

# **City of Highland Park, Michigan**

---

**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Highland Park, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Fund Balance of Governmental Funds to Net Deficit of Governmental Activities	15
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	16
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Fund:	
Statement of Net Deficit	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Net Assets	21
Statement of Changes in Net Assets	22
Component Unit:	
Statement of Net Assets	23
Statement of Activities	24
Notes to Financial Statements	25-52

# City of Highland Park, Michigan

---

## Contents (Continued)

<b>Required Supplemental Information</b>	53
Note to Required Supplemental Information	54
Budgetary Comparison Schedule - General Fund	55
General Employees' Pension Plan Schedule of Funding Progress	56-57
Police and Fire Retirement System Schedule of Funding Progress	58-59
Former Michigan Employees' Retirement System (MERS) Schedule of Funding Progress	60-61
<b>Other Supplemental Information</b>	62
Nonmajor Governmental Funds:	
Combining Balance Sheet	63-64
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	65-66
Fiduciary Funds:	
Combining Statement of Net Assets	67-68
Combining Statement of Changes in Fiduciary Net Assets	69

# 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, 2008. Please read it in conjunction with the City's financial statements.

### Overview of the Financial Statements

The City of Highland Park's 2008 annual financial report follows a different format than in previous years. This annual report has been changed to comply with the reporting requirements of Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### **Government-wide Statements**

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

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

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

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

# City of Highland Park, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

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

The City has three kinds of funds:

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

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Total fiscal year 2007-2008 General Fund revenues were approximately \$714,000 less than fiscal year 2006-2007 revenues. The decrease was due primarily to a decrease in property tax revenue. Total real and personal income taxes decreased by \$470,000 due to a decrease in legal and pension judgment millage rates and an increase in County chargeback expense which go against the City's property tax revenue. Property taxes continue to be our largest and most secure source of revenue.
- State-shared revenue is our second largest revenue source. The City has been in control of the State in accordance with Section 12(1) of Public Act 72 of 1990 since June 2001. Under Act 72, state-shared revenue is frozen at the 2001 level and is not subject to any decreases but can increase. The State makes a special payment to the City at the end of its fiscal year (September 30) to make up the difference from the regular revenue-sharing formula. State-shared revenue accounts for approximately 29 percent of the City's total General Fund revenue.

# City of Highland Park, Michigan

---

## Management's Discussion and Analysis (Continued)

- The General Fund continued, for a third year in a row, to have an operating surplus and a reduction of the cumulative fund deficit. The operating surplus (outside of the pension bond contribution) for the year totaled \$549,861 and fund balance went from a deficit of \$474,060 to a surplus of \$3,075,801 at June 30, 2008. This marks the first time the City's General Fund was out of a deficit in almost 10 years.

### Using this Annual Report

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

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

# City of Highland Park, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Highland Park as a Whole

The following table shows, in a condensed format, the net assets (deficit) as of June 30, 2008:

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 15,464,195	\$ 626,591	\$ 16,090,786
Noncurrent assets	<u>30,134,186</u>	<u>6,785,088</u>	<u>36,919,274</u>
Total assets	45,598,381	7,411,679	53,010,060
<b>Liabilities</b>			
Current liabilities	9,426,597	4,863,756	14,290,353
Long-term liabilities	<u>55,178,215</u>	<u>4,916,313</u>	<u>60,094,528</u>
Total liabilities	<u>64,604,812</u>	<u>9,780,069</u>	<u>74,384,881</u>
<b>Net Assets (Deficit)</b>			
Invested in capital assets - Net of related debt	21,786,039	1,880,190	23,666,229
Restricted	4,566,402	-	4,566,402
Unrestricted (deficit)	<u>(45,358,872)</u>	<u>(4,248,580)</u>	<u>(49,607,452)</u>
Total net deficit	<u>\$ (19,006,431)</u>	<u>\$ (2,368,390)</u>	<u>\$ (21,374,821)</u>

The City's combined deficit totaled \$21,374,821, mainly due to the issuance of the \$27 million pension bonds and the recognition of such debt within the government-wide statement of net assets (deficit). Governmental activities represent a \$19 million deficit which is approximately 89 percent of the total City's net deficit.

