

City of Highland Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2011**

City of Highland Park, Michigan

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City of Highland Park, Michigan

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**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Highland Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Highland Park, Michigan, as of and for the year ended June 30, 2011, 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 Highland Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

The financial statements of the Tax Increment Finance Authority (TIFA) have not been audited and we were not engaged to audit the TIFA as part of our audit of the City's basic financial statements. The TIFA's financial activities are included in the City's basic financial statements as the discretely presented component unit.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the TIFA's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Highland Park, Michigan, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of the City of Highland Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 18 to the financial statements, the City has a significant net deficit in the Water and Sewer Fund at June 30, 2011. This condition raises substantial doubt about the City's ability to continue as a going concern. Management's plan regarding this matter is described in Note 18. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplemental Information on pages 3 through 9 and 55 through 64, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Park, Michigan's financial statements as a whole. The Other Supplemental Information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Other Supplemental Information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Other Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole.



GREGORY TERRELL & COMPANY

Certified Public Accountants

December 16, 2011

City of Highland Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Highland Park, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

Overview of the Financial Statements

The City of Highland Park, Michigan's basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets (deficit) includes all of the City's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets (deficit) and how they have changed. Net assets (deficit), the difference between the City's assets and liabilities, are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- **Governmental Activities** - Most of the City's basic services are included here such as the police, fire, public works, community and economic development, parks departments, and general administration. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type Activities** - The City charges fees to customers to cover costs of providing water and sewer services.
- **Component Unit** - The City includes one other entity in its report, the Tax Increment Finance Authority (TIFA). Although legally separate, this "component unit" is important because the City exercises control over it.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- **Proprietary Funds** - Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short- and long-term financial information.
- **Fiduciary Funds** - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2011:

- Property taxes continue to be the City's largest and most secure source of revenue. Property taxes overall increased from prior year by approximately \$1,425,000. The increase is actually a decrease in the 2011 fiscal year of approximately \$369,000 offset by prior year's one-time tax refund of approximately \$1,794,000. The decrease in property taxes was also offset by increases in mill rates for judgments and voted pension debt.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

- State-shared revenue is the City's third largest revenue source, behind both property tax revenue and income tax revenue. The City received its final census count which resulted in a decrease in revenue sharing for the 2011 fiscal year of approximately \$216,000. This loss from the census is a permanent loss that will affect fiscal years 2011 through 2020. State-shared revenue accounts for approximately 24 percent of the City's total General Fund revenue.
- The General Fund receives approximately 13 percent of its annual revenue from fines and fees from police tickets adjudicated through the district court. The fines and fees revenue decreased approximately \$32,000 from the 2009-2010 level.
- The General Fund receives approximately 30 percent of its annual revenue from income taxes. The income tax revenue increased approximately \$1,227,000 from the 2009-2010 level.
- The General Fund had a net increase in fund balance of \$1,246,172. During the current year, the City entered into an agreement with Detroit Edison (DTE), which forgave the City \$4,699,592 of outstanding street-light invoices dating back several years. This forgiveness helped to contribute to the General Fund's positive increase in fund balance. In addition to the debt forgiveness, the City experienced an increase in both property tax and income tax revenue. The General Fund had an overall fund balance of \$1,175,181 at June 30, 2011.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

The City of Highland Park as a Whole

The following table shows, in a condensed format, the net assets (deficit) as of June 30, 2011 and 2010:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current assets	\$ 8,754,519	\$ 12,362,719	\$ 3,091,999	\$ (1,480,744)	\$ 11,846,518	\$ 10,881,975
Capital assets	<u>27,585,797</u>	<u>28,045,358</u>	<u>5,779,539</u>	<u>6,116,787</u>	<u>33,365,336</u>	<u>34,162,145</u>
Total assets	36,340,316	40,408,077	8,871,538	4,636,043	45,211,854	45,044,120
Liabilities						
Current liabilities	6,142,845	12,657,057	9,416,825	7,158,739	15,559,670	19,815,796
Long-term liabilities	<u>53,601,636</u>	<u>53,625,240</u>	<u>4,450,851</u>	<u>4,729,893</u>	<u>58,052,487</u>	<u>58,355,133</u>
Total liabilities	<u>59,744,481</u>	<u>66,282,297</u>	<u>13,867,676</u>	<u>11,888,632</u>	<u>73,612,157</u>	<u>78,170,929</u>
Net Assets (Deficit)						
Invested in capital assets - Net of related debt	16,114,361	15,790,358	1,399,641	1,736,889	17,514,002	17,527,247
Restricted	3,411,593	3,465,570	-	-	3,411,593	3,465,570
Unrestricted	<u>(42,930,119)</u>	<u>(45,130,148)</u>	<u>(6,395,779)</u>	<u>(8,989,478)</u>	<u>(49,325,898)</u>	<u>(54,119,626)</u>
Total net assets (deficit) - As restated	<u>\$ (23,404,165)</u>	<u>\$ (25,874,220)</u>	<u>\$ (4,996,138)</u>	<u>\$ (7,252,589)</u>	<u>\$ (28,400,303)</u>	<u>\$ (33,126,809)</u>

The City's combined deficit totaled \$28,400,303, mainly due to the issuance of a significant amount of debt over the past eight years to eliminate cumulative fund deficits and replenish reserves in the City's pension systems. Governmental activities represent approximately a \$23 million deficit, which is approximately 82 percent of the total City's net deficit.

Of the total combined net assets, approximately \$17.5 million is investment in capital assets, net of related debt, while \$3.4 million is restricted for various purposes and cannot be used for general obligations.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue						
Program revenue:						
Charges for services	\$ 2,547,399	\$ 2,752,234	\$ 5,290,608	\$ 5,099,785	\$ 7,838,007	\$ 7,852,019
Operating grants and contributions	2,006,593	1,803,189	-	-	2,006,593	1,803,189
Capital grants and contributions	343,230	50,556	-	-	343,230	50,556
General revenue:						
Property taxes	4,857,200	3,432,615	-	-	4,857,200	3,432,615
Income taxes	3,397,803	2,170,517	-	-	3,397,803	2,170,517
State-shared revenue	2,951,268	3,167,675	-	-	2,951,268	3,167,675
Rental income	-	1,070,690	-	-	-	1,070,690
Investment earnings	73,257	38,157	1,154	1,764	74,411	39,921
Insurance recoveries	-	97,407	-	-	-	97,407
Other revenue	666,821	128,279	-	-	666,821	128,279
Special item - Debt forgiveness	4,699,592	-	-	-	4,699,592	-
Total revenue	21,543,163	14,711,319	5,291,762	5,101,549	26,834,925	19,812,868
Program Expenses						
General government	5,230,332	8,328,745	-	-	5,230,332	8,328,745
Public safety	3,542,860	3,592,555	-	-	3,542,860	3,592,555
Public works	3,320,960	2,724,843	-	-	3,320,960	2,724,843
Community and economic development	1,865,319	858,059	-	-	1,865,319	858,059
Recreation and cultural	69,494	68,027	-	-	69,494	68,027
Interest on long-term debt	1,169,449	2,070,754	-	-	1,169,449	2,070,754
Water and sewer	-	-	6,910,005	7,794,023	6,910,005	7,794,023
Operating transfer	3,874,694	-	(3,874,694)	-	-	-
Total expenses	19,073,108	17,642,983	3,035,311	7,794,023	22,108,419	25,437,006
Change in Net Deficit	\$ 2,470,055	\$ (2,931,664)	\$ 2,256,451	\$ (2,692,474)	\$ 4,726,506	\$ (5,624,138)

Total net assets increased by \$4.7 million. However, when looking at the activities separately, you can see that the business-type net assets increased by \$2.2 million, while the governmental activities net assets increased by \$2.5 million. See below for further discussion.

Governmental Activities

Property taxes are the City's single largest source of revenue, accounting for approximately 23 percent of governmental activities revenue (not including special item - debt forgiveness). The City's total governmental revenue totaled \$21.5 million, which was an increase of \$6.8 million, \$4.7 of which relates to the debt forgiveness of Detroit Edison as explained above. The City's total governmental expenses were \$19 million, an increase of \$1.4 million. The increase is due to an operating transfer from the General Fund into the Water and Sewer Fund to assist with operations in the amount of \$3.8 million. Aside from the operating transfer, the General Fund expenditures decreased due to overall expenditure reductions as well as eliminating the General Fund contribution toward the pension debt that totaled approximately \$766,000 in 2010.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides water to residents from the City owned and operated water system. The business-type activities experienced an operating loss in the current year of \$1.5 million compared to an operating loss of \$2.6 million in the prior year. Of the City's charges for services revenue, the majority is generated from charges passed on to residents which totaled approximately \$5.3 million in 2011. The charges for services are offset by water, sewer, and storm water expenses of \$6.9 million, or 31 percent of the City's total expenses. After interest earnings, the business activities had a net increase in net deficit of \$2,256,451.

The City of Highland Park's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Highland Park as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's major funds for 2011 include the General Fund, Major Streets Fund, Local Streets Fund, FIA Building Fund, and the Water and Sewer Fund (a proprietary fund).

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred expenditures of approximately \$3.5 million, and general government, which incurred expenditures of approximately \$5.2 million in 2011.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The General Fund's revenue budget was increased during the year by \$1,006,138, mainly due to increased income tax collections and greater than anticipated state-shared revenue. Overall actual revenue was less than the amended budget by \$597,940, or 4 percent. The largest unfavorable variance was in property tax revenue, with a negative variance of \$478,915.

The City's expenditure budget was increased \$956,241 by amendments during the year, mainly as a result of increased utility expenses and employee benefit costs. Overall, expenditures were within budget.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$33,365,336 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

During 2009, the City had an appraisal performed on all assets of the City including all general government assets as well as the Water and Sewer Fund assets. The City did not have any records of any previous appraisals. The records in all areas were adjusted to the appraisal.

