485	100,775	278,894	-	1,207,584
16,278	(111,790)	(94,809)	(120,998)	94	(196,279)
201,047	112,655	-	-	-	313,702
-	-	(201,047)	-	-	(201,047)
201,047	112,655	(201,047)	-	-	112,655
217,325	865	(295,856)	(120,998)	94	(83,624)
8,344	18,885	303,595	124,857	2,959	771,437
\$ 225,669	\$ 19,750	\$ 7,739	\$ 3,859	\$ 3,053	\$ 687,813

City of Pleasant Ridge, Michigan

Detailed Schedule of Expenditures Budget and Actual General Fund For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Legislative				
Commission	\$ 16,454	\$ 19,254	\$ 16,772	\$ (2,482)
General Government				
Manager	98,529	108,529	109,818	1,289
City clerk	87,451	77,851	66,346	(11,505)
Elections	13,993	28,993	27,405	(1,588)
Attorney	29,000	29,000	30,336	1,336
General government	174,687	209,487	191,884	(17,603)
Cable television	3,587	3,587	2,309	(1,278)
Post office	54,922	54,922	50,403	(4,519)
Treasurer	93,112	104,712	96,822	(7,890)
Assessment	24,181	24,181	21,135	(3,046)
Total General Government	579,462	641,262	596,458	(44,804)
Public Safety				
Police	603,204	618,204	591,010	(27,194)
Fire	379,007	379,007	379,007	-
Total Public Safety	982,211	997,211	970,017	(27,194)
Public Works				
Department of public works	298,300	313,300	301,295	(12,005)
Street lighting	36,092	36,092	36,313	221
Total Public Works	334,392	349,392	337,608	(11,784)
Building and Planning				
Building department	98,773	123,773	127,318	3,545
Planning commission	5,350	5,350	6,199	849
Total Building and Planning	104,123	129,123	133,517	4,394
Culture and Recreation				
Parks and recreation department	267,281	278,881	248,625	(30,256)
Woodward dream cruise	21,042	21,042	19,531	(1,511)
Total Culture and Recreation	288,323	299,923	268,156	(31,767)
Other				
Retirement services	188,183	188,183	169,494	(18,689)
Total Other	188,183	188,183	169,494	(18,689)
Total Expenditures	\$ 2,493,148	\$ 2,624,348	\$ 2,492,022	\$ (132,326)

City of Pleasant Ridge, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	\$ 115,800	\$ 115,800	\$ 112,719	\$ (3,081)
Investment earnings	2,500	2,500	7,280	4,780
Total revenues	<u>118,300</u>	<u>118,300</u>	<u>119,999</u>	<u>1,699</u>
Expenditures				
Construction	-	-	15,233	15,233
Routine maintenance	49,029	49,029	13,573	(35,456)
Winter maintenance	19,000	19,000	7,011	(11,989)
Traffic services	10,100	10,100	9,811	(289)
Total expenditures	<u>78,129</u>	<u>78,129</u>	<u>45,628</u>	<u>(32,501)</u>
Net change in fund balances	40,171	40,171	74,371	34,200
Fund balance, beginning of year	<u>174,457</u>	<u>174,457</u>	<u>174,457</u>	<u>-</u>
Fund balance, end of year	<u>\$ 214,628</u>	<u>\$ 214,628</u>	<u>\$ 248,828</u>	<u>\$ 34,200</u>

City of Pleasant Ridge, Michigan
Comparative Statement of Net Assets
Water and Sewer Fund
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 263,075	\$ 178,066
Receivables:		
Accounts receivable (net)	231,752	175,290
Interest	835	210
Due from other governments	53,930	158,107
Total current assets	<u>549,592</u>	<u>511,673</u>
Noncurrent assets:		
Capital assets		
Construction in progress	1,601,545	1,414,971
Water and sewer system	1,569,238	1,511,518
Less accumulated depreciation	<u>(992,393)</u>	<u>(947,910)</u>
Total noncurrent assets	<u>2,178,390</u>	<u>1,978,579</u>
Total assets	<u>2,727,982</u>	<u>2,490,252</u>
Liabilities		
Current liabilities:		
Accounts payable	134,430	51,026
Accrued liabilities	9,434	10,918
Due to other funds	771	-
Current portion of long-term debt	63,480	60,167
Total current liabilities	<u>208,115</u>	<u>122,111</u>
Noncurrent liabilities:		
Long term debt	<u>1,337,043</u>	<u>1,350,475</u>
Total liabilities	<u>1,545,158</u>	<u>1,472,586</u>
Net Assets		
Investment in capital assets, net of related debt	777,867	567,937
Restricted		
Unrestricted	<u>404,957</u>	<u>449,729</u>
Total net assets	<u><u>\$ 1,182,824</u></u>	<u><u>\$ 1,017,666</u></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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Charges for services	\$ 995,543	\$ 871,661
Fines and penalties	11,254	10,708
Other	1,787	35,680
Total operating revenues	<u>1,008,584</u>	<u>918,049</u>
Operating expenses		
Wages	8,302	-
Water purchases	155,212	252,208
Sewage disposal	323,311	422,274
Operating supplies	3,507	2,970
Public works	17,260	23,580
Interfund charges	169,953	159,159
Contractual services	16,839	4,149
Repairs and maintenance	97,835	39,918
Depreciation	44,483	42,174
Other	10,216	10,152
Total operating expenses	<u>846,918</u>	<u>956,584</u>
Operating income (loss)	<u>161,666</u>	<u>(38,535)</u>
Non-operating revenues (expenses)		
Federal grant	29,035	-
Investment earnings	13,529	6,268
Interest expense	(39,072)	(51,145)
Total non-operating revenues (expenses)	<u>3,492</u>	<u>(44,877)</u>
Change in net assets	165,158	(83,412)
Net assets, beginning of year	<u>1,017,666</u>	<u>1,101,078</u>
Net assets, end of year	<u><u>\$ 1,182,824</u></u>	<u><u>\$ 1,017,666</u></u>