Of the total combined net assets, approximately \$23.7 million is investment in capital assets, net of related debt, while \$4.6 million is restricted for various purposes and cannot be used for general obligations.

# City of Highland Park, Michigan

## Management's Discussion and Analysis (Continued)

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

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 1,555,388	\$ 4,743,770	\$ 6,299,158
Operating grants and contributions	1,722,712	-	1,722,712
Capital grants and contributions	-	226,956	226,956
General revenue:			
Property taxes	5,854,818	-	5,854,818
Income taxes	2,574,491	-	2,574,491
State-shared revenue	3,678,610	-	3,678,610
Rental income	1,070,690	-	1,070,690
Unrestricted investment earnings	219,571	62,352	281,923
Insurance recoveries	323,633	-	323,633
Miscellaneous revenue	54,277	-	54,277
Total revenue	17,054,190	5,033,078	22,087,268
<b>Program Expenses</b>			
General government	11,395,239	-	11,395,239
Public safety	15,454,653	-	15,454,653
Public works	4,840,820	-	4,840,820
Community and economic development	932,158	-	932,158
Recreation and culture	617,481	-	617,481
Interest on long-term debt	1,351,462	-	1,351,462
Water and sewer	-	7,105,519	7,105,519
Total program expenses	34,591,813	7,105,519	41,697,332
<b>Change in Net Assets</b>	<b><u>\$ (17,537,623)</u></b>	<b><u>\$ (2,072,441)</u></b>	<b><u>\$ (19,610,064)</u></b>

Total net deficit increased by \$28 million. However, when looking at the activities separately, you can see that the business-type net deficit increased by \$2 million, while the governmental activities net deficit increased by \$26 million due to the issuance of the pension bonds. 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 34 percent of governmental activities revenue. The City's total governmental expenses were \$43 million, of which \$26 million was a result of the contribution of the pension bond debt proceeds to the retirement funds.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. The City provides water to residents from the City owned and operated water system. The business-type activities experienced an operating loss in the current year of \$2 million compared to operating income of \$218,000 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 \$4.9 million in 2008. The charges for services are offset by water, sewer, and storm water expenses of \$6.7 million, or 13.4 percent of the City's total expenses. After capital contributions and interest earnings, the business activities had a net decrease in net assets of \$2,072,441.

### **The City of Highland Park's Funds**

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Highland Park as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's major funds for 2008 include the General Fund and Water and Sewer Fund (a proprietary fund).

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred expenditures of approximately \$3.5 million, and employee benefits, which incurred expenditures of approximately \$28.0 million in 2008.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was increased during the year by a net amount of approximately \$583,000. Overall actual revenues were less than the amended budget by \$167,038, or 1.3 percent. The largest unfavorable variance was in property tax revenue, with a negative variance of \$224,311.

The City's expenditure budget was decreased \$612,836 by amendments during the year, mainly as a result of a decrease in public safety personnel. Overall, expenditures exceeded budget by approximately \$28,568,000, mainly as a result of the contribution of the pension bond debt proceeds of \$27 million to the retirement funds.

# **City of Highland Park, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to \$36,919,274 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure.

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

At the end of the current fiscal year, the City had total debt outstanding of \$61,797,147. The outstanding debt consists of general obligation bonds, revenue bonds, accrued compensated absences, and other long-term liabilities.

During the current year, the City borrowed the maximum amount allowable from the State under the revised emergency loan act of \$3,000,000. The proceeds of this loan were used to fund outstanding debts and current operating costs during the year ended June 30, 2008. This loan also helped eliminate the cumulative General Fund deficit.

The City issued \$27,000,000 in pension bonds to fund two of the defined benefit pension plans that had run out of reserves. The proceeds of the bonds were contributed to the pension trust funds and resulted in the plans being approximately 95 percent funded. The bonds will be repaid in future years by utilizing General Fund revenue-sharing receipts and the net collections of a voter-approved property tax levy.

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 southeastern Michigan, the City continues to struggle with providing necessary services with limited revenues. For the fiscal year ending June 30, 2009, 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 roads maintenance and construction also continue to trend downward.

