

City of Highland Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2012**

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 unit, each major fund, and the aggregate remaining fund information of the City of Highland Park, Michigan (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Highland Park, Michigan, as of June 30, 2012, 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.

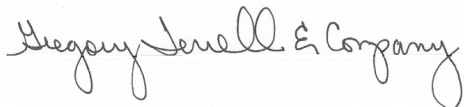
In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the City of Highland Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, 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 described in Note 17 to the financial statements, the City has a significant net deficit in the Water and Sewer Fund at June 30, 2012. This condition raises substantial doubt about the City's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 17. 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 54 through 61, 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 principally 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplemental Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic 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 the financial statements themselves, and other 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 basic financial statements taken as a whole.



GREGORY TERRELL & COMPANY

Certified Public Accountants

December 20, 2012

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, 2012. 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 present two different views of the City. The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information, in total, on all of the nonfiduciary activities of the primary government and its component unit, both short-term and long-term. The fund-based financial statements focus on individual operations of the City.

Government-wide Statements

The government-wide statements report information 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 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** - Includes most of the City's basic services such as police, fire, public works, community and economic development, parks, and general administration. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type Activities** - Includes both water and sewer services as well as rental activity related to the City's FIA Building. The City charges fees to customers to cover costs of providing water and sewer services and rent to cover debt service costs of the FIA Building.
- **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-based Financial Statements

The fund-based 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 liquid financial assets flow and the balance which is available for spending. The governmental fund-based statements provide a detailed short-term view that helps management determine whether there are sufficient financial resources available to fund 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, 2012:

- Property taxes continue to be the City's largest and most secure source of revenue. Property taxes increased from prior year by approximately \$2,050,000. The increase is due to an increase in the mill rates for the voted pension debt.
- 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 in the previous fiscal year which will result in a permanent loss that will affect fiscal years 2011 through 2020. State-shared revenue decreased by approximately \$640,000 and accounts for approximately 22 percent of the City's total General Fund revenue.
- The General Fund receives approximately 27 percent of its annual revenue from income taxes. The City utilizes shared services with the City of Hamtramck in an effort to realize greater income tax collection. Since the agreement was signed in fiscal year 2010, income tax revenue has increased substantially.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

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-based 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-based 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.

The City of Highland Park as a Whole

The following table shows, in a condensed format, the net assets (deficit) as of June 30, 2012, 2011, and 2010. *Note: Net deficit for fiscal year 2011 has been restated for the reclassification of the FIA Building from a governmental fund to a business-type fund.*

| | Governmental Activities | | | | Percent Change |
|--|-------------------------|------------------------|------------------------|---------------------|-------------------|
| | 2010 | 2011 | 2012 | Change | |
| Assets | | | | | |
| Other assets | \$ 12,362,719 | \$ 8,317,428 | \$ 9,811,419 | \$ 1,493,991 | 18% |
| Capital assets | <u>28,045,358</u> | <u>27,585,797</u> | <u>26,476,984</u> | <u>(1,108,813)</u> | -4% |
| Total assets | 40,408,077 | 35,903,225 | 36,288,403 | 385,178 | 1% |
| Liabilities | | | | | |
| Current liabilities | 12,657,057 | 6,142,845 | 5,149,406 | (993,439) | -16% |
| Long-term liabilities | <u>53,625,240</u> | <u>46,926,636</u> | <u>47,493,429</u> | <u>566,793</u> | 1% |
| Total liabilities | <u>66,282,297</u> | <u>53,069,481</u> | <u>52,642,835</u> | <u>(426,646)</u> | -1% |
| Net Assets (Deficit) | | | | | |
| Invested in capital assets, net of related debt | 15,790,358 | 16,114,361 | 26,476,984 | 10,362,623 | 64% |
| Restricted | 3,465,570 | 3,411,593 | 3,969,660 | 558,067 | 16% |
| Unrestricted | <u>(45,130,148)</u> | <u>(36,692,210)</u> | <u>(46,801,076)</u> | <u>(10,108,866)</u> | 28% |
| Total net deficit | <u>\$ (25,874,220)</u> | <u>\$ (17,166,256)</u> | <u>\$ (16,354,432)</u> | <u>\$ 811,824</u> | -5% |

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

| | Business-type Activities | | | | Percent Change |
|--|--------------------------|-----------------------|-----------------------|------------------|-------------------|
| | 2010 | 2011 | 2012 | Change | |
| Assets | | | | | |
| Other assets | \$ (1,480,744) | \$ 3,091,999 | \$ 6,856,384 | \$ 3,764,385 | 122% |
| Capital assets | 6,116,787 | 13,786,539 | 13,449,291 | (337,248) | -2% |
| Total assets | 4,636,043 | 16,878,538 | 20,305,675 | 3,427,137 | 20% |
| Liabilities | | | | | |
| Current liabilities | 7,158,739 | 9,416,825 | 12,825,681 | 3,408,856 | 36% |
| Long-term liabilities | 4,729,893 | 9,722,067 | 9,648,797 | (73,270) | -1% |
| Total liabilities | 11,888,632 | 19,138,892 | 22,474,478 | 3,335,586 | 17% |
| Net Assets (Deficit) | | | | | |
| Invested in capital assets, net of related debt | 1,736,889 | 1,399,641 | 3,204,393 | 1,804,752 | 129% |
| Unrestricted | (8,989,478) | (3,659,995) | (5,373,196) | (1,713,201) | 47% |
| Total net deficit | <u>\$ (7,252,589)</u> | <u>\$ (2,260,354)</u> | <u>\$ (2,168,803)</u> | <u>\$ 91,551</u> | -4% |

The City's combined deficit totaled \$18,523,235, 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 \$16 million deficit, which is approximately 88 percent of the total City's net deficit.

Of the total combined net assets, approximately \$29.7 million is investment in capital assets, net of related debt, while \$4.0 million is restricted for various purposes and cannot be used for general obligations.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

| | Governmental Activities | | | | Percent Change |
|---------------------------------------|-------------------------|---------------------|-------------------|-----------------------|----------------|
| | 2010 | 2011 | 2012 | Change | |
| Revenue | | | | | |
| Program revenue: | | | | | |
| Charges for services | \$ 2,752,234 | \$ 2,547,399 | \$ 1,463,434 | \$ (1,083,965) | -43% |
| Operating grants | 1,803,189 | 2,006,593 | 6,861,769 | 4,855,176 | 242% |
| Capital grants | 50,556 | 343,230 | 974,414 | 631,184 | 184% |
| General revenue: | | | | | |
| Property taxes | 3,432,615 | 4,857,200 | 6,907,102 | 2,049,902 | 42% |
| Income taxes | 2,170,517 | 3,397,803 | 2,862,913 | (534,890) | -16% |
| State-shared revenue | 3,167,675 | 2,951,268 | 2,311,716 | (639,552) | -22% |
| Rental income | 1,070,690 | - | - | - | 0% |
| Investment earnings | 38,157 | 73,257 | 5,701 | (67,556) | -92% |
| Insurance proceeds | 97,407 | - | 21,113 | 21,113 | 0% |
| Other revenue | 128,279 | 666,821 | 283,318 | (383,503) | -58% |
| Special item - Debt forgiveness | - | 4,699,592 | - | (4,699,592) | -100% |
| Total revenue | 14,711,319 | 21,543,163 | 21,691,480 | 148,317 | 1% |
| Program Expenses | | | | | |
| General government | 8,328,745 | 5,230,332 | 6,616,795 | 1,386,463 | 27% |
| Public safety | 3,592,555 | 3,542,860 | 2,774,662 | (768,198) | -22% |
| Public works | 2,724,843 | 3,320,960 | 2,117,426 | (1,203,534) | -36% |
| Community and economic development | 858,059 | 1,865,319 | 6,698,086 | 4,832,767 | 259% |
| Recreation and cultural | 68,027 | 69,494 | 71,025 | 1,531 | 2% |
| Interest on long-term debt | 2,070,754 | 1,169,449 | 2,110,501 | 941,052 | 80% |
| Operating transfer | - | 3,874,694 | 491,161 | (3,383,533) | -87% |
| Total expenses | 17,642,983 | 19,073,108 | 20,879,656 | 1,806,548 | 9% |
| Change in Net Assets (Deficit) | \$ (2,931,664) | \$ 2,470,055 | \$ 811,824 | \$ (1,658,231) | -67% |

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

| | Business-type Activities | | | | Percent Change |
|---|--------------------------|-----------------------|------------------|---------------------|----------------|
| | 2010 | 2011 | 2012 | Change | |
| Operating revenue | \$ 5,099,785 | \$ 5,290,608 | \$ 8,563,504 | \$ 3,272,896 | 62% |
| Operating expenses, other than depreciation | 7,340,590 | 6,461,010 | 8,073,918 | 1,612,908 | 25% |
| Depreciation | 337,248 | 337,248 | 337,248 | - | 0% |
| Operating (Loss) Income | (2,578,053) | (1,507,650) | 152,338 | 1,659,988 | 110% |
| Interest income | 1,764 | 1,154 | 60,925 | 59,771 | 5179% |
| Interest expense | 116,185 | 111,747 | 612,873 | 501,126 | 448% |
| Transfers in | - | 3,874,694 | (491,161) | (4,365,855) | -113% |
| Change in Net Assets (Deficit) | \$ (2,692,474) | \$ (5,492,937) | \$ 91,551 | \$ 5,584,488 | -102% |

Total net assets increased by \$4.0 million. When looking at the activities separately, the business-type net assets increased by \$5.5 million, while the governmental activities net assets decreased by \$1.7 million. See below for further discussion.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Property taxes are the City's single largest source of revenue, accounting for approximately 32 percent of governmental activities revenue. The City's total governmental revenue totaled \$21.7 million, which is relatively consistent with the previous fiscal year. The City's total governmental expenses were \$20.9 million which is also relatively consistent with the previous fiscal year. However, the previous fiscal year included an operating transfer from the General Fund into the Water and Sewer Fund to assist with operations in the amount of \$3.8 million. The current year increase in expenditures was mainly due to expenditures related to the NSP 2 grant within the community and economic development department.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the FIA Building Fund. The City provides water to residents from the City-owned and operated water system and receives rental income from the State of Michigan for use of City-owned building space. The business-type activities experienced operating income in the current year of approximately \$152,000 compared to an operating loss of \$1.5 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 \$7.4 million in 2012 plus rental income of approximately \$1 million. The charges for services and rental income are offset by water and sewer and miscellaneous expenses of \$8.4 million. After interest earnings, the business activities had a decrease in the net deficit of \$91,551.