At the end of the current fiscal year, the City had total debt outstanding of \$58,052,487. The outstanding debt consists of general obligation bonds, revenue bonds, accrued compensated absences, and other long-term liabilities.

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

Economic Factors and Next Year's Budgets

Like most other communities in Michigan, particularly those in southeastern Michigan, the City continues to struggle with providing necessary services with limited revenue. For the fiscal year ending June 30, 2012, the possibility of continuing reductions to the statutory portion of state revenue sharing continues to be a concern. State-shared gas and oil tax distributions that are used for road maintenance and construction also continue to trend downward.

The City and its residents are suffering from the effects of a slowdown in the housing market, which currently leaves many projects incomplete and as eyesores on the landscape of the community. There are record numbers of foreclosures in the community. These factors were taken into consideration in next year's budget.

The City continues to be monitored by the State under Act 72. The State has required the City to prepare formal deficit elimination plans for the deficits in the General and Water and Sewer Funds. The City has completed the deficit elimination plans which have been approved by the State. The General Fund plan included many items, such as additional reductions in staffing (including police and fire personnel), increase in employees' co-pay for insurance, elimination of contractors, and an increase in the property tax levy to pay for pension bond debt service. The City will continue to react to the economic conditions and ensure they stay in compliance with Act 72 and the State's budget act.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Highland Park's Finance Director's Office, 12050 Woodward Avenue, Highland Park, MI 48203.

City of Highland Park, Michigan

Statement of Net Assets (Deficit) June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,912,487	\$ 273,402	\$ 4,185,889	\$ 292,925
Investments (Note 3)	1,403,784	238,844	1,642,628	-
Receivables:				
Property taxes receivable	37,431	-	37,431	-
Customers	-	2,543,649	2,543,649	-
Other receivables	926,167	-	926,167	-
Due from other government units	1,395,986	29,979	1,425,965	156,479
Income taxes	331,204	-	331,204	-
Due from primary government	-	-	-	494,499
Prepaid expenses and other assets	129,083	6,125	135,208	-
Restricted assets (Note 8)	618,377	-	618,377	-
Capital assets (Note 5):				
Assets not being depreciated	592,270	119,272	711,542	-
Assets being depreciated	26,993,527	5,660,267	32,653,794	22,251
Total assets	36,340,316	8,871,538	45,211,854	966,154
Liabilities				
Accounts payable	1,784,118	9,202,774	10,986,892	-
Due to other government units	361,984	-	361,984	-
Due to component unit	494,499	-	494,499	-
Accrued liabilities and other	632,513	19,051	651,564	-
Derivative (Note 15)	1,304,015	-	1,304,015	-
Deferred revenue (Note 4)	6,882	-	6,882	-
Current liabilities - Due within one year (Note 7)	1,558,834	195,000	1,753,834	-
Noncurrent liabilities - Due in more than one year:				
Net pension obligation - > 1 yr.	2,692,332	222,248	2,914,580	-
Long-term debt (Note 7)	50,909,304	4,228,603	55,137,907	-
Total liabilities	59,744,481	13,867,676	73,612,157	-
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	16,114,361	1,399,641	17,514,002	22,251
Restricted for:				
Streets	2,817,055	-	2,817,055	-
Debt service	594,538	-	594,538	-
Unrestricted	(42,930,119)	(6,395,779)	(49,325,898)	943,903
Total net assets (deficit)	<u>\$ (23,404,165)</u>	<u>\$ (4,996,138)</u>	<u>\$ (28,400,303)</u>	<u>\$ 966,154</u>

City of Highland Park, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,230,332	\$ 2,517,349	\$ -	\$ -
Public safety	3,542,860	22,571	-	205,307
Public works	3,320,960	7,479	957,838	137,923
Community and economic development	1,865,319	-	1,048,755	-
Recreation and culture	69,494	-	-	-
Interest on long-term debt	1,169,449	-	-	-
Total governmental activities	15,198,414	2,547,399	2,006,593	343,230
Business-type activity - Water and sewer	6,910,005	5,290,608	-	-
Total primary government	<u>\$ 22,108,419</u>	<u>\$ 7,838,007</u>	<u>\$ 2,006,593</u>	<u>\$ 343,230</u>
Component unit - Tax Increment Finance Authority	<u>\$ 3,855,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
Income taxes				
State-shared revenue				
Investment income				
Other miscellaneous income				
Total general revenue				
Special Item - Debt forgiveness (Note 19)				
Transfers				
Change in Net Assets				
Net Assets (Deficit) - As restated - Beginning of year (Note 16)				
Net Assets (Deficit) - End of year				

**Statement of Activities
Year Ended June 30, 2011**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activity	Total	Component Unit
\$ (2,712,983)	\$ -	\$ (2,712,983)	\$ -
(3,314,982)	-	(3,314,982)	-
(2,217,720)	-	(2,217,720)	-
(816,564)	-	(816,564)	-
(69,494)	-	(69,494)	-
(1,169,449)	-	(1,169,449)	-
(10,301,192)	-	(10,301,192)	-
-	(1,619,397)	(1,619,397)	-
(10,301,192)	(1,619,397)	(11,920,589)	-
-	-	-	(3,855,021)
4,857,200	-	4,857,200	47,569
3,397,803	-	3,397,803	-
2,951,268	-	2,951,268	-
73,257	1,154	74,411	518
666,821	-	666,821	-
11,946,349	1,154	11,947,503	48,087
4,699,592	-	4,699,592	-
(3,874,694)	3,874,694	-	-
2,470,055	2,256,451	4,726,506	(3,806,934)
(25,874,220)	(7,252,589)	(33,126,809)	4,773,088
\$ (23,404,165)	\$ (4,996,138)	\$ (28,400,303)	\$ 966,154

City of Highland Park, Michigan

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Major Streets	Local Streets	FIA Building	Nonmajor Funds	Total
Assets						
Cash and cash equivalents (Note 3)	\$ 1,603,152	\$ 1,675,828	\$ 462,630	\$ -	\$ 170,877	\$ 3,912,487
Investments (Note 3)	-	-	-	1,403,784	-	1,403,784
Receivables:						
Property taxes receivable	27,005	-	-	-	10,426	37,431
Other receivables	-	-	-	-	926,167	926,167
Due from other government units	1,248,337	114,789	32,860	-	-	1,395,986
Income taxes	331,204	-	-	-	-	331,204
Due from other funds (Note 6)	313,889	-	-	-	181,883	495,772
Advances to other funds (Note 6)	-	9,070	606,705	-	-	615,775
Prepaid expenses and other assets	129,083	-	-	-	-	129,083
Restricted assets (Note 8)	594,538	-	-	-	23,839	618,377
Total assets	\$ 4,247,208	\$ 1,799,687	\$ 1,102,195	\$ 1,403,784	\$ 1,313,192	\$ 9,866,066
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 1,033,277	\$ 80,383	\$ 4,000	\$ -	\$ 666,458	\$ 1,784,118
Due to other government units	254,880	-	444	-	106,660	361,984
Due to component unit	494,499	-	-	-	-	494,499
Due to other funds (Note 6)	160,562	-	-	-	335,210	495,772
Advances from other funds (Note 6)	615,775	-	-	-	-	615,775
Accrued liabilities and other	454,708	-	-	-	-	454,708
Deferred revenue (Note 4)	58,326	-	-	-	825,661	883,987
Total liabilities	3,072,027	80,383	4,444	-	1,933,989	5,090,843
Fund Balances (Deficit)						
Nonspendable - Prepaid expenses	89,083	-	-	-	-	89,083
Restricted:						
Roads	-	1,719,304	1,097,751	-	-	2,817,055
Debt service	594,538	-	-	-	-	594,538
Lease revenue	-	-	-	1,403,784	-	1,403,784
Drug forfeiture	-	-	-	-	33,143	33,143
Community projects	-	-	-	-	34,114	34,114
Federal accounts	-	-	-	-	69,102	69,102
Unassigned	491,560	-	-	-	(757,156)	(265,596)
Total fund balances (deficit)	1,175,181	1,719,304	1,097,751	1,403,784	(620,797)	4,775,223
Total liabilities and fund balances (deficit)	\$ 4,247,208	\$ 1,799,687	\$ 1,102,195	\$ 1,403,784	\$ 1,313,192	\$ 9,866,066

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Highland Park, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) June 30, 2011

Fund Balance Reported in Governmental Funds	\$ 4,775,223
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	27,585,797
Fair market value of derivative investments is not reported in the funds	(1,304,015)
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	877,105
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(47,390,000)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(319,696)
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities	(4,305,608)
Workers' compensation does not present a claim on current financial resources and is not reported as fund liabilities	(419,000)
Lawsuits and judgments do not present a claim on current financial resources and are not reported as fund liabilities	(33,834)
Accrued interest is not due and payable in the current period and is not reported in the funds	(177,805)
Other postemployment benefits do not present a claim on current financial resources and are not reported as fund liabilities	<u>(2,692,332)</u>
Net Deficit of Governmental Activities	<u>\$ (23,404,165)</u>