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

Also considered in the preparation of next year's budget are contractual wage increases (currently being negotiated) and rising healthcare costs.

# **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, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 6,898,135	\$ 1,132,425	\$ 8,030,560	\$ 443,695
Investments (Note 3)	1,413,687	210,668	1,624,355	-
Receivables - Net:				
Income taxes	254,542	-	254,542	-
Customers	-	2,604,616	2,604,616	-
Other	88,978	-	88,978	3,808,729
Due from other governmental units	546,165	226,956	773,121	-
Due from primary government	-	-	-	395,166
Internal balances (Note 6)	3,553,126	(3,553,126)	-	-
Prepaid costs and other assets	103,486	5,052	108,538	-
Restricted assets	2,606,076	-	2,606,076	-
Nondepreciable capital assets	592,270	321,228	913,498	-
Depreciable capital assets - Net	29,541,916	6,463,860	36,005,776	-
<b>Total assets</b>	<b>45,598,381</b>	<b>7,411,679</b>	<b>53,010,060</b>	<b>4,647,590</b>
<b>Liabilities</b>				
Accounts payable	6,048,572	4,341,036	10,389,608	-
Accrued and other liabilities	791,267	347,720	1,138,987	-
Due to other governmental units	29,526	-	29,526	-
Due to component unit	395,166	-	395,166	-
Deferred revenue (Note 4)	292,569	-	292,569	-
Income tax refunds payable	341,878	-	341,878	-
Noncurrent liabilities:				
Due within one year (Note 7)	1,527,619	175,000	1,702,619	-
Due in more than one year (Note 7)	55,178,215	4,916,313	60,094,528	-
<b>Total liabilities</b>	<b>64,604,812</b>	<b>9,780,069</b>	<b>74,384,881</b>	<b>-</b>
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	21,786,039	1,880,190	23,666,229	-
Restricted:				
Debt service	2,625,196	-	2,625,196	-
Federal accounts	69,102	-	69,102	-
Drug forfeiture	20,968	-	20,968	-
Public works	1,851,136	-	1,851,136	-
Unrestricted (deficit)	(45,358,872)	(4,248,580)	(49,607,452)	4,647,590
<b>Total net assets (deficit)</b>	<b>\$ (19,006,431)</b>	<b>\$ (2,368,390)</b>	<b>\$ (21,374,821)</b>	<b>\$ 4,647,590</b>

# City of Highland Park, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 11,395,239	\$ 340,089	\$ 405	\$ -
Public safety	15,454,653	1,205,205	44,059	-
Public works	4,840,820	10,094	999,130	-
Community and economic development	932,158	-	679,118	-
Recreation and culture	617,481	-	-	-
Interest on long-term debt	1,351,462	-	-	-
Total governmental activities	34,591,813	1,555,388	1,722,712	-
Business-type activity - Water and sewer	7,105,519	4,743,770	-	226,956
Total primary government	<u>\$ 41,697,332</u>	<u>\$ 6,299,158</u>	<u>\$ 1,722,712</u>	<u>\$ 226,956</u>
Component unit	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Income taxes				
State-shared revenues				
Rental income				
Unrestricted investment earnings				
Insurance recoveries				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year</b>				
<b>Net Assets (Deficit) - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Tax Increment Finance Authority
Governmental Activities	Business-type Activity	Total	
\$ (11,054,745)	\$ -	\$ (11,054,745)	\$ -
(14,205,389)	-	(14,205,389)	-
(3,831,596)	-	(3,831,596)	-
(253,040)	-	(253,040)	-
(617,481)	-	(617,481)	-
<u>(1,351,462)</u>	<u>-</u>	<u>(1,351,462)</u>	<u>-</u>
(31,313,713)	-	(31,313,713)	-
<u>-</u>	<u>(2,134,793)</u>	<u>(2,134,793)</u>	<u>-</u>
(31,313,713)	(2,134,793)	(33,448,506)	-
-	-	-	(12,000)
5,854,818	-	5,854,818	72,700
2,574,491	-	2,574,491	-
3,678,610	-	3,678,610	-
1,070,690	-	1,070,690	-
219,571	62,352	281,923	-
323,633	-	323,633	-
54,277	-	54,277	-
<u>13,776,090</u>	<u>62,352</u>	<u>13,838,442</u>	<u>72,700</u>
(17,537,623)	(2,072,441)	(19,610,064)	60,700
<u>(1,468,808)</u>	<u>(295,949)</u>	<u>(1,764,757)</u>	<u>4,586,890</u>
<b><u>\$ (19,006,431)</u></b>	<b><u>\$ (2,368,390)</u></b>	<b><u>\$ (21,374,821)</u></b>	<b><u>\$ 4,647,590</u></b>