The City of Highland Park's Funds

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund-based 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 governmental funds for 2012 include the General Fund, Major Streets Fund, Federal Grants Fund, and the 08 Pension Bond Debt Service Fund. The major business-type funds for 2012 include the FIA Building Fund and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government expenditures which incurred expenditures of approximately \$4.8 million.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The revenue budget was decreased by approximately \$1.5 million, mainly due to anticipated debt forgiveness that was not realized. Overall actual revenue was greater than the amended budget by \$588,890, or 5 percent. The higher than anticipated revenue was due to greater than anticipated income tax and property tax collections.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

The City's expenditure budget was decreased \$229,693 by amendments during the year, mainly as a result of lower than anticipated utility and employee benefit costs. Overall, the General Fund's 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, 2012 amounted to \$26,476,984 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure.

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. Since the appraisal, the City capitalizes any asset purchase greater than \$10,000 and depreciates the asset using the straight-line depreciation method and a useful life in accordance with IRS guidelines.

At the end of the current fiscal year, the City had total debt outstanding of \$59,094,359. 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 ended 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.

Though facing many challenges due to the overall economy, foreclosure, and some loss of business in southeast Michigan, the City of Highland Park has been able to secure some commitments from some of its existing businesses as well as target new business for our community. The likes of Budco, Great Lakes Wine and Spirits, and MAGNA Seating have all made new commitments to their footprint and remaining here in the City of Highland Park. Budco, in working with the City and the Wayne County Assessor office, has committed a minimum of another 10 years to remaining in the City. They are currently extending their lease with the parent company for 10-15 years. A facility improvement of over \$1 million was made by Great Lakes Wine and Spirits, which also moved over 50 employees to their Highland Park location. MAGNA Seating has also made a commitment to expand their existing footprint and has also begun the hiring of an additional 240 individuals. Two-thirds of this hiring has already taken place.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

There will also be an announcement made by LEAR Corporation and the City of Highland Park in January 2013 regarding a new seat manufacturing plant opening by spring 2013. It is projected that 56 new jobs (13 professional and 43 labor) will be hired in 2013 with more than 346 new jobs total by the end of 2015. A commitment has also been made between the City and LEAR to make special efforts and put programs in place with Michigan Works! to assure that as many jobs as possible will be made available to qualified residents of the City of Highland Park.

Other projects underway that we believe will lead to additional economic development opportunities and sustained community development include:

- WA3 Acquisition and Rehabilitation of the Ford Administration Building located at the former Ford Plant on Woodward
- Tax Increment Finance Authority (TIFA) acquisition and demolition of blighted properties in the TIF District of the City. Demolition of four properties is targeted for spring 2013.
- TIF District Façade Grant to be implemented with a minimum of six businesses the summer of 2013. Two new service and retail businesses were added to the City this past year, Tim Hortons and Valvoline Oil Change. O'Reilly's Auto Parts built and opened a new facility. There are two new retail and dining businesses currently being negotiated in the district.
- The completion of the City of Highland Park Fire Station is scheduled for September 2013.
- The completion of the NSP 2 program including over 200 units of blighted properties demolished and the construction and sale of approximately 25 single-family homes. All will be done and sold by April 2013.

To continue our economic efforts and stabilize our neighborhoods, the City of Highland Park continues to receive county, state, and federal funds for the demolition of homes and mixed-use properties. Over \$900,000 has already been identified for demolition activity beginning January 2013. By clearing land and following the new zoning ordinance and master plan, Highland Park is positioning itself for future development opportunities.

The City continues to be monitored by the State under Act 72. The State has required the City to prepare a formal deficit elimination plan for the deficit in the Water and Sewer Fund. The City's administration continues to work with the State in an effort to reduce the dependence of the Water and Sewer Fund on the General Fund and to bring the Water and Sewer Department back to a functioning level. 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.

City of Highland Park, Michigan

Management's Discussion and Analysis (Continued)

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, 2012

| | Primary Government | | | Component Unit |
|--|----------------------------|-----------------------------|------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 4,356,525 | \$ 817,681 | \$ 5,174,206 | \$ 388,483 |
| Investments (Note 3) | - | 1,643,309 | 1,643,309 | - |
| Receivables: | | | | |
| Property taxes receivable | 102,267 | - | 102,267 | - |
| Customers | - | 4,392,486 | 4,392,486 | - |
| Other receivables | - | - | - | 3,808,729 |
| Due from other governmental units | 3,427,845 | - | 3,427,845 | - |
| Income taxes | 247,794 | - | 247,794 | - |
| Due from primary government | - | - | - | 534,445 |
| Prepaid expenses and other assets | 168,569 | 2,908 | 171,477 | - |
| Restricted assets (Note 8) | 1,508,419 | - | 1,508,419 | - |
| Capital assets (Note 5): | | | | |
| Assets not being depreciated | 592,270 | 119,272 | 711,542 | - |
| Assets being depreciated | 25,884,714 | 13,330,019 | 39,214,733 | 21,139 |
| Total assets | 36,288,403 | 20,305,675 | 56,594,078 | 4,752,796 |
| Liabilities | | | | |
| Accounts payable | 2,407,734 | 11,951,942 | 14,359,676 | - |
| Due to other governmental units | 225,037 | - | 225,037 | - |
| Due to component unit | 534,445 | - | 534,445 | - |
| Accrued liabilities and other | 259,750 | 3,739 | 263,489 | - |
| Derivative (Note 15) | 592,216 | - | 592,216 | - |
| Deferred revenue (Note 4) | 48,091 | - | 48,091 | - |
| Portion of noncurrent liabilities due within one year (Note 7) | 1,082,133 | 870,000 | 1,952,133 | - |
| Noncurrent liabilities - Due in more than one year - Long-term debt (Note 7) | 47,493,429 | 9,648,797 | 57,142,226 | - |
| Total liabilities | 52,642,835 | 22,474,478 | 75,117,313 | - |
| Net Assets (Deficit) | | | | |
| Invested in capital assets - Net of related debt | 26,476,984 | 3,204,393 | 29,681,377 | 21,139 |
| Restricted for: | | | | |
| Streets | 2,732,520 | - | 2,732,520 | - |
| Debt service | 1,096,825 | - | 1,096,825 | - |
| Federal accounts | 69,102 | - | 69,102 | - |
| Drug forfeiture | 37,099 | - | 37,099 | - |
| Community projects | 34,114 | - | 34,114 | - |
| Unrestricted | (46,801,076) | (5,373,196) | (52,174,272) | 4,731,657 |
| Total net assets (deficit) | <u>\$ (16,354,432)</u> | <u>\$ (2,168,803)</u> | <u>\$ (18,523,235)</u> | <u>\$ 4,752,796</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 | \$ 6,616,795 | \$ 1,460,939 | \$ - | \$ - |
| Public safety | 2,774,662 | - | - | 864,709 |
| Public works | 2,117,426 | 2,495 | 839,241 | 109,705 |
| Community and economic development | 6,698,086 | - | 6,022,528 | - |
| Recreation and culture | 71,025 | - | - | - |
| Interest on long-term debt | 2,110,501 | - | - | - |
| Total governmental activities | 20,388,495 | 1,463,434 | 6,861,769 | 974,414 |
| Business-type activities: | | | | |
| Water and sewer | 8,501,680 | 7,483,792 | - | - |
| FIA building | 522,359 | 1,079,712 | - | - |
| Total business-type activities | 9,024,039 | 8,563,504 | - | - |
| Total primary government | \$ 29,412,534 | \$ 10,026,938 | \$ 6,861,769 | \$ 974,414 |
| Component unit - Tax Increment Finance Authority | \$ 52,822 | \$ - | \$ - | \$ - |

General revenue:
 Property taxes
 Income taxes
 State-shared revenue
 Investment income
 Other miscellaneous income
 Insurance proceeds
 Total general revenue

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, 2012**

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|------------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Unit |
| \$ (5,155,856) | \$ - | \$ (5,155,856) | \$ - |
| (1,909,953) | - | (1,909,953) | - |
| (1,165,985) | - | (1,165,985) | - |
| (675,558) | - | (675,558) | - |
| (71,025) | - | (71,025) | - |
| (2,110,501) | - | (2,110,501) | - |
| (11,088,878) | - | (11,088,878) | - |
| - | (1,017,888) | (1,017,888) | - |
| - | 557,353 | 557,353 | - |
| - | (460,535) | (460,535) | - |
| (11,088,878) | (460,535) | (11,549,413) | - |
| - | - | - | (52,822) |
| 6,907,102 | - | 6,907,102 | 30,605 |
| 2,862,913 | - | 2,862,913 | - |
| 2,311,716 | - | 2,311,716 | - |
| 5,701 | 60,925 | 66,626 | 130 |
| 283,318 | - | 283,318 | - |
| 21,113 | - | 21,113 | - |
| 12,391,863 | 60,925 | 12,452,788 | 30,735 |
| (491,161) | 491,161 | - | - |
| 811,824 | 91,551 | 903,375 | (22,087) |
| (17,166,256) | (2,260,354) | (19,426,610) | 4,774,883 |
| \$ (16,354,432) | \$ (2,168,803) | \$ (18,523,235) | \$ 4,752,796 |