City of Highland Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2011

	General Fund	Major Streets	Local Streets	FIA Building	Nonmajor Funds	Total
Revenue						
Property taxes	\$ 3,567,824	\$ -	\$ -	\$ -	\$ 1,289,376	\$ 4,857,200
Income taxes	3,397,803	-	-	-	-	3,397,803
Licenses and permits	55,687	-	-	-	-	55,687
Federal sources	-	-	-	-	1,391,985	1,391,985
State sources	2,912,374	754,176	203,662	-	-	3,870,212
Charges for services	84,157	-	-	-	-	84,157
Fines and forfeitures	1,394,199	-	-	-	9,452	1,403,651
Investment income	6,026	3,526	1,395	61,768	542	73,257
Rental income	12,190	-	-	1,040,060	-	1,052,250
Other revenue	657,369	-	-	-	-	657,369
Total revenue	12,087,629	757,702	205,057	1,101,828	2,691,355	16,843,571
Expenditures						
Current:						
General government	4,647,164	-	-	-	59,159	4,706,323
Public safety	3,229,795	-	-	-	187,651	3,417,446
Public works	2,329,265	411,898	368,201	17,225	137,923	3,264,512
Community and economic development	86,049	-	-	-	1,746,454	1,832,503
Recreation and culture	50,554	-	-	-	-	50,554
Debt service	939,001	-	-	-	2,814,240	3,753,241
Total expenditures	11,281,828	411,898	368,201	17,225	4,945,427	17,024,579
Excess of Revenue Over (Under) Expenditures	805,801	345,804	(163,144)	1,084,603	(2,254,072)	(181,008)
Other Financing Sources (Uses)						
Interfund transfers in	-	-	-	-	1,515,746	1,515,746
Transfers out	(4,259,221)	-	-	(1,131,219)	-	(5,390,440)
Total other financing (uses) sources	(4,259,221)	-	-	(1,131,219)	1,515,746	(3,874,694)
Special Item - Debt forgiveness	4,699,592	-	-	-	-	4,699,592
Net Change in Fund Balances	1,246,172	345,804	(163,144)	(46,616)	(738,326)	643,890
Fund Balances (Deficit) - Beginning of year	(70,991)	1,373,500	1,260,895	1,450,400	117,529	4,131,333
Fund Balances (Deficit) - End of year	\$ 1,175,181	\$ 1,719,304	\$ 1,097,751	\$ 1,403,784	\$ (620,797)	\$ 4,775,223

City of Highland Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 643,890
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, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	628,356
Depreciation expense	(1,087,917)
Change in lawsuits and claims is not recorded in the governmental funds, but is recorded in the statement of activities because it is long-term debt	85,402
Change in liability for net pension obligation is not recorded in the governmental funds, but is recorded in the statement of activities because it is long-term debt	(151,702)
Change in liability for workers' compensation claims is not recorded in the governmental funds, but is recorded in the statement of activities because it is long-term debt	21,000
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,175,409
Change in liability for accrued interest payable is not recorded in governmental funds, but is recorded in the statement of activities	834,653
Change in the fair market value of derivative investments is not recorded in the governmental funds, but is recorded in the statement of activities because the hedged investment is recorded in long-term debt	777,350
Change in unavailable deferred revenue within the fund-based statements is deemed available in the statement of activities	509,308
Other postemployment benefit obligations expense is recognized in the statement of activities, but not in the governmental funds	(1,105,849)
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	140,155
Change in Net Assets of Governmental Activities	<u>\$ 2,470,055</u>

City of Highland Park, Michigan

Proprietary Fund Statement of Net Deficit June 30, 2011

	Enterprise Fund - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 273,402
Investments (Note 3)	238,844
Customer receivables	2,543,649
Due from other government units	29,979
Prepaid expenses and other assets	6,125
Total current assets	3,091,999
Noncurrent assets - Capital assets (Note 5)	5,779,539
Total assets	8,871,538
Liabilities	
Current liabilities:	
Accounts payable	9,202,774
Accrued liabilities and other	19,051
Current portion of long-term debt (Note 7)	195,000
Total current liabilities	9,416,825
Noncurrent liabilities:	
Net pension obligation	222,248
Long-term debt (Note 7)	4,228,603
Total noncurrent liabilities	4,450,851
Total liabilities	13,867,676
Net Deficit	
Invested in capital assets - Net of related debt	1,399,641
Unrestricted	(6,395,779)
Total net deficit	\$ (4,996,138)

City of Highland Park, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Deficit Year Ended June 30, 2011

	Enterprise Fund - Water and Sewer
Operating Revenue	
Sale of water	\$ 1,445,548
Sewage disposal charges	3,710,917
Interest and penalty charges	78,580
Other revenue	<u>55,563</u>
Total operating revenue	5,290,608
Operating Expenses	
Cost of water	1,976,413
Cost of sewage treatment	4,484,597
Depreciation (Note 5)	<u>337,248</u>
Total operating expenses	<u>6,798,258</u>
Operating Loss	(1,507,650)
Nonoperating Revenue (Expense)	
Investment income	1,154
Interest expense	<u>(111,747)</u>
Total nonoperating expense	<u>(110,593)</u>
Loss - Before interfund transfer in	(1,618,243)
Interfund Transfer In	<u>3,874,694</u>
Change in Net Deficit	2,256,451
Net Deficit - Beginning of year - As restated	<u>(7,252,589)</u>
Net Deficit - End of year	<u><u>\$ (4,996,138)</u></u>

City of Highland Park, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2011

	Enterprise Fund - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 4,537,046
Payments to suppliers	(3,672,310)
Payments to employees	(618,024)
Internal activity - Payments to other funds	(29,979)
Other receipts	57,351
	274,084
Cash Flows from Noncapital Financing Activities	
Transfers from other funds	3,890,643
Repayment of advance from other fund	(3,874,694)
	(15,949)
Cash Flows from Capital and Related Financing Activities	
Payment on long-term debt	(175,328)
Interest on long-term debt	(111,747)
	(287,075)
Interest received on investments	1,154
Purchase of investment securities	(9,636)
	(37,422)
Net Decrease in Cash and Cash Equivalents	(37,422)
Cash and Cash Equivalents - Beginning of year	310,824
Cash and Cash Equivalents - End of year	\$ 273,402
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,507,650)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	337,248
Changes in assets and liabilities:	
Receivables	(682,999)
Due from others	(28,191)
Prepaid and other assets	1,304
Accounts payable	2,201,916
Accrued payroll	(3,899)
Accrued and other liabilities	(134,931)
OPEB obligation	91,286
	274,084
Net cash provided by operating activities	\$ 274,084

City of Highland Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	<u>Pension</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 15,174,516	\$ 1,961,443
Investments:		
Stocks	2,149,632	-
Life insurance/CSV	728,584	-
Receivables - Due from other government units	<u>112,251</u>	<u>249,733</u>
Total assets	18,164,983	<u><u>\$ 2,211,176</u></u>
Liabilities		
Accounts payable	22,250	\$ 30,990
Due to other government units	85,974	1,495,214
Refundable deposits, bonds, etc.	<u>-</u>	<u>684,972</u>
Total liabilities	<u>108,224</u>	<u><u>\$ 2,211,176</u></u>
Net Assets Held in Trust for Pension and Other Employee Benefits		<u><u>\$ 18,056,759</u></u>

City of Highland Park, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets - Pension Year Ended June 30, 2011

Additions

Investment income:	
Interest and dividends	\$ 102,765
Net increase in fair value of investments	<u>8,692</u>
Net investment income	111,457
Contributions:	
Employer	1,192,011
Employee	<u>75,155</u>
Total contributions	<u>1,267,166</u>
Total additions	1,378,623

Deductions

Benefit payments	4,046,463
Health care	551,410
Administrative expenses	<u>17,146</u>
Total deductions	<u>4,615,019</u>

Net Decrease in Net Assets Held in Trust (3,236,396)

Net Assets Held in Trust for Pension and Other Employee Benefits -
Beginning of year 21,293,155

Net Assets Held in Trust for Pension and Other Employee Benefits -
End of year \$ 18,056,759

City of Highland Park, Michigan

Component Unit Statement of Net Assets June 30, 2011

	Tax Increment Finance Authority
Assets	
Cash and cash equivalents	\$ 292,925
Due from other government unit	156,479
Due from primary government	494,499
Capital assets (Note 5)	<u>22,251</u>
Total assets	<u>966,154</u>
Net Assets	
Invested in capital assets - Net of related debt	22,251
Unrestricted	<u>943,903</u>
Total net assets	<u><u>\$ 966,154</u></u>

City of Highland Park, Michigan

Component Unit Statement of Activities Year Ended June 30, 2011

	Tax Increment Finance Authority
Expenses	\$ (3,855,021)
General Revenue	<u>48,087</u>
Change in Net Assets	(3,806,934)
Net Assets - Beginning of year	<u>4,773,088</u>
Net Assets - End of year	<u><u>\$ 966,154</u></u>

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Highland Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Highland Park, Michigan:

Reporting Entity

The City of Highland Park, Michigan is governed by an elected six-member council.

On July 17, 2009, the State of Michigan removed the interim emergency financial manager from the City and returned control of the City back to the mayor and City Council; however, the City remains under Public Act 72 of 1990.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although the blended component unit is a legally separate entity, in substance, it is part of the City's operations. 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 City (see discussion below for description).

Blended Component Unit

Building Authority - The Building Authority is governed by a board appointed by the City Council. The Building Authority's sole function is to oversee the acquisition/construction of the City's public buildings; therefore, it is reported as if it were part of the primary government.

Discretely Presented Component Unit

Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) is responsible for certain revitalization projects and activities in the City. The members of the TIFA's governing board are appointed by the primary government. A summary of the TIFA's unaudited financial information has been included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 30-60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, District Court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

Additionally, the City reports the following internal service and fiduciary activities:

The internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

The Pension and Other Employee Benefits Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.

The agency funds account for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15 of the year levied, at which time penalties and interest are assessed.