City of Pleasant Ridge, Michigan
Downtown Development Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2006

	<u>Governmental</u> <u>Fund</u>	<u>Adjustments</u>	<u>Statement</u> <u>of</u> <u>Net Assets</u>
Assets			
Cash and cash equivalents	\$ 93,646	\$ -	\$ 93,646
Receivables:			
Taxes-delinquent	6,305	-	6,305
Less allowance for uncollectables	(3,340)	-	(3,340)
Interest	358	-	358
Total assets	<u>\$ 96,969</u>	<u>-</u>	<u>96,969</u>
Liabilities			
Accounts payable	1,352	-	1,352
Advances from primary government	2,663	-	2,663
Deferred revenue	2,965	(2,965)	-
Total Liabilities	<u>6,980</u>	<u>(2,965)</u>	<u>4,015</u>
Fund Balance/Net Assets			
Undesignated	89,989	-	89,989
Total liabilities and fund balance	<u>\$ 96,969</u>		
Net Assets			
Unrestricted		2,965	92,954
Total net assets		<u>\$ 2,965</u>	<u>\$ 92,954</u>

City of Pleasant Ridge, Michigan
Downtown Development Authority
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets
June 30, 2006

Fund balance - Downtown Development Authority	\$ 89,989
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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 thus are not included in fund balance.

Add: deferred revenues	<u>2,965</u>
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Net assets of component unit	<u><u>\$ 92,954</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, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 82,998	\$ 1,541	\$ 84,539
Investment earnings	4,139	-	4,139
 Total revenues	 87,137	 1,541	 88,678
Expenditures			
Economic and physical development	88,779	-	88,779
Debt service - interest and fees	924	-	924
 Total expenditures	 89,703	 -	 89,703
 Change in fund balance/net assets	 (2,566)	 1,541	 (1,025)
 Beginning fund balance/net assets	 92,555	 1,424	 93,979
 Ending fund balance/net assets	 \$ 89,989	 \$ 2,965	 \$ 92,954

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, 2006

Net change in fund balances - component unit	\$ (2,566)
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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	<u>1,541</u>
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Change in net assets of governmental activities	<u><u>\$ (1,025)</u></u>
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INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

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

October 27, 2006

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, 2006, which collectively comprise the *City of Pleasant Ridge, Michigan's* basic financial statements and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *City of Pleasant Ridge, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Mayor and City Commission, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 27, 2006

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, 2006, 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 October 27, 2006, 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.) YEAR-END CLOSING ENTRIES

During our audit procedures we noted that several adjusting journal entries were required to arrive at a reasonably adjusted trial balance ready for audit. These adjustments were in the areas of receivables, prepaids, capital assets, accounts payable and long-term debt.

Recommendation

We would recommend that the City consider developing year end closing checklists and procedures. We believe that this would assist the City in strengthening its internal controls over year end closing entries and producing accurate financial data.

B.) ACH POLICY (from prior year)

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.

Recommendation

We recommend that the City consider adopting an ACH policy in accordance with Public Act 738.

C.) POSTEMPLOYMENT BENEFITS PLANS OTHER THAN PENSIONS

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

The standard will take effect in the 2009-2010 fiscal year and requires the City to obtain an actuarial valuation of its postemployment benefits other than pension plans, establish a separate trust or equivalent for these benefits and begin funding this long-term obligation based on the actuarially determined required contribution amount.

Recommendation

We would recommend that the City consider the future financial impact on the City by obtaining an actuarial study or have management prepare an estimation of what the required contributions will be as compared to the current "pay as you go" method that the City currently employs.

There are many things that the City can do to mitigate the financial impact with proper planning and an early action plan. This includes beginning to pre-fund this liability which will ultimately reduce the actuarially required contributions at the time of implementation. In addition, the City may consider eliminating or offering an alternative benefit such as a defined contribution plan in lieu of a defined benefit plan for postemployment benefits other than pensions to new employees.