City of Highland Park, Michigan

Governmental Funds Balance Sheet June 30, 2012

| | General Fund | Major Streets Fund | Federal Grants Fund | 08 Pension Bonds Debt Service Fund | Nonmajor Funds | Total |
|--|---------------------|---------------------|---------------------|------------------------------------|---------------------|----------------------|
| Assets | | | | | | |
| Cash and cash equivalents (Note 3) | \$ 1,989,864 | \$ 1,604,344 | \$ - | \$ 111,299 | \$ 651,018 | \$ 4,356,525 |
| Receivables: | | | | | | |
| Property taxes receivable | 54,729 | - | - | 47,538 | - | 102,267 |
| Due from other governmental units | 1,767,475 | 99,981 | 844,790 | - | 715,599 | 3,427,845 |
| Income taxes | 247,794 | - | - | - | - | 247,794 |
| Due from other funds (Note 6) | 779,367 | - | - | - | 103,216 | 882,583 |
| Advances to other funds (Note 6) | 42,890 | - | - | - | 559,871 | 602,761 |
| Prepaid expenses and other assets | 168,569 | - | - | - | - | 168,569 |
| Restricted assets (Note 8) | 683,531 | - | - | 824,888 | - | 1,508,419 |
| Total assets | \$ 5,734,219 | \$ 1,704,325 | \$ 844,790 | \$ 983,725 | \$ 2,029,704 | \$ 11,296,763 |
| Liabilities and Fund Balances (Deficit) | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 1,152,022 | \$ 31,970 | \$ 686,461 | \$ 4,650 | \$ 532,631 | \$ 2,407,734 |
| Due to other governmental units | 118,377 | - | - | 106,660 | - | 225,037 |
| Due to component unit | 534,445 | - | - | - | - | 534,445 |
| Due to other funds (Note 6) | 103,216 | - | 158,329 | 463,771 | 157,267 | 882,583 |
| Advances from other funds (Note 6) | 559,871 | 42,890 | - | - | - | 602,761 |
| Accrued liabilities and other | 174,991 | - | - | - | - | 174,991 |
| Deferred revenue (Note 4) | 99,535 | - | 210,976 | - | 359,141 | 669,652 |
| Total liabilities | 2,742,457 | 74,860 | 1,055,766 | 575,081 | 1,049,039 | 5,497,203 |
| Fund Balances (Deficit) | | | | | | |
| Nonspendable - Prepaid expenses | 108,259 | - | - | - | - | 108,259 |
| Restricted: | | | | | | |
| Roads | - | 1,629,465 | - | - | 1,103,055 | 2,732,520 |
| Debt service | 683,531 | - | - | 408,644 | - | 1,092,175 |
| Drug forfeiture | - | - | - | - | 37,099 | 37,099 |
| Community projects | - | - | - | - | 34,114 | 34,114 |
| Federal accounts | - | - | - | - | 69,102 | 69,102 |
| Unassigned | 2,199,972 | - | (210,976) | - | (262,705) | 1,726,291 |
| Total fund balances (deficit) | 2,991,762 | 1,629,465 | (210,976) | 408,644 | 980,665 | 5,799,560 |
| Total liabilities and fund balances (deficit) | \$ 5,734,219 | \$ 1,704,325 | \$ 844,790 | \$ 983,725 | \$ 2,029,704 | \$ 11,296,763 |

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, 2012

| | |
|---|-------------------------------|
| Fund Balance Reported in Governmental Funds | \$ 5,799,560 |
| 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 | 26,476,984 |
| Fair market value of derivative investments is not reported in the funds | (592,216) |
| 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 | 621,561 |
| Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds | (39,980,000) |
| 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 | (267,071) |
| Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities | (4,284,740) |
| Workers' compensation does not present a claim on current financial resources and is not reported as fund liabilities | (376,000) |
| Lawsuits and judgments do not present a claim on current financial resources and are not reported as fund liabilities | (157,507) |
| Accrued interest is not due and payable in the current period and is not reported in the funds | (84,759) |
| Other postemployment benefits do not present a claim on current financial resources and are not reported as fund liabilities | <u>(3,510,244)</u> |
| Net Deficit of Governmental Activities | <u>\$ (16,354,432)</u> |

City of Highland Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2012

| | General Fund | Major Streets Fund | Federal Grants Fund | 08 Pension Bonds Debt Service Fund | Nonmajor Funds | Total |
|--|---------------------|-----------------------|------------------------|--|-------------------|---------------------|
| Revenue | | | | | | |
| Property taxes | \$ 3,787,002 | \$ - | \$ - | \$ 3,120,100 | \$ - | \$ 6,907,102 |
| Income taxes | 2,862,913 | - | - | - | - | 2,862,913 |
| Licenses and permits | 62,235 | - | - | - | - | 62,235 |
| Federal grants | - | - | 6,007,265 | - | 989,677 | 6,996,942 |
| State-shared revenue | 2,311,716 | 664,793 | - | - | 174,448 | 3,150,957 |
| Charges for services | 91,630 | - | - | - | - | 91,630 |
| Fines and forfeitures | 1,303,199 | - | - | - | 13,555 | 1,316,754 |
| Investment income | 2,391 | 2,637 | - | 196 | 477 | 5,701 |
| Rental income | 6,370 | - | - | - | - | 6,370 |
| Other revenue | 290,876 | - | - | - | - | 290,876 |
| Total revenue | 10,718,332 | 667,430 | 6,007,265 | 3,120,296 | 1,178,157 | 21,691,480 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 4,775,806 | - | 68,137 | 160,575 | - | 5,004,518 |
| Public safety | 2,502,779 | - | - | - | 45,053 | 2,547,832 |
| Public works | 1,109,888 | 482,269 | 109,705 | - | 444,568 | 2,146,430 |
| Community and economic development | 79,826 | - | 5,773,656 | - | 678,981 | 6,532,463 |
| Recreation and culture | 45,148 | - | - | - | - | 45,148 |
| Debt service | 911,423 | - | - | 2,551,077 | - | 3,462,500 |
| Total expenditures | 9,424,870 | 482,269 | 5,951,498 | 2,711,652 | 1,168,602 | 19,738,891 |
| Excess of Revenue Over Expenditures | 1,293,462 | 185,161 | 55,767 | 408,644 | 9,555 | 1,952,589 |
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in | 47,587 | - | - | - | 275,000 | 322,587 |
| Interfund transfers out | (491,161) | (275,000) | - | - | (47,587) | (813,748) |
| Total other financing (uses) sources | (443,574) | (275,000) | - | - | 227,413 | (491,161) |
| Net Change in Fund Balances | 849,888 | (89,839) | 55,767 | 408,644 | 236,968 | 1,461,428 |
| Fund Balances (Deficit) - As restated - Beginning of year (Note 16) | 2,141,874 | 1,719,304 | (266,743) | - | 743,697 | 4,338,132 |
| Fund Balances (Deficit) - End of year | \$ 2,991,762 | \$ 1,629,465 | \$ (210,976) | \$ 408,644 | \$ 980,665 | \$ 5,799,560 |

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

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, 2012

| | |
|---|-------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 1,461,428 |
| 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 | 13,703 |
| Depreciation expense | (1,122,516) |
| 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 | (123,673) |
| 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 | 20,868 |
| 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 | 43,000 |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 735,000 |
| Change in liability for accrued interest payable is not recorded in governmental funds, but is recorded in the statement of activities | 93,046 |
| 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 | 711,799 |
| Change in unavailable deferred revenue within the fund-based statements is deemed available in the statement of activities | (255,544) |
| Other postemployment benefit obligations expense is recognized in the statement of activities, but not in the governmental funds | (817,912) |
| 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 | 52,625 |
| Change in Net Assets of Governmental Activities | \$ 811,824 |

City of Highland Park, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2012

| | Enterprise Funds | | |
|--|-----------------------|---------------------|-----------------------|
| | Water and Sewer | FIA Building | Total |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | \$ 817,681 | \$ - | \$ 817,681 |
| Investments (Note 3) | 246,772 | 1,396,537 | 1,643,309 |
| Customer receivables | 4,392,486 | - | 4,392,486 |
| Prepaid expenses and other assets | 2,908 | - | 2,908 |
| Total current assets | 5,459,847 | 1,396,537 | 6,856,384 |
| Noncurrent - Capital assets (Note 5) | 5,442,291 | 8,007,000 | 13,449,291 |
| Total assets | 10,902,138 | 9,403,537 | 20,305,675 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 11,951,942 | - | 11,951,942 |
| Accrued liabilities and other | 3,739 | - | 3,739 |
| Current portion of long-term debt (Note 7) | 200,000 | 670,000 | 870,000 |
| Total current liabilities | 12,155,681 | 670,000 | 12,825,681 |
| Noncurrent liabilities - | | | |
| Long-term debt (Note 7) | 4,268,797 | 5,380,000 | 9,648,797 |
| Total liabilities | 16,424,478 | 6,050,000 | 22,474,478 |
| Net Assets (Deficit) | | | |
| Invested in capital assets - Net of related debt | 1,247,393 | 1,957,000 | 3,204,393 |
| Unrestricted | (6,769,733) | 1,396,537 | (5,373,196) |
| Total net assets (deficit) | \$ (5,522,340) | \$ 3,353,537 | (2,168,803) |
| Net Deficit of Business-type Activities | | | \$ (2,168,803) |