# City of Highland Park, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 5,561,508	\$ 1,336,627	\$ 6,898,135
Investments	-	1,413,687	1,413,687
Receivables:			
Income taxes	254,542	-	254,542
Other	69,858	19,120	88,978
Due from other governmental units	187,725	358,440	546,165
Due from other funds	54,557	112,911	167,468
Advance from other fund	3,553,126	637,118	4,190,244
Prepaid costs and other assets	103,486	-	103,486
Restricted assets	1,389,276	1,216,800	2,606,076
	<u>1,389,276</u>	<u>1,216,800</u>	<u>2,606,076</u>
Total assets	<b>\$ 11,174,078</b>	<b>\$ 5,094,703</b>	<b>\$ 16,268,781</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 5,774,572	\$ 274,000	\$ 6,048,572
Accrued and other liabilities	791,267	-	791,267
Due to other governmental units	-	29,526	29,526
Due to component unit	395,166	-	395,166
Due to other funds	103,366	64,102	167,468
Advance to other fund	637,118	-	637,118
Deferred revenue	54,910	237,659	292,569
Income tax refunds payable	341,878	-	341,878
	<u>341,878</u>	<u>-</u>	<u>341,878</u>
Total liabilities	8,098,277	605,287	8,703,564
<b>Fund Balances</b>			
Reserved for:			
Prepaid costs and other assets	103,486	-	103,486
Debt service	1,389,276	1,235,920	2,625,196
Advances from other funds	3,553,126	637,118	4,190,244
Unreserved - Undesignated, reported in:			
General Fund	(1,970,087)	-	(1,970,087)
Special Revenue Funds	-	2,616,378	2,616,378
	<u>(1,970,087)</u>	<u>2,616,378</u>	<u>2,616,378</u>
Total fund balances	3,075,801	4,489,416	7,565,217
Total liabilities and fund balances	<b>\$ 11,174,078</b>	<b>\$ 5,094,703</b>	<b>\$ 16,268,781</b>

# City of Highland Park, Michigan

---

## **Governmental Funds Reconciliation of Fund Balance of Governmental Funds to Net Deficit of Governmental Activities June 30, 2008**

**Fund Balance - Total Governmental Funds** \$ 7,565,217

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

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds 30,134,186

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Long-term debt (50,648,147)

Compensated absences (1,026,122)

Net pension obligation (4,277,093)

Workers' compensation (375,000)

Lawsuits and claims (379,472)

**Net Deficit - Governmental Activities** **\$ (19,006,431)**

# City of Highland Park, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 4,618,913	\$ 1,235,905	\$ 5,854,818
Income taxes	2,574,491	-	2,574,491
Licenses and permits	65,310	-	65,310
Intergovernmental	3,685,007	1,722,307	5,407,314
Charges for services	316,853	-	316,853
Fines and forfeitures	872,589	-	872,589
Rental income	-	1,070,690	1,070,690
Interest and investment earnings	87,230	132,341	219,571
Other	655,963	16,591	672,554
Total revenues	<u>12,876,356</u>	<u>4,177,834</u>	<u>17,054,190</u>
<b>Expenditures</b>			
Current:			
General government	10,792,482	-	10,792,482
Public safety	23,376,273	-	23,376,273
Public works	2,117,103	1,699,371	3,816,474
Recreation and cultural	610,746	-	610,746
Community and economic development	21,355	884,241	905,596
Debt service:			
Principal	315,000	460,000	775,000
Interest	682,443	669,019	1,351,462
Debt issuance costs	1,411,093	-	1,411,093
Capital outlay	-	60,690	60,690
Total expenditures	<u>39,326,495</u>	<u>3,773,321</u>	<u>43,099,816</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	(26,450,139)	404,513	(26,045,626)
<b>Other Financing Sources (Uses)</b>			
Proceeds from issuance of long-term debt	30,000,000	-	30,000,000
Transfers in	-	1,129,019	1,129,019
Transfers out	-	(1,129,019)	(1,129,019)
Total other financing sources	<u>30,000,000</u>	<u>-</u>	<u>30,000,000</u>
<b>Net Change in Fund Balances</b>	3,549,861	404,513	3,954,374
<b>Fund Balances (Deficit) - Beginning of year</b>	<u>(474,060)</u>	<u>4,084,903</u>	<u>3,610,843</u>
<b>Fund Balances - End of year</b>	<u>\$ 3,075,801</u>	<u>\$ 4,489,416</u>	<u>\$ 7,565,217</u>