The City's 2010 tax is levied and collectible on July 1, 2010 and is recognized as revenue in the year ended June 30, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The 2010 taxable valuation of the City totaled \$161,707,163, on which taxes levied consisted of 19.3703 mills for operating purposes, 2.9055 mills for rubbish services, .8500 mills for court judgments, 4.2000 mills for pension judgments, and 10.5500 mills for funding the City's pension plans. This resulted in approximately \$3.6 million for operating purposes, rubbish, and judgments and \$1.3 million for City debt. These amounts are recognized in the respective General Fund and 08 Pension Bonds Debt Service Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

Loan Receivable - The TIFA has an outstanding loan receivable of \$3,808,729 from a commercial property located within the City. The property is required to repay the loan as net profits are earned. As such, the receivable is deemed to be fully collectible and no allowance is necessary.

All receivables are shown as net of allowance for uncollectible amounts.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the General Fund and certain judgment levies require amounts to be set aside for debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets, as well as cash and cash equivalents and investments in the 08 Pension Bonds Debt Service Fund, which are also restricted for debt service principal and interest payments.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$10,000 for infrastructure assets and \$5,000 for all other capital assets and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Roads and sidewalks	40 years
Land improvements	20 years
Street lights and traffic signals	15-20 years
Machinery and equipment	5-20 years
Water mains and improvements	50 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only upon employee termination.

Long-term Obligations - In the government-wide financial statements and the 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City implemented GASB Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned** - Intent to spend resources on specific purposes expressed by the governing body or finance director, who is authorized by resolution approved by the governing body to make assignments

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- **Unassigned** - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - During the fiscal year ended June 30, 2003, the City discontinued overseeing building construction, including inspection of building construction and renovation. The oversight of such activities was turned over to the State.

Fund Deficits - In February 2010, the City updated its deficit elimination plan previously approved by the State of Michigan in 2009. The State continues to review and monitor the plan to ensure the City's adherence to the plan over the remaining years of the five-year plan. The General Fund is out of a deficit at June 30, 2011.

JAG Fund - The deficit within the JAG Fund is due to a timing issue. The JAG program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 totaled \$4,046.

Federal Grants Fund - The deficit within the Federal Grants Fund is due to a timing issue. The various grants accounted for within the fund, such as NSP 1 and NSP 2, require the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 totaled \$266,743.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 2 - Stewardship, Compliance, and Accountability (Continued)

NSP I Fund - The deficit within the NSP I Fund is due to a timing issue. The NSP I grant requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 were \$247,974 and \$217,928, respectively (the difference is some grant revenue was received in advance).

Community Development Block Grant Fund - The deficit in the Community Development Block Grant Fund (CDBG) is strictly a timing issue. The CDBG program requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 were \$249,967 and \$249,672, respectively.

Fire Station Construction Grant Fund - The deficit in the Fire Station Construction Grant Fund is due to a timing issue. The FEMA grant accounted for within the fund requires the City to expend its funds first on approved projects and then seek reimbursement. If reimbursement is not received within 60 days after year end, the revenue is required to be deferred to the next fiscal year. The City's deficit and deferred revenue at June 30, 2011 totaled \$18,767.

Water and Sewer Fund - The State approved a five-year plan increasing the water and sewer rates to eliminate the annual operating loss as well as to generate sufficient cash flow to repay all outstanding obligations of the fund, including the amounts borrowed from the General Fund. The plan calls for a 100 percent increase in rates distributed evenly over the next five years (20 percent increase per year) plus passing any other rate increases from the City of Detroit, which the City uses for sewage disposal. The revenue from the fund was again not sufficient to cover operating costs and required an additional 25 percent rate increase in 2011/2012. The fund's change in net assets for the year ended June 30, 2011 was an increase of \$2,347,737, which decreased the cumulative net deficit to \$4,773,890. The primary reason for the favorable outcome was a contribution from the General Fund of \$3,874,694.

Noncompliance with Legal or Contractual Provisions - The City did not distribute delinquent personal property tax collections to third parties in a timely manner.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The General Employees' Retirement System, the Police and Fire Retirement System, and the Public Safety Retirement Plan are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,975,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

At year end, the City had the following investment:

Investment	Fair Value	Weighted Average Maturity
U.S. government agency bond or note	\$ 1,397,702	4 months

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Life insurance/CSV	\$ 728,584	Not rated	N/A

Note 4 - Deferred Revenue

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

	Governmental Funds		
	Unavailable	Unearned	Total
Receivables for revenue that was not collected within 60 days	\$ 877,105	\$ -	\$ 877,105
Donations received prior to year end but not yet expended	-	6,882	6,882
Total	\$ 877,105	\$ 6,882	\$ 883,987

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Balance June 30, 2011</u>
Capital assets not being depreciated -			
Land	\$ 592,270	\$ -	\$ 592,270
Capital assets being depreciated:			
Infrastructure	40,991,000	-	40,991,000
Buildings and improvements	1,814,588	-	1,814,588
Machinery and equipment	1,025,129	490,433	1,515,562
Land improvements	562,290	-	562,290
Street lights and traffic signals	6,221,817	137,923	6,359,740
Subtotal	50,614,824	628,356	51,243,180
Accumulated depreciation:			
Infrastructure	13,901,138	1,024,775	14,925,913
Buildings and improvements	1,767,332	962	1,768,294
Machinery and equipment	932,342	45,978	978,320
Land improvements	339,166	12,750	351,916
Street lights and traffic signals	6,221,758	3,452	6,225,210
Subtotal	23,161,736	1,087,917	24,249,653
Net capital assets being depreciated	<u>27,453,088</u>	<u>(459,561)</u>	<u>26,993,527</u>
Net capital assets	<u>\$ 28,045,358</u>	<u>\$ (459,561)</u>	<u>\$ 27,585,797</u>

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2010	Additions	Balance June 30, 2011
Capital assets not being depreciated -			
Land	\$ 119,272	\$ -	\$ 119,272
Capital assets being depreciated:			
Water and sewer lines	21,643,881	-	21,643,881
Buildings and improvements	886,817	-	886,817
Machinery and equipment	15,300	-	15,300
Land improvements	73,820	-	73,820
Subtotal	22,619,818	-	22,619,818
Accumulated depreciation:			
Water and sewer lines	15,656,011	335,118	15,991,129
Buildings and improvements	886,817	-	886,817
Machinery and equipment	5,655	2,130	7,785
Land improvements	73,820	-	73,820
Subtotal	16,622,303	337,248	16,959,551
Net capital assets being depreciated	5,997,515	(337,248)	5,660,267
Net capital assets	<u>\$ 6,116,787</u>	<u>\$ (337,248)</u>	<u>\$ 5,779,539</u>
Component Units	Balance July 1, 2010	Additions	Balance June 30, 2011
Capital assets being depreciated -			
Infrastructure	\$ -	\$ 22,251	\$ 22,251
Accumulated depreciation -			
Infrastructure	-	556	556
Net capital assets	<u>\$ -</u>	<u>\$ 21,695</u>	<u>\$ 21,695</u>

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 1,031,503
Public safety	40,830
Public works	1,207
Recreation and culture	14,377
Total governmental activities	<u>\$ 1,087,917</u>
Business-type activities - Water and sewer	<u>\$ 337,248</u>
Component unit activity - Tax Increment Finance Authority	<u>\$ 556</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	\$ 313,889
Other governmental funds	General Fund	160,562
	Other governmental funds	<u>21,321</u>
	Total other governmental funds	<u>181,883</u>
	Total	<u>\$ 495,772</u>

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Major Streets Fund	General Fund	\$ 9,070
Local Streets Fund	General Fund	<u>606,705</u>
	Total	<u>\$ 615,775</u>

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The due to/from balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The advances recorded in the Major and Local Streets Funds are due to amounts owed from the General Fund related to Public Act 51 noncompliance and general operating activity. See Note 13 for further information.

Interfund transfers reported in the fund financial statements are comprised of the following:

Transfers To	Transfers From	Amount
08 Pension Bonds Debt Service Fund	General Fund	\$ 326,802
NSP I	General Fund	57,725
Water and Sewer Fund	General Fund	3,874,694
Other governmental funds	FIA Building Fund	1,131,219
	Total	<u>\$ 5,390,440</u>

The transfers from the General Fund to the 08 Pension Bonds Debt Service Fund represent the movement of distributable aid to be used to pay debt service. The transfer from the General Fund to the NSP I Fund is to cover costs determined to be disallowed in accordance with the grant provisions. The transfer from the General Fund to the Water and Sewer Fund represents funds to be used for operational purposes. The transfer from the FIA Building Fund to the Building Authority Fund is to be used to pay the debt service.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
1999 Building Authority Bonds:						
Amount of issue - \$11,390,000						
Maturing through 2018	7.75%	\$ 7,255,000	\$ -	\$ 580,000	\$ 6,675,000	\$ 625,000
2003 General Obligation Limited Tax:						
Amount of loan - \$1,000,000						
Maturing through 2023	.373%	1,000,000	-	-	1,000,000	-
2006 General Obligation Limited Tax:						
Amount of loan - \$1,000,000						
Maturing through 2026	.373%	1,000,000	-	-	1,000,000	-
2008 General Obligation Limited Tax:						
Amount of loan - \$3,000,000						
Maturing through 2028	-	3,000,000	-	-	3,000,000	-
2000B Fiscal Stability:						
Amount of issue - \$3,480,000						
Maturing through 2021	4.75% - 5.5%	2,345,000	-	160,000	2,185,000	160,000
2003B Fiscal Stability:						
Amount of issue - \$2,225,000						
Maturing through 2023	3.0% - 6.0%	1,735,000	-	90,000	1,645,000	95,000
2004A Fiscal Stability:						
Amount of issue - \$6,000,000						
Maturing through 2034	5.15% - 6.875%	5,555,000	-	110,000	5,445,000	115,000
2008A Pension Bonds:						
Amount of issue - \$27,000,000						
Maturing through 2038	4.559%	26,665,000	-	225,000	26,440,000	355,000
Installment purchase agreement -						
1991 E-One fire truck	7.89%	10,409	-	10,409	-	-
Total bonds and installment obligations		48,565,409	-	1,175,409	47,390,000	1,350,000
Accumulated compensated absences		459,851	-	140,155	319,696	75,000
Net pension obligation		4,153,906	151,702	-	4,305,608	-
Workers' compensation		440,000	-	21,000	419,000	100,000
Lawsuits and claims		119,236	8,728	94,130	33,834	33,834
Total governmental activities		\$ 53,738,402	\$ 160,430	\$ 1,430,694	\$ 52,468,138	\$ 1,558,834
Business-type Activities						
1999 General Obligation Bonds:						
Amount of issue - \$6,000,000						
Maturing through 2030	2.50%	\$ 4,559,898	\$ -	\$ 180,000	\$ 4,379,898	\$ 185,000
Accumulated compensated absences		39,033	4,672	-	43,705	10,000
Total business-type activities		\$ 4,598,931	\$ 4,672	\$ 180,000	\$ 4,423,603	\$ 195,000