City of Highland Park, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2012

| | Enterprise Funds | | |
|---|-----------------------|---------------------|-----------------------|
| | Water and Sewer | FIA Building | Total |
| Operating Revenue | | | |
| Sale of water | \$ 1,910,108 | \$ - | \$ 1,910,108 |
| Sewage disposal charges | 5,525,572 | - | 5,525,572 |
| Other revenue | 48,112 | - | 48,112 |
| Rental income | - | 1,079,712 | 1,079,712 |
| Total operating revenue | 7,483,792 | 1,079,712 | 8,563,504 |
| Operating Expenses | | | |
| Cost of water | 3,069,816 | - | 3,069,816 |
| Cost of sewage treatment | 4,987,431 | - | 4,987,431 |
| Other operating expenses | - | 16,671 | 16,671 |
| Depreciation (Note 5) | 337,248 | - | 337,248 |
| Total operating expenses | 8,394,495 | 16,671 | 8,411,166 |
| Operating (Loss) Income | (910,703) | 1,063,041 | 152,338 |
| Nonoperating Revenue (Expense) | | | |
| Investment income | 525 | 60,400 | 60,925 |
| Interest expense | (107,185) | (505,688) | (612,873) |
| Total nonoperating expense | (106,660) | (445,288) | (551,948) |
| Operating (Loss) Income | (1,017,363) | 617,753 | (399,610) |
| Interfund Transfer In (Note 6) | 491,161 | - | 491,161 |
| Change in Net Assets (Deficit) | (526,202) | 617,753 | 91,551 |
| Net Assets (Deficit) - Beginning of year - As restated (Note 16) | (4,996,138) | 2,735,784 | (2,260,354) |
| Net Assets (Deficit) - End of year | \$ (5,522,340) | \$ 3,353,537 | \$ (2,168,803) |

City of Highland Park, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2012

| | Enterprise Funds | | |
|---|--------------------|---------------------|---------------------|
| | Water and Sewer | FIA Building | Total |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 5,587,368 | \$ - | \$ 5,587,368 |
| Payments to vendors | (4,464,358) | (16,671) | (4,481,029) |
| Payments to employees | (328,904) | - | (328,904) |
| Other receipts | 48,112 | 1,079,712 | 1,127,824 |
| Net cash provided by operating activities | 842,218 | 1,063,041 | 1,905,259 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Payment on long-term debt | (183,351) | (625,000) | (808,351) |
| Interest on long-term debt | (107,185) | (505,688) | (612,873) |
| Net cash used in capital and related financing activities | (290,536) | (1,130,688) | (1,421,224) |
| Cash Flows from Investing Activities | | | |
| Interest received on investments | 525 | 60,400 | 60,925 |
| Purchase of investment securities | (7,928) | - | (7,928) |
| Sale of investment securities | - | 7,247 | 7,247 |
| Net cash (used in) provided by investing activities | (7,403) | 67,647 | 60,244 |
| Net Increase in Cash and Cash Equivalents | 544,279 | - | 544,279 |
| Cash and Cash Equivalents - Beginning of year | 273,402 | - | 273,402 |
| Cash and Cash Equivalents - End of year | <u>\$ 817,681</u> | <u>\$ -</u> | <u>\$ 817,681</u> |
| Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities | | | |
| Operating (loss) income | \$ (910,703) | \$ 1,063,041 | \$ 152,338 |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: | | | |
| Depreciation | 337,248 | - | 337,248 |
| Changes in assets and liabilities: | | | |
| Receivables | (1,848,837) | - | (1,848,837) |
| Due from others | 521,140 | - | 521,140 |
| Prepaid and other assets | 3,217 | - | 3,217 |
| Accounts payable | 2,749,168 | - | 2,749,168 |
| Accrued payroll | (15,312) | - | (15,312) |
| OPEB obligation | 6,297 | - | 6,297 |
| Net cash provided by operating activities | <u>\$ 842,218</u> | <u>\$ 1,063,041</u> | <u>\$ 1,905,259</u> |

City of Highland Park, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

| | Pension Trust | |
|---|----------------------------|----------------------------|
| | <u>Funds</u> | <u>Agency Funds</u> |
| Assets | | |
| Cash and cash equivalents | \$ 354,018 | \$ 1,601,208 |
| Investments: | | |
| U.S. government securities | 11,677,212 | - |
| Stocks | 2,211,233 | - |
| Life insurance/CSV | 746,236 | - |
| Due from other governmental units | <u>106,660</u> | <u>118,377</u> |
| Total assets | 15,095,359 | <u><u>\$ 1,719,585</u></u> |
| Liabilities | | |
| Accounts payable | 22,250 | \$ - |
| Due to other government units | 89,030 | 1,103,712 |
| Refundable deposits, bonds, etc. | <u>-</u> | <u>615,873</u> |
| Total liabilities | <u>111,280</u> | <u><u>\$ 1,719,585</u></u> |
| Net Assets Held in Trust for Pension and Other Employee Benefits | <u><u>\$14,984,079</u></u> | |

City of Highland Park, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Pension Trust Funds Year Ended June 30, 2012

Additions

| | |
|---|----------------|
| Investment income: | |
| Interest and dividends | \$ 147,438 |
| Net increase in fair value of investments | <u>1,714</u> |
| Net investment income | 149,152 |
| Contributions: | |
| Employer | 820,882 |
| Employee | <u>62,923</u> |
| Total contributions | <u>883,805</u> |
| Total additions | 1,032,957 |

Deductions

| | |
|-------------------------|------------------|
| Benefit payments | 4,082,461 |
| Administrative expenses | <u>23,176</u> |
| Total deductions | <u>4,105,637</u> |

Net Decrease in Net Assets Held in Trust (3,072,680)

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

Net Assets Held in Trust for Pension and Other Employee Benefits -
End of year \$ 14,984,079

City of Highland Park, Michigan

Component Unit Statement of Net Assets June 30, 2012

| | Tax Increment Finance Authority |
|--|---------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 388,483 |
| Other receivables | 3,808,729 |
| Due from primary government | 534,445 |
| Capital assets (Note 5) | <u>21,139</u> |
| Total assets | <u>4,752,796</u> |
| Net Assets | |
| Invested in capital assets - Net of related debt | 21,139 |
| Unrestricted | <u>4,731,657</u> |
| Total net assets | <u><u>\$ 4,752,796</u></u> |

City of Highland Park, Michigan

Component Unit Statement of Activities Year Ended June 30, 2012

| | Tax Increment Finance Authority |
|---|--|
| Expenses | \$ (52,822) |
| General Revenue | <u>30,735</u> |
| Change in Net Assets | (22,087) |
| Net Assets - As restated - Beginning of year (Note 16) | <u>4,774,883</u> |
| Net Assets - End of year | <u><u>\$ 4,752,796</u></u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note I - 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 mayor and five-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 unit, an entity 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 audited 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 unit. 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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note I - 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 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, 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, 2012

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

The City reports the following major governmental funds:

General Fund - 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.

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major streets portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes.

Federal Grants Fund - The Federal Grants Fund is a special revenue fund that is used to account for Neighborhood Stabilization Program grants and the Energy Efficiency and Conservation Block Grant. The Neighborhood Stabilization programs help the City to stabilize home values, decrease blight, and prevent vandalism of vacant homes within the City. The Energy Efficiency and Conservation Block Grant program provides financial and technical assistance to create and implement a variety of energy efficiency and conservation projects which help to improve energy efficiency. Financing is provided by grant monies.

08 Pension Bonds Debt Service Fund - The 08 Pension Bonds Debt Service Fund is used to account for the collection of revenue and the payment of principal, interest, and expenses in connection with the 2008 pension bond issuance.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

FIA Building Fund - The FIA Building Fund represents the activity of the Building Authority, whose sole function is to oversee the acquisition/construction of the City's public buildings. The FIA Building Fund generates lease revenue from an external party, specifically the State of Michigan's Family Independence Agency. The rental income generated is used to pay the debt service on the building.

Additionally, the City reports the following fiduciary activities:

The pension funds account for the activities of the General Employees' Retirement System, the Police and Fire Retirement System, and the Public Safety Retirement Plan, which accumulates resources for pension benefit payments to qualified general and police and fire employees.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

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.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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.

Amounts reported as program revenue include: (1) charges to customers for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes all taxes.

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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

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

The City's 2011 tax is levied and collectible on July 1, 2011 and December 1, 2011 and is recognized as revenue in the year ended June 30, 2012, 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, 2012

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

The 2011 taxable valuation of the City totaled \$151,758,528, on which taxes levied consisted of 19.3703 mills for operating purposes, 2.9055 mills for rubbish services, .5000 mills for court judgments, 3.3000 mills for pension judgments, and 22.6500 mills for funding the City's pension plans. This resulted in approximately \$3.8 million for operating purposes, rubbish, and judgments and \$3.1 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 developer located within the City. The developer 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.

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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

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

| | |
|-----------------------------------|-------------|
| Buildings and improvements | 50 years |
| Infrastructure | 40 years |
| Land improvements | 20 years |
| Street lights and traffic signals | 15-20 years |
| Machinery and equipment | 5-20 years |
| Water and sewer lines | 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.

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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

Fund Equity - 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
- **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.