# City of Highland Park, Michigan

## Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

**Net Change in Fund Balances - Total Governmental Funds** \$ 3,954,374

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

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation recorded in the statement of activities (1,038,202)

Proceeds from the issuance of debt is recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt) (30,000,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 834,050

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 229,000

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 8,509,524

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 50,028

Change in liability for compensated absences is recorded when incurred in the statement of activities (76,397)

**Change in Net Assets of Governmental Activities** **\$ (17,537,623)**

# City of Highland Park, Michigan

## Proprietary Fund Statement of Net Deficit June 30, 2008

	Enterprise Fund - Water and Sewer
<b>Current Assets</b>	
Cash and cash equivalents (Note 3)	\$ 1,132,425
Investments (Note 3)	210,668
Customer receivables	2,604,616
Due from other governmental units	226,956
Prepaid costs and other assets	5,052
Total current assets	4,179,717
<b>Noncurrent Assets</b> - Capital assets (Note 5)	6,785,088
Total assets	10,964,805
<b>Current Liabilities</b>	
Accounts payable	4,341,036
Accrued and other liabilities	347,720
Current portion of long-term debt (Note 7)	175,000
Total current liabilities	4,863,756
<b>Noncurrent Liabilities</b>	
Advances to other funds (Note 6)	3,553,126
Long-term debt - Net of amount due within one year (Note 7)	4,916,313
Total noncurrent liabilities	8,469,439
Total liabilities	13,333,195
<b>Net Assets (Deficit)</b>	
Investment in capital assets - Net of related debt Unrestricted	1,880,190 (4,248,580)
Total net deficit	<b>\$ (2,368,390)</b>

# City of Highland Park, Michigan

## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Fund - Water and Sewer
<b>Operating Revenues</b>	
Charges for services	\$ 4,320,007
Penalties	273,030
Other revenue	150,733
Total operating revenues	4,743,770
<b>Operating Expenses</b>	
Sewage and disposal	4,844,952
Water production and distribution	1,240,487
Water administration	657,315
Depreciation	238,080
Total operating expenses	6,980,834
<b>Operating Loss</b>	(2,237,064)
<b>Nonoperating Revenue (Expense)</b>	
Interest and investment earnings	62,352
Interest expense	(124,685)
Total nonoperating expense	(62,333)
<b>Contributed Capital</b>	226,956
<b>Change in Net Assets</b>	(2,072,441)
<b>Net Deficit - Beginning of year</b>	(295,949)
<b>Net Deficit - End of year</b>	<b>\$ (2,368,390)</b>

# City of Highland Park, Michigan

## Proprietary Fund Statement of Cash Flows Year Ended June 30, 2008

	<u>Enterprise Fund - Water and Sewer</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 6,501,097
Payments to suppliers	(5,911,307)
Payments to employees	(544,771)
Other receipts	<u>150,733</u>
Net cash provided by operating activities	195,752
<b>Cash Flows from Noncapital Financing Activities - Advances from other funds</b>	
	303,220
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(201,956)
Payments on long-term debt	21,415
Interest on long-term debt	<u>(124,685)</u>
Net cash used in capital and related financing activities	(305,226)
<b>Cash Flows from Investing Activities</b>	
Loss from sale of investments	(15,704)
Interest received on investments	<u>62,352</u>
Net cash provided by investing activities	<u>46,648</u>
<b>Net Increase in Cash and Cash Equivalents</b>	240,394
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>892,031</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 1,132,425</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (2,237,064)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	238,080
Changes in assets and liabilities:	
Receivables	1,639,405
Due from other funds	268,655
Prepaid costs and other assets	(5,052)
Accounts payable	478,282
Accrued payroll	3,254
Accrued and other liabilities	<u>(189,808)</u>
Net cash provided by operating activities	<u><u>\$ 195,752</u></u>