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$2,588,000. Annual debt service requirements to maturity for the above bonds and note obligations, including debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 1,360,000	\$ 3,579,201	\$ 4,939,201	\$ 185,000	\$ 107,185	\$ 292,185
2013	1,455,000	3,464,681	4,919,681	190,000	102,497	292,497
2014	1,665,000	3,353,044	5,018,044	195,000	97,685	292,685
2015	1,890,000	3,222,342	5,112,342	195,000	92,810	287,810
2016	1,900,000	3,093,768	4,993,768	200,000	87,872	287,872
2017-2021	10,735,000	13,223,495	23,958,495	1,095,000	359,925	1,454,925
2022-2026	7,860,000	10,526,379	18,386,379	1,235,000	214,424	1,449,424
2027-2031	7,525,000	7,729,338	15,254,338	1,084,898	54,303	1,139,201
2032-2036	9,055,000	3,929,571	12,984,571	-	-	-
2037-2041	3,945,000	328,639	4,273,639	-	-	-
Total	\$ 47,390,000	\$ 52,450,458	\$ 99,840,458	\$ 4,379,898	\$ 1,116,701	\$ 5,496,599

The City has pledged, as security for the bonds issued, a portion of the City's state-shared revenue. The bonds issued by the City are as follows:

	Amount of Issuance	Year of Issuance	Maturity Date	Total Remaining Principal and Interest	Current Year Principal and Interest Payments
Fiscal Stability Revenue Bonds, Series 2000B	\$ 3,480,000	2000	2021	\$ 2,820,028	\$ 280,773
Fiscal Stability Revenue Bonds, Series 2003B	2,225,000	2003	2023	2,303,363	176,830
Fiscal Stability Revenue Bonds, Series 2004A	6,000,000	2004	2034	10,102,451	439,241
Pension Bonds, Series 2008A	27,000,000	2008	2038	70,582,452	1,683,021

The City has committed to appropriate each year, from state-shared revenue, amounts sufficient to cover the principal and interest requirements of the City's debt. Total principal and interest remaining on the debt is \$85,808,294, with annual requirements ranging from \$2,122,880 to \$3,889,899. The state-shared revenue, from which the appropriations will be made, has averaged \$3,289,284 over the last three years. For the current year, the principal and interest paid by the City and the total state-shared revenue recognized by the City were \$2,579,865 and \$2,905,544, respectively.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities
General Fund - Debt service	\$ 594,538
08 Pension Bonds Debt Service Fund	23,839
Total restricted net assets	<u>\$ 618,377</u>

General Fund and 08 Pension Bonds Debt Service Fund restricted assets represent cash to be used to fund the future debt service payments on the City's general obligation bonds and pension judgment levy.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The following is a summary of the City's risk management programs:

General Liability - The City purchases insurance coverage through commercial carriers for general and auto liability, auto physical damage, and certain property loss claims. The City is self-insured primarily for all other potential claims against the City. No reserves have been established by the City to fund any self-insured claims. All self-insured claims are funded through judgment levies placed on the tax roll and other expendable available resources.

Workers' Compensation - The City is self-insured for workers' compensation claims. The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	
	2011	2010
Estimated liability - Beginning of year	\$ 440,000	\$ 328,000
Estimated claims incurred, including changes in estimates	135,404	633,509
Claim payments	<u>(156,404)</u>	<u>(521,509)</u>
Estimated liability - End of year	<u>\$ 419,000</u>	<u>\$ 440,000</u>

Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System

General Employees' Retirement Plan

Plan Description - The City of Highland Park Employees' Retirement System (ERS) is a single-employer defined benefit pension; this plan covers nonpublic safety employees of the City. As of November 1986, the City closed the ERS to all employees hired after that date. Vested members of the ERS as of that date were given the option of freezing their accrued defined benefit, payable at their normal retirement date, or joining the defined contribution plan. Members who elected to join the defined contribution plan were refunded their contributions and were allowed to enroll into that plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries.

In June 2008, the City issued pension bonds in the amount of \$27,000,000, of which the General Employees' Retirement System received \$8,476,762, which was used to fully eliminate an unrecorded net pension obligation. The net pension obligation that is recorded at June 30, 2011 consists of the past three years of activity. At December 31, 2009, the date of the most recent actuarial valuation, membership consisted of 133 retirees and beneficiaries receiving benefits, three inactive employees, and one current active employee. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 205,798
Interest on net pension obligation	15,562
Adjustment to annual required contribution	<u>(17,740)</u>
Annual pension cost (APC)	203,620
Contributions made	<u>-</u>
Increase in net pension obligation	203,620
Net pension obligation - Beginning of year	<u>207,490</u>
Net pension obligation - End of year	<u><u>\$ 411,110</u></u>

Annual Pension Cost - For the year ended June 30, 2011, the City's annual pension cost of \$203,620 for the plan was less than the City's required contribution of \$205,798, which is being amortized over a 30-year period. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	\$ 203,620	\$ 147,044	\$ 147,629
Percentage of APC contributed	-	-	59.0 %
Net pension obligation	\$ 411,110	\$ 207,490	\$ 60,446

Funding Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the plan was 69.6 percent funded. The actuarial accrued liability for benefits was \$8,594,415 and the actuarial value of assets was \$5,981,571, resulting in an unfunded actuarial accrued liability of \$2,612,844. The covered payroll (annual payroll to active employees covered by the plan) was \$29,155 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8962 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 10 - Defined Benefit Pension Plan - General Employees' Retirement System (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.5 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar on an open basis. The remaining amortization period is 30 years.

Note 11 - Defined Benefit Pension Plan - Policemen and Firemen Retirement System

Policemen and Firemen Retirement System

Plan Description - The City of Highland Park Policemen and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan; this covers public safety officers employed by the City. This plan was closed as of November 1985 to new hires; active members at that time were terminated and enrolled under the MERS plan which is discussed below. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2009, the date of the most recent actuarial valuation, membership consisted of 79 retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

Contributions - Plan member contributions, if any, are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note I for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Defined Benefit Pension Plan - Policemen and Firemen Retirement System (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 433,911
Interest on net pension obligation	225,974
Adjustment to annual required contribution	<u>(260,338)</u>
Annual pension cost (APC)	399,547
Contributions made	<u>(875,258)</u>
Decrease in net pension obligation	(475,711)
Net pension obligation - Beginning of year	<u>3,012,986</u>
Net pension obligation - End of year	<u>\$ 2,537,275</u>

Annual Pension Cost - For the year ended June 30, 2011, the City's annual pension cost of \$399,547 for the plan was less than the City's required contribution of \$433,911. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	\$ 399,547	\$ 424,031	\$ 421,890
Percentage of APC contributed	219.1 %	218.6 %	207.8 %
Net pension obligation	\$ 2,537,275	\$ 3,012,986	\$ 3,736,266

Funding Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the plan was 8.6 percent funded. The actuarial accrued liability for benefits was \$6,030,052 and the actuarial value of assets was \$521,049, resulting in an unfunded actuarial accrued liability of \$5,509,003. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 11 - Defined Benefit Pension Plan - Policemen and Firemen Retirement System (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry age actuarial cost method. Significant actuarial assumptions used include a 7.5 percent investment rate of return compounded annually, of which 5.5 percent is attributable to inflation. The assumption did not include projected salary increases, cost of living adjustments, or postretirement benefit increases. The actuarial valuation of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar on an open basis. The remaining amortization period is 30 years.

Note 12 - Defined Benefit Pension Plan - Public Safety Retirement Plan

Public Safety Retirement Plan

Plan Description - The City of Highland Park Public Safety Retirement Plan is a single-employer defined benefit pension plan; this plan covers public safety officers employed by the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries.

In June 2008, the City issued pension bonds in the amount of \$27,000,000, of which the Public Safety Retirement Plan received \$18,523,238, which was used to fully eliminate an unrecorded net pension obligation. The net pension obligation that is recorded at June 30, 2011 consists of the past three years of activity. At December 31, 2009, the date of the most actuarial valuation, membership consisted of 53 retirees and beneficiaries receiving benefits, 16 active employees, and six inactive participants.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 12 - Defined Benefit Pension Plan - Public Safety Retirement Plan (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	\$ 436,564
Interest on net pension obligation	70,007
Adjustment to annual required contribution	<u>(79,807)</u>
Annual pension cost (APC)	426,764
Contributions made	<u>(2,971)</u>
Increase in net pension obligation	423,793
Net pension obligation - Beginning of year	<u>933,430</u>
Net pension obligation - End of year	<u>\$ 1,357,223</u>

Annual Pension Cost - For the year ended June 30, 2011, the City's annual pension cost of \$426,764 for the plan was less than the City's required contribution of \$436,564. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2011	2010	2009
Annual pension cost (APC)	\$ 426,764	\$ 464,447	\$ 468,983
Percentage of APC contributed	-	-	-
Net pension obligation	\$ 1,357,223	\$ 933,430	\$ 468,983

Funding Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the plan was 68.5 percent funded. The actuarial accrued liability for benefits was \$24,622,677 and the actuarial value of assets was \$16,875,925, resulting in an unfunded actuarial accrued liability of \$7,746,752. The covered payroll (annual payroll to active employees covered by the plan) was \$1,235,379, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 627.1 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 12 - Defined Benefit Pension Plan - Public Safety Retirement Plan (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 4.5 percent to 12.9 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar on an open basis. The remaining amortization period is 30 years.