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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 2 - Stewardship, Compliance, and Accountability

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 I Wayne County 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, 2012 totaled \$210,976.

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, 2012 totaled \$116,608.

Community Development Block Grant Fund - The deficit within the Community Development Block Grant Fund (CDBG) is due to 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, 2012 totaled \$146,097.

Water and Sewer Fund - In June 2009, 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, 2012 was a decrease of \$526,202, which increased the cumulative net deficit to \$5,522,340.

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

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 \$7,846,225 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, 2012

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 | \$ <u>13,033,885</u> | 1.61 years |

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 | \$ <u>746,236</u> | 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 | \$ 621,561 | \$ - | \$ 621,561 |
| PA 302 Funds received prior to year end but not yet expended | - | 41,209 | 41,209 |
| Donations received prior to year end but not yet expended | - | 6,882 | 6,882 |
| Total | <u>\$ 621,561</u> | <u>\$ 48,091</u> | <u>\$ 669,652</u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

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

| | Balance July 1, 2011 | Additions | Balance June 30, 2012 |
|---|-------------------------|----------------|--------------------------|
| Governmental Activities | | | |
| 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 | 1,515,562 | 13,703 | 1,529,265 |
| Land improvements | 562,290 | - | 562,290 |
| Street lights and traffic signals | 6,359,740 | - | 6,359,740 |
| Subtotal | 51,243,180 | 13,703 | 51,256,883 |
| Accumulated depreciation: | | | |
| Infrastructure | 14,925,913 | 1,024,775 | 15,950,688 |
| Buildings and improvements | 1,768,294 | 962 | 1,769,256 |
| Machinery and equipment | 978,320 | 77,128 | 1,055,448 |
| Land improvements | 351,916 | 12,750 | 364,666 |
| Street lights and traffic signals | 6,225,210 | 6,901 | 6,232,111 |
| Subtotal | 24,249,653 | 1,122,516 | 25,372,169 |
| Net capital assets being depreciated | 26,993,527 | (1,108,813) | 25,884,714 |
| Net capital assets | \$ 27,585,797 | \$ (1,108,813) | \$ 26,476,984 |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2011 | Additions | Balance June 30, 2012 |
|--|-------------------------|---------------------|--------------------------|
| Business-type Activities | | | |
| 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 | 12,661,816 | - | 12,661,816 |
| Machinery and equipment | 15,300 | - | 15,300 |
| Land improvements | 73,820 | - | 73,820 |
| Subtotal | 34,394,817 | - | 34,394,817 |
| Accumulated depreciation: | | | |
| Water and sewer lines | 15,991,128 | 335,118 | 16,326,246 |
| Buildings and improvements | 4,419,317 | 235,500 | 4,654,817 |
| Machinery and equipment | 7,785 | 2,130 | 9,915 |
| Land improvements | 73,820 | - | 73,820 |
| Subtotal | 20,492,050 | 572,748 | 21,064,798 |
| Net capital assets being depreciated | 13,902,767 | (572,748) | 13,330,019 |
| Net capital assets | <u>\$ 14,022,039</u> | <u>\$ (572,748)</u> | <u>\$ 13,449,291</u> |
| | Balance July 1, 2011 | Additions | Balance June 30, 2012 |
| Component Unit | | | |
| Capital assets being depreciated -Infrastructure | \$ 22,251 | \$ - | \$ 22,251 |
| Accumulated depreciation - Infrastructure | 556 | 556 | 1,112 |
| Net capital assets | <u>\$ 21,695</u> | <u>\$ (556)</u> | <u>\$ 21,139</u> |

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

| | |
|-------------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 1,034,672 |
| Public safety | 71,863 |
| Public works | 1,207 |
| Recreation and culture | 14,774 |
| Total governmental activities | <u>\$ 1,122,516</u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

| | | |
|---|--|-------------------|
| Business-type activities: | | |
| Water and sewer | | \$ 337,248 |
| FIA building | | <u>235,500</u> |
| Total business-type activities | | <u>\$ 572,748</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:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------------|------------------------------------|-------------------|
| Due to/from Other Funds | | |
| General Fund | Federal Grants Fund | \$ 158,329 |
| | 08 Pension Bonds Debt Service Fund | 463,771 |
| | Other governmental funds | <u>157,267</u> |
| | Total General Fund | 779,367 |
| Other governmental funds | General Fund | <u>103,216</u> |
| | Total | <u>\$ 882,583</u> |

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-------------------------------------|---------------------|-------------------|
| Advances from/to Other Funds | | |
| General Fund | Major Streets Fund | \$ 42,890 |
| Other governmental funds | General Fund | <u>559,871</u> |
| | Total | <u>\$ 602,761</u> |

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 for general operating activity. See Note 14 for further information.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

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

| Transfers To | Transfers From | Amount |
|-------------------------|-------------------------|-------------------|
| General Fund | Other governmental fund | \$ 47,587 |
| Other governmental fund | Major Streets Fund | 275,000 |
| Water and Sewer Fund | General Fund | 491,161 |
| | Total | <u>\$ 813,748</u> |

The transfer from the NSP I Fund to the General Fund is to reimburse previous disallowed costs in accordance with the grant provisions. The transfer from the Major Streets Fund to the Local Streets Fund is to help assist with local road projects. The transfer from the General Fund to the Water and Sewer Fund represents funds to be used for operational purposes of approximately \$357,000 and administrative charges to the Water Fund of approximately \$151,100 offset by City-owned water bills and miscellaneous interfund activity of approximately \$17,000.

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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

| | Interest Rate Ranges | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|-------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental Activities | | | | | | |
| 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% | 2,185,000 | - | 170,000 | 2,015,000 | 180,000 |
| 2003B Fiscal Stability: | | | | | | |
| Amount of issue - \$2,225,000 | | | | | | |
| Maturing through 2023 | 3.0% - 6.0% | 1,645,000 | - | 95,000 | 1,550,000 | 100,000 |
| 2004A Fiscal Stability: | | | | | | |
| Amount of issue - \$6,000,000 | 5.15% - | | | | | |
| Maturing through 2034 | 6.875% | 5,445,000 | - | 115,000 | 5,330,000 | 125,000 |
| 2008A Pension Bonds: | | | | | | |
| Amount of issue - \$27,000,000 | | | | | | |
| Maturing through 2038 | 4.559% | 26,440,000 | - | 355,000 | 26,085,000 | 380,000 |
| Total bonds and installment obligations | | 40,715,000 | - | 735,000 | 39,980,000 | 785,000 |
| Accumulated compensated absences | | 319,696 | - | 52,625 | 267,071 | 50,126 |
| Net pension obligation | | 4,305,608 | - | 20,868 | 4,284,740 | - |
| Net OPEB obligation | | 2,692,332 | 817,912 | - | 3,510,244 | - |
| Workers' compensation | | 419,000 | - | 43,000 | 376,000 | 100,000 |
| Lawsuits and claims | | 33,834 | 293,111 | 169,438 | 157,507 | 147,007 |
| Total governmental activities | | <u>\$ 48,485,470</u> | <u>\$ 1,111,023</u> | <u>\$ 1,020,931</u> | <u>\$ 48,575,562</u> | <u>\$ 1,082,133</u> |
| Business-type Activities | | | | | | |
| 1999 General Obligation Bonds: | | | | | | |
| Amount of issue - \$6,000,000 | | | | | | |
| Maturing through 2030 | 2.50% | \$ 4,379,898 | \$ - | \$ 185,000 | \$ 4,194,898 | \$ 190,000 |
| 1996 Building Authority Bonds: | | | | | | |
| Amount of issue - \$11,775,000 | | | | | | |
| Maturing through 2018 | 7.75% | 6,675,000 | - | 625,000 | 6,050,000 | 670,000 |
| Total business-type activities | | 11,054,898 | - | 810,000 | 10,244,898 | 860,000 |
| Net OPEB obligation | | 222,248 | 6,297 | - | 228,545 | - |
| Accumulated compensated absences | | 43,705 | 1,649 | - | 45,354 | 10,000 |
| Total business-type activities | | <u>\$ 11,320,851</u> | <u>\$ 7,946</u> | <u>\$ 810,000</u> | <u>\$ 10,518,797</u> | <u>\$ 870,000</u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$2,055,000. 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 |
| 2013 | \$ 785,000 | \$ 3,008,594 | \$ 3,793,594 | \$ 860,000 | \$ 558,584 | \$ 1,418,584 |
| 2014 | 940,000 | 2,949,850 | 3,889,850 | 920,000 | 500,879 | 1,420,879 |
| 2015 | 1,105,000 | 2,876,498 | 3,981,498 | 980,000 | 438,654 | 1,418,654 |
| 2016 | 1,055,000 | 2,809,924 | 3,864,924 | 1,045,000 | 371,716 | 1,416,716 |
| 2017 | 1,005,000 | 2,735,992 | 3,740,992 | 1,115,000 | 300,004 | 1,415,004 |
| 2018-2022 | 8,180,000 | 12,423,531 | 20,603,531 | 3,240,000 | 477,487 | 3,717,487 |
| 2023-2027 | 8,040,000 | 10,017,901 | 18,057,901 | 1,265,000 | 183,175 | 1,448,175 |
| 2028-2032 | 7,655,000 | 7,066,887 | 14,721,887 | 819,898 | 30,493 | 850,391 |
| 2033-2037 | 9,190,000 | 3,054,618 | 12,244,618 | - | - | - |
| 2038-2039 | 2,025,000 | 55,986 | 2,080,986 | - | - | - |
| Total | \$ 39,980,000 | \$ 46,999,781 | \$ 86,979,781 | \$ 10,244,898 | \$ 2,860,992 | \$ 13,105,890 |

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 | \$ 2,537,463 | \$ 282,565 |
| Fiscal Stability Revenue Bonds, Series 2003B | 2,225,000 | 2003 | 2023 | 2,124,889 | 178,474 |
| Fiscal Stability Revenue Bonds, Series 2004A | 6,000,000 | 2004 | 2034 | 9,660,773 | 436,679 |

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. Principal and interest remaining on the debt total \$14,323,125, with annual requirements ranging from \$434,900 to \$910,677. The state-shared revenue, from which the appropriations will be made, has averaged \$3,131,573 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 \$897,718 and \$2,259,459, respectively.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

| | Governmental Activities |
|------------------------------------|----------------------------|
| General Fund - Debt service | \$ 683,531 |
| 08 Pension Bonds Debt Service Fund | 824,888 |
| Total restricted net assets | <u>\$ 1,508,419</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 | |
|--|-----------------------|-------------------|
| | 2012 | 2011 |
| Estimated liability - Beginning of year | \$ 419,000 | \$ 440,000 |
| Estimated claims incurred - Including changes in estimates | (9,957) | 135,404 |
| Claim payments | <u>(33,043)</u> | <u>(156,404)</u> |
| Estimated liability - End of year | <u>\$ 376,000</u> | <u>\$ 419,000</u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

General Employees' Retirement Plan

Plan Description - The City of Highland Park General 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. At December 31, 2010, the date of the most recent actuarial valuation, membership consisted of 113 retirees and beneficiaries receiving benefits and two inactive employees. 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.

Annual Pension Cost and Net Pension Obligation

| | |
|--|--------------------------|
| Annual required contribution | \$ 232,597 |
| Interest on net pension obligation | 30,833 |
| Adjustment to annual required contribution | <u>(35,522)</u> |
| Annual pension cost (APC) | 227,908 |
| Contributions made | <u>(68,676)</u> |
| Increase in net pension obligation | 159,232 |
| Net pension obligation - Beginning of year | <u>411,110</u> |
| Net pension obligation - End of year | <u><u>\$ 570,342</u></u> |

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost of \$227,908 for the plan was less than the City's required contribution of \$232,597, 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 | | |
|-------------------------------|---------------------------|------------|------------|
| | 2012 | 2011 | 2010 |
| Annual pension cost (APC) | \$ 227,908 | \$ 203,620 | \$ 147,044 |
| Percentage of APC contributed | 30.0 % | - % | - % |
| Net pension obligation | \$ 570,342 | \$ 411,110 | \$ 207,490 |

Funding Status and Funding Progress - As of December 31, 2010, the most recent actuarial valuation date, the plan was 59.4 percent funded. The actuarial accrued liability for benefits was \$7,273,199 and the actuarial value of assets was \$4,320,109, resulting in an unfunded actuarial accrued liability of \$2,953,090. 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.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry age actuarial cost method. Significant actuarial assumptions used include a 7.5 percent investment rate of return compounded annually. This assumption did not include projected salary increases, cost of living adjustments, or postretirement benefit increases. 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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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 Public Safety Retirement Plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2010, the date of the most recent actuarial valuation, membership consisted of 74 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 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.

Annual Pension Cost and Net Pension Obligation

| | |
|--|---------------------|
| Annual required contribution | \$ 238,936 |
| Interest on net pension obligation | 190,296 |
| Adjustment to annual required contribution | <u>(221,763)</u> |
| Annual pension cost (APC) | 207,469 |
| Contributions made | <u>(745,057)</u> |
| Decrease in net pension obligation | (537,588) |
| Net pension obligation - Beginning of year | <u>2,537,275</u> |
| Net pension obligation - End of year | <u>\$ 1,999,687</u> |

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost of \$207,469 for the plan was less than the City's required contribution of \$238,936. The pension cost for the three most recent years is as follows:

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|--------------|--------------|
| | 2012 | 2011 | 2010 |
| Annual pension cost (APC) | \$ 207,469 | \$ 399,547 | \$ 424,031 |
| Percentage of APC contributed | 359.1 % | 219.1 % | 219.0 % |
| Net pension obligation | \$ 1,999,687 | \$ 2,537,275 | \$ 3,012,986 |

Funding Status and Funding Progress - As of December 31, 2010, the most recent actuarial valuation date, the plan was 5.3 percent funded. The actuarial accrued liability for benefits was \$5,491,942 and the actuarial value of assets was \$289,636, resulting in an unfunded actuarial accrued liability of \$5,202,306. 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.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry age actuarial cost method. Significant actuarial assumptions used include a 7.5 percent investment rate of return compounded annually. 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. At December 31, 2010, the date of the most recent actuarial valuation, membership consisted of 51 retirees and beneficiaries receiving benefits, 16 active employees, and four inactive participants.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

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

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.

Annual Pension Cost and Net Pension Obligation

| | |
|--|---------------------|
| Annual required contribution | \$ 380,116 |
| Interest on net pension obligation | 101,792 |
| Adjustment to annual required contribution | <u>(117,271)</u> |
| Annual pension cost (APC) | 364,637 |
| Contributions made | <u>(7,149)</u> |
| Increase in net pension obligation | 357,488 |
| Net pension obligation - Beginning of year | <u>1,357,223</u> |
| Net pension obligation - End of year | <u>\$ 1,714,711</u> |

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost of \$364,637 for the plan was less than the City's required contribution of \$380,116. The pension cost for the three most recent years is as follows:

| | Fiscal Year Ended June 30 | | |
|-------------------------------|---------------------------|--------------|------------|
| | 2012 | 2011 | 2010 |
| Annual pension cost (APC) | \$ 364,637 | \$ 426,764 | \$ 464,447 |
| Percentage of APC contributed | 2.0 % | - % | - % |
| Net pension obligation | \$ 1,714,711 | \$ 1,357,223 | \$ 933,430 |

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

Funding Status and Funding Progress - As of December 31, 2010, the most recent actuarial valuation date, the plan was 65.8 percent funded. The actuarial accrued liability for benefits was \$23,109,925 and the actuarial value of assets was \$15,200,272, resulting in an unfunded actuarial accrued liability of \$7,909,653. The covered payroll (annual payroll to active employees covered by the plan) was \$1,726,911, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 458.0 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.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2010, 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 188 members (including employees in active service 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.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 13 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2012, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2011. 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:

| | |
|---|---------------------|
| Annual required contribution (recommended) | \$ 2,370,391 |
| Interest on the prior year's net OPEB obligation | 87,437 |
| Less adjustment to the annual required contribution | <u>(274,057)</u> |
| Annual OPEB cost | 2,183,771 |
| Accumulated depreciation - Payments of current premiums | <u>(1,359,562)</u> |
| Increase in net OPEB obligation | 824,209 |
| OPEB obligation - Beginning of year | <u>2,914,580</u> |
| OPEB obligation - End of year | <u>\$ 3,738,789</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 * | Percentage Contributed | Net OPEB Obligation |
|-------------------|--------------------------|--------------------------------|------------------------|---------------------|
| 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 | 2,914,580 |
| 6/30/12 | 12/31/11 | 2,370,391 | 62.3 | 3,738,789 |

* 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 % |
| 12/31/11 | - | 26,139,564 | 26,139,564 | - | 3,908,258 | 668.8 |

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, 2011 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 0 percent in the first year, then 1 percent, compounded annually, and an annual healthcare cost increase trend of 8 percent in the first 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, 2011 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 \$157,507 has been recorded for the estimated obligation for 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.

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, 2012, the outstanding loan balance was \$696,952, with \$90,080 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 \$132,970 and \$47,001 within the Major and Local Streets Funds, respectively. The net advances are reported as an advance payable in the Major Streets Fund of \$42,890 and an advance receivable in the Local Streets Fund of \$559,871, with offsetting advances reported in the General Fund.

The fund balance relating to these noncurrent receivables has been reported as restricted because the use of the amounts collected on the receivable is legally restricted under Act 51.

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, 2012

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, 2012 | | Notional |
|--|-----------------------|------------|-----------------------------|--------------|---------------|
| | Classification | Amount | Classification | Amount | |
| Investment derivative - Pay-fixed interest rate swaps (receive-variable) | Investment revenue | \$ 711,799 | Investment | \$ (592,216) | \$ 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 \$592,216 at June 30, 2012 and the change in the fair value of the swap in fiscal year 2012 of the \$711,799 increase in value is reported within the investment revenue classification for the year ended June 30, 2012.

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 |
|----------------|-----------------------------|--|-----------------|-----------|---------------|---------------|--|
| 6/30/12 | 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 nonexchange-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, 2012 was a negative \$592,216. 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, 2012

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, 2012, the synthetic fixed interest rate on the City's hedged variable rate debt is 4.56 percent while 100 percent of LIBOR is .24 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 balance for both the General Fund and the statement of activities has been restated in accordance with the revenue recognition policy of 1997-1 Accrual of State Shared Revenues, and also in accordance with accounting principles generally accepted in the United States of America (GAAP).

Fund balance for both the FIA Building Fund and the statement of activities has been restated for the reclassification of the fund from a special revenue fund to an enterprise fund and thereby a reclassification to a full-accrual fund. Included in the governmental activities adjustment is the reclassification of \$6,675,000 of long-term debt. Capital assets had been erroneously excluded from governmental activities but are now appropriately included in the business-type reclassification.

Fund balance for the component unit has been restated for the loan receivable from a commercial developer. The loan has been reinstated in the current year due to confirmation the City received from the commercial developer acknowledging the debt and the terms for repayment.