Note 13 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses upon retirement, in accordance with labor contracts. Currently, the plan has 225 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the employer.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The costs of administering the plan are borne by the General Fund. The retirees contribute varying amounts, as negotiated by collective bargaining units.

Funding Progress - For the year ended June 30, 2011, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 15 years. This valuation's computed contribution and actual funding are summarized as follows:

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 13 - Other Postemployment Benefits (Continued)

Annual required contribution (recommended)	\$ 2,509,879
Interest on the prior year's net OPEB obligation	51,524
Less adjustment to the annual required contribution	<u>(152,039)</u>
Annual OPEB cost	2,409,364
Amounts contributed:	
Payments of current premiums	(1,212,229)
Advance funding	<u>-</u>
Increase in net OPEB obligation	1,197,135
OPEB obligation - Beginning of year	<u>1,717,445</u>
OPEB obligation - End of year	<u>\$ 2,914,580</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Employer Contributions - Percentage Contributed	Net OPEB Obligation
6/30/09	12/31/09	\$ 2,235,940	44.5 %	\$ 909,627
6/30/10	12/31/09	2,334,495	45.8	1,717,446
6/30/11	12/31/09	2,509,879	57.0	2,914,579

* The required contribution is expressed to the City as a percentage of payroll.

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/09	\$ -	\$ 23,693,585	\$ 23,693,585	-	\$ 4,400,167	538.5

Note 13 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return (net of administrative expenses), a projected salary increase of 1 percent, and an annual healthcare cost trend of 9 percent in the first year, 8 percent in the second year, 7 percent in the third year, 6.5 percent in the fourth year, 6 percent in the fifth through ninth year, 5.65 percent in the tenth through fourteenth year, and 5 percent thereafter. The actuarial value of assets was determined using the reported market value of assets. The UAAL is being amortized as a level dollar amount. The remaining amortization period at December 31, 2009 was 15 years.

Note 14 - Contingent Liabilities

Lawsuits and Claims - The City is a defendant in various lawsuits and asserted claims. A provision in the amount of \$33,834 has been recorded for the estimated obligation for certain of these lawsuits and asserted claims. Management and legal counsel believe the City's ultimate exposure with respect to these actions is not determinable. No provision has been made in the accompanying financial statements for additional potential liabilities, if any, that may arise from the suits and asserted claims, or any unasserted claims that relate to current or prior activities of the City.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 14 - Contingent Liabilities (Continued)

Public Act 51 Noncompliance - In July 2000, the State of Michigan began withholding Public Act 51 shared revenue from the City due to noncompliance with the act. This came about when the City failed to repay an authorized lending of Act 51 funds from the Major and Local Streets Special Revenue Funds to the General Fund for tornado damage repairs with the understanding that these loans would be repaid when federal disaster reimbursements were received. Despite its agreement to repay the monies, the prior elected administration used the federal reimbursements for other purposes and did not repay the Act 51 loan. Beginning in July 2002, the State of Michigan began releasing current shared revenue to the City, but not the previously withheld funds due to Act 51 noncompliance. By agreement reached during the fiscal year ended June 30, 2005, the City agreed to establish a payment plan that required monthly payments of at least \$1,000 from non-Act 51 funds until the balance is repaid in full. As of June 30, 2011, the outstanding loan balance was \$708,952, with \$102,080 due to the Major Streets Fund and \$606,872 due to the Local Streets Fund. Advances reported within the financial statements are net of operating interfund activity of \$93,010 and \$167 within the Major and Local Streets Funds, respectively. The net advances are reported as advances receivable in the Major Streets Fund and Local Street Fund of \$9,070 and \$606,705, respectively, with offsetting advances reported in the General Fund.

Police and Fire Defined Benefit Pension Plan - The Police and Fire Defined Benefit Pension Plan may not have sufficient reserves to pay future pension benefits much beyond the current fiscal year. The City also does not have sufficient resources to fund current and past due required contributions.

Note 15 - Derivatives

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the City's fiscal year beginning July 1, 2009. This statement requires derivative instruments (such as interest rate swap agreements) to be reported at fair value. In addition, for derivative instruments that qualify as effective hedges, changes in fair value will be reported as deferrals in the statement of net assets (deficit), while changes in the fair value of the derivative instruments that do not qualify as effective hedges, including investment derivative instruments, will be reported as investment income.

The City currently holds one interest rate swap instrument. The City entered into the agreement at the same time and for the same amount as the issuance of certain variable rate debt, with the intent of creating a synthetic fixed rate debt, at an interest rate that is lower than if fixed rate debt were to have been issued directly. The swap is considered to be an ineffective swap as it did not utilize consistent critical terms.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 15 - Derivatives (Continued)

As of the balance sheet date, the swap agreements can be summarized as follows:

	Changes in Fair Value		Fair Value at June 30, 2011		Notional
	Classification	Amount	Classification	Amount	
Investment derivative - Pay-fixed interest rate swaps (receive-variable)	Investment revenue	\$ 777,350	Investment	\$ (1,304,015)	\$ 27,000,000

The City has determined that the pay-fixed interest rate swap does not meet the criteria for effectiveness. Accordingly, the negative fair value of the swap was reported as a liability of \$1,304,015 at June 30, 2011 and the change in the fair value of the swap in fiscal year 2011 of the \$777,350 increase in value is reported within the investment revenue classification for the year ended June 30, 2011.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Effective Date	Type	Objective	Notional Amount	Pay Terms	Receive Terms	Maturity Date	Counterparty Credit Rating
6/30/11	Pay-fixed, receive-variable	Investment hedge for 2008 Series A variable rate pension bonds	\$ 27,000,000	4.56	100% of LIBOR	7/1/2013	A3 (Moody's) BBB+ (S&P) A (Fitch)

The interest rate swap is subject to the following risks:

Credit Risk - The City is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the City's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below A3 as issued by Moody's Investor Services or A- by Standard & Poor's. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian.

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2011 was a negative \$1,304,015. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

The City executes hedging derivative instruments with one counterparty. That counterparty is rated A3 (Moody's), BBB+ (Standard & Poor's), and A (Fitch).

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 15 - Derivatives (Continued)

Interest Rate Risk - The City is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR decreases, the City's net payment on the swap increases.

Basis Risk - The City is exposed to basis risk on its LIBOR-based interest rate swap due to variable rate payments received by the City on these instruments based on a rate or index other than interest rates the City pays on its variable rate debt, which is remarketed every 30 days. As of June 30, 2011, the synthetic fixed interest rate on the City's hedged variable rate debt is 4.56 percent while 100 percent of LIBOR is .35 percent.

Termination Risk - The City has the right to optionally terminate the swap agreement at any time over the term of the agreement. In general, exercising the right to terminate an agreement should produce a benefit to the City, either through the receipt of a payment from a termination or, if the termination payment is made by the City, in conjunction with a conversion to a more beneficial debt obligation of the City, as determined by the City. The counterparty will not be able to optionally terminate the swap, except upon occurrence of certain designated credit or default events. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Note 16 - Restatements

Fund deficits for both the JAG Fund and the Federal Grants Fund have been restated based on a grant audit requiring the separation of the JAG funds. Deficits for both the governmental statement of activities and the Water and Sewer Fund are restated due to the implementation of GASB Statement No. 45. The restatement reflects the cumulative adjustment to beginning net deficit for both the June 30, 2009 and June 30, 2010 fiscal years. This adjustment represents the City's obligation to contribute to and maintain the system for those employees eligible to receive retiree healthcare benefits, including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 16 - Restatements (Continued)

Beginning fund deficits and net deficits have been restated (i.e., increased or decreased) as follows:

	Beginning Deficit	Restatement	Beginning Deficit - As Restated
JAG Fund	\$ -	\$ (44,789)	\$ (44,789)
Federal Grants Fund	(47,189)	44,789	(2,400)
Statement of activities - Governmental activities	(24,287,737)	(1,586,483)	(25,874,220)
Water and Sewer Fund	(7,121,627)	(130,962)	(7,252,589)

Note 17 - Accounting and Reporting Change

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions.

Note 18 - Going Concern

In June 2001, the State of Michigan Department of Treasury (the "State") appointed an emergency financial manager (EFM) to run the City in accordance with Section 12(1) of Public Act 72 of 1990 (superseded by Public Act 4 of 2011). The EFM was charged with the responsibility of balancing the annual operating budget and eliminating the cumulative General Fund deficit, which totaled approximately \$11,275,000 at June 30, 2001. In addition to the General Fund deficit and many other financial operating matters, the EFM also had to address the repayment of the Water and Sewer Fund borrowing of approximately \$4,900,000 from the General Fund. The State's original EFM was replaced with a second EFM in April 2005 and in April 2009, a third EFM was appointed. In July 2009, the State removed the interim emergency financial manager from the City and returned control of the City back to the mayor and City Council. The City continues under state control per Public Act 4 at June 30, 2011.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2011

Note 18 - Going Concern (Continued)

The mayor and City Council submitted a detailed plan on how the City was going to eliminate all deficits and address all other operating matters. In addition, the EFM submitted an annual deficit elimination plan to the State detailing the action plan for all funds in a deficit position. The General Fund at June 30, 2011 has completely eliminated the deficit and has a cumulative fund balance of \$1,175,181. In addition, the General Fund had an annual operating surplus of \$805,801. The General Fund transferred \$3,874,694 to the Water and Sewer Fund in the current year to help cover operational shortfalls. The Water and Sewer Fund continued to have a significant operating loss of \$1,618,243. The one-time transfer from the General Fund offset the operating loss and resulted in a decrease of net deficit of \$2,256,451 for the year ended June 30, 2011, dropping it to \$4,996,138. The City will continue to follow the approved deficit elimination plan created by the former EFM which calls for substantial rate increases over the next couple of years to eliminate the deficit.