City of Highland Park, Michigan

Notes to Financial Statements June 30, 2012

Note 16 - Restatements (Continued)

Beginning fund balances/net assets have been restated (i.e., increased or decreased) as follows:

| | Beginning Fund Balance/ Net | | Beginning Fund Balance, Net |
|--------------------------|--------------------------------|-------------|--------------------------------|
| | Assets | Restatement | Assets - As Restated |
| General Fund | \$ 1,175,181 | \$ 966,693 | \$ 2,141,874 |
| FIA Building Fund | 1,403,784 | 1,332,000 | 2,735,784 |
| Governmental activities | (23,404,165) | 6,237,909 | (17,166,256) |
| Business-type activities | (4,996,138) | 2,735,784 | (2,260,354) |
| Component unit | 966,154 | 3,808,729 | 4,774,883 |

Note 17 - Going Concern

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 72 at June 30, 2012.

The mayor and City Council have submitted a revised deficit elimination plan detailing how the City plans to address the water and sewer deficit as well as other operating matters. The City is exploring alternative water service delivery methods and long-term solutions for its water plant. Currently, water and sewage services are being provided by the City of Detroit.

In the current fiscal year, the General Fund transferred \$491,161 to the Water and Sewer Fund to help cover operational shortfalls. The Water and Sewer Fund continued to have a significant operating loss of \$910,703 and a net deficit of \$5,522,340.

Note 18 - Upcoming Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Note 18 - Upcoming Accounting Pronouncements (Continued)

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of July 1, 2013.

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for the year ending June 30, 2014 and Statement No. 68 one year later.

Note 19 - Subsequent Events

Subsequent events have been evaluated through December 20, 2012, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Required Supplemental Information

City of Highland Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2012

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 expenditures that were in excess of the amounts budgeted, as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------|---------------|---------------|-----------------|
| General Fund: | | | |
| Assessor | \$ 96,350 | \$ 101,378 | \$ (5,028) |
| Legal | 472,964 | 484,396 | (11,432) |
| Community and economic development | 53,885 | 79,826 | (25,941) |
| Operating transfers out | - | 491,161 | (491,161) |
| Major Streets Fund | - | 275,000 | (275,000) |
| Federal Grants Fund | 2,428,350 | 6,015,248 | (3,586,898) |

Within the General Fund, the assessing department received a fourth quarter billing from the county which was higher than anticipated. The legal department incurred higher than anticipated judgment costs. The community and economic development department incurred costs associated with disallowed grant activities. The General Fund made operating transfers to the Water and Sewer Fund which were greater than anticipated.

The Major Streets Fund made an operating transfer to the Local Streets Fund to assist with local road projects.

The Federal Grants Fund incurred higher than anticipated expenditures as well as higher than anticipated revenue for its NSP 2 grant. The amount of expenditures and drawdown activity was greater than anticipated due to the time constraints placed on the City.

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|---------------------------------|
| Revenue | | | | |
| Property taxes | \$ 3,683,103 | \$ 3,588,211 | \$ 3,787,002 | \$ 198,791 |
| Income taxes | 2,800,000 | 2,500,000 | 2,862,913 | 362,913 |
| Licenses and permits | 180,000 | 12,500 | 62,235 | 49,735 |
| State-shared revenue | 2,082,533 | 2,299,755 | 2,311,716 | 11,961 |
| Charges for services | 85,000 | 100,000 | 91,630 | (8,370) |
| Fines and forfeitures | 1,350,000 | 1,350,000 | 1,303,199 | (46,801) |
| Investment income | 7,100 | 3,000 | 2,391 | (609) |
| Rental income | 80,000 | 6,300 | 6,370 | 70 |
| Other revenue | 1,384,554 | 269,676 | 290,876 | 21,200 |
| Total revenue | 11,652,290 | 10,129,442 | 10,718,332 | 588,890 |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| City Council | 55,550 | 54,520 | 54,026 | 494 |
| Administration | 110,320 | 108,944 | 105,727 | 3,217 |
| Finance | 283,492 | 354,638 | 342,009 | 12,629 |
| District Court | 592,092 | 609,545 | 591,439 | 18,106 |
| Income tax | 163,000 | 163,255 | 158,753 | 4,502 |
| Data processing | 48,866 | 76,316 | 69,126 | 7,190 |
| Treasurer | 118,951 | 121,042 | 120,885 | 157 |
| City assessor | 49,000 | 96,350 | 101,378 | (5,028) |
| City clerk | 147,146 | 162,017 | 155,134 | 6,883 |
| Legal | 410,350 | 472,964 | 484,396 | (11,432) |
| Human resources | 29,000 | 36,000 | 35,334 | 666 |
| Employee benefits | 3,636,042 | 3,502,722 | 2,557,599 | 945,123 |
| Total general government | 5,643,809 | 5,758,313 | 4,775,806 | 982,507 |
| Public safety: | | | | |
| Police | 1,700,660 | 1,650,901 | 1,482,698 | 168,203 |
| Fire | 1,051,880 | 1,055,342 | 992,475 | 62,867 |
| Code enforcement | 14,950 | 29,950 | 27,606 | 2,344 |
| Total public safety | 2,767,490 | 2,736,193 | 2,502,779 | 233,414 |
| Public works: | | | | |
| Rubbish and garbage collection | 451,400 | 345,500 | 345,275 | 225 |
| Public service administration | 1,369,323 | 1,250,330 | 764,613 | 485,717 |
| Total public works | 1,820,723 | 1,595,830 | 1,109,888 | 485,942 |
| Community and economic development | | | | |
| Recreation and culture | 98,900 | 53,885 | 79,826 | (25,941) |
| | 43,650 | 46,950 | 45,148 | 1,802 |
| Debt service | | | | |
| | 957,718 | 911,426 | 911,423 | 3 |
| Total expenditures | 11,332,290 | 11,102,597 | 9,424,870 | 1,677,727 |
| Excess of Revenue Over (Under) Expenditures | 320,000 | (973,155) | 1,293,462 | 2,266,617 |
| Other Financing (Uses) Sources | | | | |
| Interfund transfers out | - | - | (491,161) | (491,161) |
| Interfund transfers in | - | - | 47,587 | 47,587 |
| Total other financing uses | - | - | (443,574) | (443,574) |
| Net Change in Fund Balance | 320,000 | (973,155) | 849,888 | 1,823,043 |
| Fund Balance - Beginning of year (as restated) | 2,141,874 | 2,141,874 | 2,141,874 | - |
| Fund Balance - End of year | <u>\$ 2,461,874</u> | <u>\$ 1,168,719</u> | <u>\$ 2,991,762</u> | <u>\$ 1,823,043</u> |

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|------------------------------------|
| Revenue | | | | |
| State-shared revenue and grants | \$ 800,000 | \$ 800,000 | \$ 664,793 | \$ (135,207) |
| Investment income | 5,000 | 5,000 | 2,637 | (2,363) |
| Total revenue | 805,000 | 805,000 | 667,430 | (137,570) |
| Expenditures - Current | | | | |
| Routine maintenance | 195,000 | 195,000 | 176,275 | 18,725 |
| Winter maintenance | 33,000 | 33,000 | 21,111 | 11,889 |
| Traffic services | 85,000 | 85,000 | 58,570 | 26,430 |
| Administration | 67,000 | 67,000 | 62,766 | 4,234 |
| Construction - Act 51 | 215,500 | 215,500 | 163,547 | 51,953 |
| Right of way | 4,500 | 4,500 | - | 4,500 |
| Total expenditures | 600,000 | 600,000 | 482,269 | 117,731 |
| Interfund Transfers Out | - | - | (275,000) | (275,000) |
| Net Change in Fund Balance | 205,000 | 205,000 | (89,839) | (294,839) |
| Fund Balance - Beginning of year | 1,719,304 | 1,719,304 | 1,719,304 | - |
| Fund Balance - End of year | <u>\$ 1,924,304</u> | <u>\$ 1,924,304</u> | <u>\$ 1,629,465</u> | <u>\$ (294,839)</u> |

City of Highland Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Federal Grants Year Ended June 30, 2012

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|----------------------------|----------------------------|----------------------------|------------------------------------|
| Revenue - Federal grants | \$ 2,428,350 | \$ 2,428,350 | \$ 6,007,265 | \$ 3,578,915 |
| Expenditures | | | | |
| General government | 70,000 | 70,000 | 68,137 | 1,863 |
| Public works | 110,000 | 110,000 | 109,705 | 295 |
| Community and economic development | <u>2,248,350</u> | <u>2,248,350</u> | <u>5,773,656</u> | <u>(3,525,306)</u> |
| Total expenditures | <u>2,428,350</u> | <u>2,428,350</u> | <u>5,951,498</u> | <u>(3,523,148)</u> |
| Net Change in Fund Deficit | - | - | 55,767 | 55,767 |
| Fund Deficit - Beginning of year | <u>(266,743)</u> | <u>(266,743)</u> | <u>(266,743)</u> | - |
| Fund Deficit - End of year | <u><u>\$ (266,743)</u></u> | <u><u>\$ (266,743)</u></u> | <u><u>\$ (210,976)</u></u> | <u><u>\$ 55,767</u></u> |

City of Highland Park, Michigan

Required Supplemental Information General Employees' Pension Plan Schedule of Funding Progress Year Ended June 30, 2012

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 |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 6/30/99 | \$ 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 | 8,710.0 |
| 12/31/10 | 4,320 | 7,273 | 2,953 | 59.4 | - | - |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Percentage Contributed |
|-------------------|-----------------------------|------------------------------------|---------------------------|
| 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 | - |
| 6/30/12 | 12/31/10 | 233 | 30.0 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, 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 |
| 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, 2012