Note 19 - Special Item - Debt Forgiveness

During the year, the City entered into an agreement with Detroit Edison (DTE), which agreed to forgive the City for years of outstanding street-lighting invoices totaling \$4,699,592.

Required Supplemental Information

City of Highland Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2011

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The annual budget and subsequent budget amendments are prepared by the City management and are approved by the City Council.

The budget process is initiated in April, when the finance department estimates the revenue, calculates salary and fringe benefit information, as well as estimates operating costs by department for the year. In May, the finance department discusses any critical needs identified by the department heads that need to be incorporated into the new budget. The finance department then meets with the mayor to determine the adjustments needed to balance the operating budget. The budget is submitted to the City Council in June for review. After a public hearing, the final budget is adopted by a resolution from the City Council no later than June 30 of each year.

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balances is as follows:

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Highland Park, Michigan incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Treasurer	\$ 117,876	\$ 118,910	\$ (1,034)
City clerk	145,699	147,438	(1,739)
Legal	490,704	647,940	(157,236)
Human resources	27,300	27,773	(473)
Public works - Public service administration	1,796,231	1,879,288	(83,057)
Recreation and culture	50,115	50,554	(439)
Interfund transfers out	436,046	4,259,221	(3,823,175)
Local Streets Fund	195,000	368,201	(173,201)

Within the General Fund, the treasurer and the city clerk's office had costs associated with office supplies and forms and printing that were greater than anticipated. The legal department incurred outside legal costs that were greater than anticipated due to ongoing and new legal matters. The human resources department is responsible for covering all costs associated with physical examinations of new hires and experienced employees. This cost was greater than anticipated in the current year. Within the public works department, the cost of utilities was greater than anticipated. The recreation and culture department experienced higher than anticipated costs associated with repairs and maintenance. Interfund transfers out are greater than anticipated due to the transfer from the General Fund to the Water and Sewer Fund. See Note 6 for details.

City of Highland Park, Michigan

Note to Required Supplemental Information (Continued) Year Ended June 30, 2011

Within the Local Streets Fund, construction costs were greater than anticipated due to an increased amount of road repairs.

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,156,000	\$ 4,046,739	\$ 3,567,824	\$ (478,915)
Income taxes	2,300,000	3,200,000	3,397,803	197,803
Licenses and permits	70,000	70,000	55,687	(14,313)
State sources	2,960,747	3,203,440	2,912,374	(291,066)
Charges for services	378,760	95,000	84,157	(10,843)
Fines and forfeitures	1,350,000	1,350,000	1,394,199	44,199
Investment income	11,100	11,100	6,026	(5,074)
Rental income	50,000	50,000	12,190	(37,810)
Other revenue	402,824	659,290	657,369	(1,921)
Total revenue	11,679,431	12,685,569	12,087,629	(597,940)
Expenditures				
Current:				
General government:				
City Council	56,050	55,050	54,595	455
Administration	110,320	116,465	110,960	5,505
Finance	313,607	310,914	273,364	37,550
District Court	589,151	598,706	574,967	23,739
Income tax	156,250	156,250	151,750	4,500
Data processing	49,690	53,066	52,118	948
Treasurer	113,576	117,876	118,910	(1,034)
City assessor	46,800	54,000	52,572	1,428
City clerk	140,298	145,699	147,438	(1,739)
Legal	337,920	490,704	647,940	(157,236)
Human resources	28,750	27,300	27,773	(473)
Employee benefits	3,177,162	3,327,057	2,434,777	892,280
Total general government	5,119,574	5,453,087	4,647,164	805,923
Public safety:				
Police	2,065,360	1,903,881	1,803,341	100,540
Fire	1,084,111	1,453,494	1,402,890	50,604
Code enforcement	31,900	24,900	23,564	1,336
Total public safety	3,181,371	3,382,275	3,229,795	152,480
Public works:				
Rubbish and garbage collection	451,400	451,400	449,977	1,423
Public service administration	1,274,265	1,796,231	1,879,288	(83,057)
Total public works	1,725,665	2,247,631	2,329,265	(81,634)
Community and economic development				
Recreation and culture	119,185	106,263	86,049	20,214
	52,650	50,115	50,554	(439)
Debt service				
	1,023,846	939,161	939,001	160
Total expenditures	11,222,291	12,178,532	11,281,828	896,704
Excess of Revenue Over Expenditures	457,140	507,037	805,801	298,764
Other Financing Uses - Operating transfers out	(436,046)	(436,046)	(4,259,221)	(3,823,175)
Special Item - Debt forgiveness	-	-	4,699,592	4,699,592
Net Change in Fund Balance	21,094	70,991	1,246,172	1,175,181
Fund Balance (Deficit) - Beginning of year	(70,991)	(70,991)	(70,991)	-
Fund Balance (Deficit) - End of year	\$ (49,897)	\$ -	\$ 1,175,181	\$ 1,175,181

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 720,000	\$ 720,000	\$ 754,176	\$ 34,176
Investment income	5,000	5,000	3,526	(1,474)
Total revenue	725,000	725,000	757,702	32,702
Expenditures - Current				
Routine maintenance	73,000	73,000	148,575	(75,575)
Winter maintenance	62,000	62,000	39,853	22,147
Traffic services	65,000	65,000	79,588	(14,588)
Right of way	23,000	23,000	503	22,497
Administrative	67,000	67,000	71,145	(4,145)
Construction - Act 51	435,000	435,000	72,234	362,766
Total expenditures	725,000	725,000	411,898	313,102
Net Change in Fund Balance	-	-	345,804	345,804
Fund Balance - Beginning of year	1,373,500	1,373,500	1,373,500	-
Fund Balance - End of year	<u>\$ 1,373,500</u>	<u>\$ 1,373,500</u>	<u>\$ 1,719,304</u>	<u>\$ 345,804</u>

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 190,000	\$ 190,000	\$ 203,662	\$ 13,662
Investment income	5,000	5,000	1,395	(3,605)
Total revenue	195,000	195,000	205,057	10,057
Expenditures - Current				
Routine maintenance	28,000	28,000	4,689	23,311
Winter maintenance	46,000	46,000	16,164	29,836
Traffic services	4,000	4,000	105	3,895
Administration	19,000	19,000	20,366	(1,366)
Construction - Act 51	98,000	98,000	326,877	(228,877)
Total expenditures	195,000	195,000	368,201	(173,201)
Net Change in Fund Balance	-	-	(163,144)	(163,144)
Fund Balance - Beginning of year	1,260,895	1,260,895	1,260,895	-
Fund Balance - End of year	<u>\$ 1,260,895</u>	<u>\$ 1,260,895</u>	<u>\$ 1,097,751</u>	<u>\$ (163,144)</u>

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds FIA Building Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 78,219	\$ 78,219	\$ 61,768	\$ (16,451)
Rental income	1,071,000	1,071,000	1,040,060	(30,940)
Total revenue	1,149,219	1,149,219	1,101,828	(47,391)
Expenditures - Current - Public works				
Insurance - Public buildings	13,000	13,000	7,830	5,170
Trust service fees	5,000	5,000	9,395	(4,395)
Total expenditures	18,000	18,000	17,225	775
Other Financing Uses - Transfers out	(1,131,219)	(1,131,219)	(1,131,219)	-
Net Change in Fund Balance	-	-	(46,616)	(46,616)
Fund Balance - Beginning of year	1,450,400	1,450,400	1,450,400	-
Fund Balance - End of year	\$ 1,450,400	\$ 1,450,400	\$ 1,403,784	\$ (46,616)

City of Highland Park, Michigan

Required Supplemental Information General Employees' Pension Plan Schedule of Funding Progress Year Ended June 30, 2011

The schedule of funding progress (in 000s) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/95	\$ 14,084	\$ 19,046	\$ 4,962	73.9	\$ 415	1,195.7
6/30/99	12,059	16,639	4,580	72.5	190	2,410.5
6/30/06	3,676	10,726	7,050	34.3	30	23,500.0
12/31/07	568	10,134	9,566	5.6	30	31,886.7
12/31/08	7,487	9,361	1,874	80.0	30	6,246.7
12/31/09	5,981	8,594	2,613	69.6	30	8,962.0

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/06	*	*	*
6/30/07	6/30/06	\$ 2,030	0.1
6/30/08	12/31/07	1,575	449.0
6/30/09	12/31/08	148	59.0
6/30/10	12/31/08	148	-
6/30/11	12/31/09	206	-

* The City of Highland Park did not have required actuary valuations. Therefore, information regarding the required contribution is unavailable.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation date, follows:

Amortization method	Level dollar, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.5%-9.3%
*Includes inflation at	5.5%
Cost of living adjustments	None

City of Highland Park, Michigan

Required Supplemental Information Policemen and Firemen Retirement System Schedule of Funding Progress Year Ended June 30, 2011

The schedule of funding progress (in 000s) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
6/30/99	\$ 3,452	\$ 15,845	\$ 12,393	21.8
12/31/02	321	11,454	11,133	2.8
6/30/06	369	8,139	7,770	4.5
12/31/07	475	7,234	6,759	6.6
12/31/08	495	6,306	5,811	7.8
12/31/09	521	6,030	5,509	8.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/06	*	\$ 2,150	82.9
6/30/07	6/30/06	2,237	68.3
6/30/08	12/31/07	1,113	133.0
6/30/09	12/31/08	463	207.8
6/30/10	12/31/08	463	218.0
6/30/11	12/31/09	434	201.7

* The City of Highland Park did not have required actuary valuations. Therefore, information regarding the required contribution is unavailable.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation date, follows:

Amortization method	Level dollar, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	N/A
*Includes inflation at	5.0%
Cost of living adjustments	None

City of Highland Park, Michigan

Required Supplemental Information Public Safety Retirement Plan Year Ended June 30, 2011

The schedule of funding progress (in 000s) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/04	\$ 7,643	\$ 23,544	\$ 15,901	32.5	\$ 1,297	1,226.0
12/31/05	6,295	23,686	17,391	26.6	1,103	1,576.7
12/31/06	4,910	23,907	18,997	20.5	1,157	1,641.9
12/31/07	3,495	24,884	21,389	14.0	1,051	2,035.1
12/31/08	17,222	26,141	8,919	65.9	1,235	722.2
12/31/09	16,876	24,623	7,747	68.5	1,235	627.1

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/06	12/31/05	\$ 1,038	-
6/30/07	12/31/06	1,140	-
6/30/08	12/31/07	2,785	662.0
6/30/09	12/31/08	469	-
6/30/10	12/31/08	469	-
6/30/11	12/31/09	437	0.6

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2011, the latest actuarial valuation date, follows:

Amortization method	Level dollar, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5% - 12.9%
*Includes inflation at	4.5%
Cost of living adjustments	None

Other Supplemental Information

City of Highland Park, Michigan

	Special Revenue Funds					
	JAG	Federal Grants	NSP I	Drug Forfeiture	Community Projects and Food	Federal Accounts
Assets						
Cash and cash equivalents	\$ -	\$ 87,636	\$ 11,934	\$ 33,143	\$ -	\$ -
Receivables:						
Property taxes receivable	-	-	-	-	-	-
Due from other government units	21,321	285,667	278,050	-	-	-
Due from other funds	-	21,321	57,346	-	34,114	69,102
Restricted assets	-	-	-	-	-	-
Total assets	\$ 21,321	\$ 394,624	\$ 347,330	\$ 33,143	\$ 34,114	\$ 69,102
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ -	\$ 225,703	\$ 317,284	\$ -	\$ -	\$ -
Due to other government units	-	-	-	-	-	-
Due to other funds	21,321	168,921	-	-	-	-
Deferred revenue	4,046	266,743	247,974	-	-	-
Total liabilities	25,367	661,367	565,258	-	-	-
Fund Balances (Deficit)						
Restricted	-	-	-	33,143	34,114	69,102
Unassigned	(4,046)	(266,743)	(217,928)	-	-	-
Total fund balances (deficit)	(4,046)	(266,743)	(217,928)	33,143	34,114	69,102
Total liabilities and fund balances (deficit)	\$ 21,321	\$ 394,624	\$ 347,330	\$ 33,143	\$ 34,114	\$ 69,102

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

Special Revenue Funds		Debt Service Funds		Capital Projects Fund	Total
Community Development Block Grant	CDBG Program Income	08 Pension Bonds Debt Service	Building Authority	Fire Station Construction Grant	Nonmajor Governmental Funds
\$ -	\$ 38,164	\$ -	\$ -	\$ -	\$ 170,877
-	-	10,426	-	-	10,426
249,967	-	72,395	-	18,767	926,167
-	-	-	-	-	181,883
-	-	23,839	-	-	23,839
\$ 249,967	\$ 38,164	\$ 106,660	\$ -	\$ 18,767	\$ 1,313,192
\$ 123,471	\$ -	\$ -	\$ -	\$ -	\$ 666,458
-	-	106,660	-	-	106,660
126,201	-	-	-	18,767	335,210
249,967	38,164	-	-	18,767	825,661
499,639	38,164	106,660	-	37,534	1,933,989
-	-	-	-	-	136,359
(249,672)	-	-	-	(18,767)	(757,156)
(249,672)	-	-	-	(18,767)	(620,797)
\$ 249,967	\$ 38,164	\$ 106,660	\$ -	\$ 18,767	\$ 1,313,192

City of Highland Park, Michigan

	Special Revenue Funds					
	JAG	Federal Grants	NSP I	Drug Forfeiture	Community Projects and Food	Federal Accounts
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	17,275	611,869	722,810	-	-	-
Fines and forfeitures	-	-	-	9,452	-	-
Investment income	-	-	335	63	-	-
Total revenue	17,275	611,869	723,145	9,515	-	-
Expenditures						
Current:						
General government	-	57,004	-	-	-	-
Public safety	(23,468)	188,032	-	10,087	-	-
Public works	-	137,923	-	-	-	-
Community and economic development	-	493,253	1,022,645	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	(23,468)	876,212	1,022,645	10,087	-	-
Excess of Revenue Over (Under) Expenditures	40,743	(264,343)	(299,500)	(572)	-	-
Other Financing Sources -						
Interfund transfers in	-	-	57,725	-	-	-
Net Change in Fund Balances	40,743	(264,343)	(241,775)	(572)	-	-
Fund Balances (Deficit) - Beginning of year - As restated	(44,789)	(2,400)	23,847	33,715	34,114	69,102
Fund Balances (Deficit) - End of year	\$ (4,046)	\$ (266,743)	\$ (217,928)	\$ 33,143	\$ 34,114	\$ 69,102

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

Special Revenue Funds		Debt Service Funds		Capital Projects Fund	Total
Community Development Block Grant	CDBG Program Income	08 Pension Bonds Debt Service	Building Authority	Fire Station Construction Grant	Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,289,376	\$ -	\$ -	\$ 1,289,376
40,031	-	-	-	-	1,391,985
-	-	-	-	-	9,452
-	-	144	-	-	542
40,031	-	1,289,520	-	-	2,691,355
-	-	2,155	-	-	59,159
-	-	-	-	13,000	187,651
-	-	-	-	-	137,923
230,556	-	-	-	-	1,746,454
-	-	1,683,021	1,131,219	-	2,814,240
230,556	-	1,685,176	1,131,219	13,000	4,945,427
(190,525)	-	(395,656)	(1,131,219)	(13,000)	(2,254,072)
-	-	326,802	1,131,219	-	1,515,746
(190,525)	-	(68,854)	-	(13,000)	(738,326)
(59,147)	-	68,854	-	(5,767)	117,529
\$ (249,672)	\$ -	\$ -	\$ -	\$ (18,767)	\$ (620,797)

City of Highland Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2011

	Pension Trust Funds				Agency Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Public Safety Retirement System	Total Pension Trust Funds	Tax Collections	Fire Insurance Escrow	30th District Court	Total Agency Funds
Assets								
Cash and cash equivalents	\$ 2,641,887	\$ 254,919	\$ 12,277,710	\$ 15,174,516	\$ 1,075,248	\$ 441,529	\$ 444,666	\$ 1,961,443
Investments:								
Stocks	111,580	71,532	1,966,520	2,149,632	-	-	-	-
Life insurance/CSV	728,584	-	-	728,584	-	-	-	-
Due from other government units	-	444	111,807	112,251	-	249,733	-	249,733
Total assets	3,482,051	326,895	14,356,037	18,164,983	\$ 1,075,248	\$ 691,262	\$ 444,666	\$ 2,211,176
Liabilities								
Accounts payable	2,300	19,950	-	22,250	\$ -	\$ 30,990	\$ -	\$ 30,990
Due to other government units	85,974	-	-	85,974	1,075,248	-	419,966	1,495,214
Refundable deposits, bonds, etc.	-	-	-	-	-	660,272	24,700	684,972
Total liabilities	88,274	19,950	-	108,224	\$ 1,075,248	\$ 691,262	\$ 444,666	\$ 2,211,176
Net Assets Held in Trust for Pension and Other Employee Benefits	\$ 3,393,777	\$ 306,945	\$ 14,356,037	\$ 18,056,759				

City of Highland Park, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2011

	General Employees' Retirement System	Police and Fire Retirement System	Public Safety Retirement System	Total
Additions				
Investment income:				
Interest and dividends	\$ 91,092	\$ 2,201	\$ 9,472	\$ 102,765
Net increase in fair value of investments	<u>1,317</u>	<u>7,375</u>	<u>-</u>	<u>8,692</u>
Total investment income	92,409	9,576	9,472	111,457
Contributions:				
Employer	-	1,189,039	2,972	1,192,011
Employee	<u>-</u>	<u>-</u>	<u>75,155</u>	<u>75,155</u>
Net contributions	<u>-</u>	<u>1,189,039</u>	<u>78,127</u>	<u>1,267,166</u>
Total additions	92,409	1,198,615	87,599	1,378,623
Deductions				
Benefit payments	1,374,482	885,457	1,786,524	4,046,463
Health care	237,629	313,781	-	551,410
Administrative expenses	<u>2,317</u>	<u>1,008</u>	<u>13,821</u>	<u>17,146</u>
Total deductions	<u>1,614,428</u>	<u>1,200,246</u>	<u>1,800,345</u>	<u>4,615,019</u>
Net Decrease in Net Assets Held in Trust	(1,522,019)	(1,631)	(1,712,746)	(3,236,396)
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>4,915,796</u>	<u>308,576</u>	<u>16,068,783</u>	<u>21,293,155</u>
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 3,393,777</u></u>	<u><u>\$ 306,945</u></u>	<u><u>\$ 14,356,037</u></u>	<u><u>\$ 18,056,759</u></u>