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) |
|-----------------------------|--|--|------------------------------------|---------------------------------------|
| 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 |
| 12/31/10 | 290 | 5,492 | 5,202 | 5.3 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Percentage Contributed |
|-------------------|-----------------------------|------------------------------------|---------------------------|
| 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 |
| 6/30/12 | 12/31/10 | 239 | 359.1 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, 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 |
| Cost of living adjustments | None |

City of Highland Park, Michigan

Required Supplemental Information Public Safety Retirement Plan Schedule of Funding Progress Year Ended June 30, 2012

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 |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 12/31/05 | \$ 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 |
| 12/31/10 | 15,200 | 23,110 | 7,910 | 65.8 | 1,727 | 458.0 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Percentage Contributed |
|-------------------|-----------------------------|------------------------------------|---------------------------|
| 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 |
| 6/30/12 | 12/31/10 | 380 | 2.0 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, 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 | | | | | |
|--|-----------------------|------------------|-------------------|------------------|-----------------------------|------------------|
| | Local Streets | JAG | NSP I | Drug Forfeiture | Community Projects and Food | Federal Accounts |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 517,483 | \$ - | \$ - | \$ 37,099 | \$ - | \$ - |
| Due from other governmental units | 27,576 | 14,495 | 527,431 | - | - | - |
| Due from other funds | - | - | - | - | 34,114 | 69,102 |
| Advances to other funds | 559,871 | - | - | - | - | - |
| Total assets | \$1,104,930 | \$ 14,495 | \$ 527,431 | \$ 37,099 | \$ 34,114 | \$ 69,102 |
| Liabilities and Fund Balances (Deficit) | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 1,875 | \$ - | \$ 454,323 | \$ - | \$ - | \$ - |
| Due to other funds | - | 14,495 | 73,108 | - | - | - |
| Deferred revenue | - | - | 116,608 | - | - | - |
| Total liabilities | 1,875 | 14,495 | 644,039 | - | - | - |
| Fund Balances (Deficit) | | | | | | |
| Restricted | 1,103,055 | - | - | 37,099 | 34,114 | 69,102 |
| Unassigned | - | - | (116,608) | - | - | - |
| Total fund balances (deficit) | 1,103,055 | - | (116,608) | 37,099 | 34,114 | 69,102 |
| Total liabilities and fund balances (deficit) | \$1,104,930 | \$ 14,495 | \$ 527,431 | \$ 37,099 | \$ 34,114 | \$ 69,102 |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

| Special Revenue Funds | | | Capital Projects Funds | Total Nonmajor Governmental Funds |
|---|------------------------|---------------------|---------------------------------------|--|
| Community Development Block Grant | CDBG Program Income | Total | Fire Station Construction Grant | |
| \$ - | \$ 96,436 | \$ 651,018 | \$ - | \$ 651,018 |
| 146,097 | - | 715,599 | - | 715,599 |
| - | - | 103,216 | - | 103,216 |
| - | - | 559,871 | - | 559,871 |
| \$ 146,097 | \$ 96,436 | \$ 2,029,704 | \$ - | \$ 2,029,704 |
| | | | | |
| \$ 76,433 | \$ - | \$ 532,631 | \$ - | \$ 532,631 |
| 69,664 | - | 157,267 | - | 157,267 |
| 146,097 | 96,436 | 359,141 | - | 359,141 |
| 292,194 | 96,436 | 1,049,039 | - | 1,049,039 |
| - | - | 1,243,370 | - | 1,243,370 |
| (146,097) | - | (262,705) | - | (262,705) |
| (146,097) | - | 980,665 | - | 980,665 |
| \$ 146,097 | \$ 96,436 | \$ 2,029,704 | \$ - | \$ 2,029,704 |

City of Highland Park, Michigan

| | Special Revenue Funds | | | | | |
|--|-----------------------|----------------|---------------------|------------------|-----------------------------|------------------|
| | Local Streets | JAG | NSP I | Drug Forfeiture | Community Projects and Food | Federal Accounts |
| Revenue | | | | | | |
| Federal grants | \$ - | \$ 40,314 | \$ 440,880 | \$ - | \$ - | \$ - |
| State-shared revenue | 174,448 | - | - | - | - | - |
| Fines and forfeitures | - | - | - | 13,555 | - | - |
| Investment income | 424 | - | - | 53 | - | - |
| Total revenue | 174,872 | 40,314 | 440,880 | 13,608 | - | - |
| Expenditures - Current | | | | | | |
| Public safety | - | 36,268 | - | 9,652 | - | - |
| Public works | 444,568 | - | - | - | - | - |
| Community and economic development | - | - | 291,973 | - | - | - |
| Total expenditures | 444,568 | 36,268 | 291,973 | 9,652 | - | - |
| Excess of Revenue (Under) Over Expenditures | (269,696) | 4,046 | 148,907 | 3,956 | - | - |
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in | 275,000 | - | - | - | - | - |
| Interfund transfers out | - | - | (47,587) | - | - | - |
| Total other financing sources (uses) | 275,000 | - | (47,587) | - | - | - |
| Net Change in Fund Balances | 5,304 | 4,046 | 101,320 | 3,956 | - | - |
| Fund Balances (Deficit) - Beginning of year | 1,097,751 | (4,046) | (217,928) | 33,143 | 34,114 | 69,102 |
| Fund Balances (Deficit) - End of year | \$1,103,055 | \$ - | \$ (116,608) | \$ 37,099 | \$ 34,114 | \$ 69,102 |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2012

| Special Revenue Funds | | Capital Projects Fund | Total |
|---|---------------------------|---------------------------------------|-----------------------------------|
| Community Development Block Grant | CDBG Program Income | Fire Station Construction Grant | Nonmajor Governmental Funds |
| \$ 490,583 | \$ - | \$ 17,900 | \$ 989,677 |
| - | - | - | 174,448 |
| - | - | - | 13,555 |
| - | - | - | 477 |
| 490,583 | - | 17,900 | 1,178,157 |
| - | - | (867) | 45,053 |
| - | - | - | 444,568 |
| 387,008 | - | - | 678,981 |
| 387,008 | - | (867) | 1,168,602 |
| 103,575 | - | 18,767 | 9,555 |
| - | - | - | 275,000 |
| - | - | - | (47,587) |
| - | - | - | 227,413 |
| 103,575 | - | 18,767 | 236,968 |
| (249,672) | - | (18,767) | 743,697 |
| \$ (146,097) | \$ - | \$ - | \$ 980,665 |

City of Highland Park, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2012

| | 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 | \$ 198,181 | \$ 147,010 | \$ 8,827 | \$ 354,018 | \$ 487,012 | \$ 478,591 | \$ 635,605 | \$ 1,601,208 |
| Investments: | | | | | | | | |
| U.S. government securities | 1,457,415 | - | 10,219,797 | 11,677,212 | - | - | - | - |
| Stocks | 111,005 | 72,082 | 2,028,146 | 2,211,233 | - | - | - | - |
| Life insurance/CSV | 746,236 | - | - | 746,236 | - | - | - | - |
| Due from other governmental units | - | - | 106,660 | 106,660 | - | 118,377 | - | 118,377 |
| Total assets | 2,512,837 | 219,092 | 12,363,430 | 15,095,359 | \$ 487,012 | \$ 596,968 | \$ 635,605 | \$ 1,719,585 |
| Liabilities | | | | | | | | |
| Accounts payable | 2,300 | 19,950 | - | 22,250 | \$ - | \$ - | \$ - | \$ - |
| Due to other governmental units | 89,030 | - | - | 89,030 | 487,012 | - | 616,700 | 1,103,712 |
| Refundable deposits, bonds, etc. | - | - | - | - | - | 596,968 | 18,905 | 615,873 |
| Total liabilities | 91,330 | 19,950 | - | 111,280 | \$ 487,012 | \$ 596,968 | \$ 635,605 | \$ 1,719,585 |
| Net Assets Held in Trust for Pension and Other Employee Benefits | \$ 2,421,507 | \$ 199,142 | \$ 12,363,430 | \$ 14,984,079 | | | | |

City of Highland Park, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2012

| | General Employees' Retirement System | Police and Fire Retirement System | Public Safety Retirement System | Total |
|---|---|---|---------------------------------------|----------------------|
| Additions | | | | |
| Investment income: | | | | |
| Interest and dividends | \$ 94,886 | \$ - | \$ 52,552 | \$ 147,438 |
| Net increase in fair value of investments | 107 | 1,607 | - | 1,714 |
| Total investment income | 94,993 | 1,607 | 52,552 | 149,152 |
| Contributions: | | | | |
| Employer | 68,676 | 745,057 | 7,149 | 820,882 |
| Employee | - | - | 62,923 | 62,923 |
| Net contributions | 68,676 | 745,057 | 70,072 | 883,805 |
| Total additions | 163,669 | 746,664 | 122,624 | 1,032,957 |
| Deductions | | | | |
| Benefit payments | 1,133,568 | 853,409 | 2,095,484 | 4,082,461 |
| Administrative expenses | 2,371 | 1,058 | 19,747 | 23,176 |
| Total deductions | 1,135,939 | 854,467 | 2,115,231 | 4,105,637 |
| Net Decrease in Net Assets Held in Trust | (972,270) | (107,803) | (1,992,607) | (3,072,680) |
| Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year | 3,393,777 | 306,945 | 14,356,037 | 18,056,759 |
| Net Assets Held in Trust for Pension and Other Employee Benefits - End of year | \$ 2,421,507 | \$ 199,142 | \$ 12,363,430 | \$ 14,984,079 |