# City of Highland Park, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefits Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 25,338,647	\$ 1,746,225
Investments:		
Stocks	204,554	-
Life insurance/CSV	620,164	-
Prepaid costs	215,619	-
Total assets	26,378,984	\$ 1,746,225
<b>Liabilities</b>		
Accounts payable	22,250	\$ -
Due to other governmental units	-	1,123,271
Deposits payable	-	622,954
Total liabilities	22,250	\$ 1,746,225
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 26,356,734</b>	

# City of Highland Park, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Employee Benefits Trust Funds
<b>Additions</b>	
Investment income (loss):	
Interest and dividends	\$ 113,579
Net decrease in fair value of investments	<u>(52,800)</u>
Net investment income	60,779
Contributions:	
Employer	26,988,022
Employee	40,001
Refunded reserves	<u>1,008,464</u>
Total contributions	<u>28,036,487</u>
Total additions	28,097,266
<b>Deductions</b>	
Benefit payments	3,828,384
Healthcare benefits	730,441
General and administrative	<u>17,895</u>
Total deductions	<u>4,576,720</u>
<b>Net Increase in Net Assets Held in Trust</b>	23,520,546
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>2,836,188</u>
End of year	<u><u>\$ 26,356,734</u></u>

# City of Highland Park, Michigan

---

## Component Unit Statement of Net Assets June 30, 2008

	Tax Increment Finance Authority
<b>Assets</b>	
Cash and cash equivalents	\$ 443,695
Due from primary government	395,166
Loan receivable	<u>3,808,729</u>
Total assets	<u>4,647,590</u>
<b>Net Assets - Unrestricted</b>	<b><u>\$ 4,647,590</u></b>

# City of Highland Park, Michigan

---

## Component Unit Statement of Activities Year Ended June 30, 2008

	Tax Increment Finance Authority
<b>Expenses - Tax Increment Finance Authority</b>	\$ 12,000
<b>General Revenues - Property taxes</b>	<u>72,700</u>
<b>Change in Net Assets</b>	60,700
<b>Net Assets - Beginning of year</b>	<u>4,586,890</u>
<b>Net Assets - End of year</b>	<u><u>\$ 4,647,590</u></u>

## **Note I - Summary of 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, under normal circumstances, is governed by an elected six-member council. However, due to the City's significant financial problems, the governor appointed an Emergency Financial Manager (EFM) in June 2001 to oversee the financial operations of the City.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of the government's operations and so data from this unit is combined with data of the primary government. 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 descriptions).

### **Blended Component Unit**

**Building Authority** - The Building Authority is governed, under normal circumstances, by a board appointed by the City Council; however, it too is currently governed by the State-appointed Emergency Financial Manager. The Building Authority's sole function is to oversee the acquisition/construction of the City's public buildings; therefore, it is reported as if it were part of the primary government.

### **Discretely Presented Component Unit**

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

## **Note I - Summary of Significant Accounting Policies (Continued)**

### **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 City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a certain legally separate component unit for which the primary government is financially accountable.

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

## **Note I - Summary of Significant Accounting Policies (Continued)**

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 revenues to be available if they are 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, and interest associated with the current fiscal period. Conversely, receivables have been recorded for special assessments and federal grant reimbursements which will be collected after the period of availability, 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.

The City's only major fund as of June 30, 2008 is the General Fund.

**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.

The City also reports its major proprietary fund:

**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.

Additionally, the City reports the following fiduciary activities:

- The Pension and Other Employee Benefits Trust Fund accounts for the activities of both the City of Highland Park's Employees' Retirement System and the City of Highland Park's police and fire employees, which accumulates resources for retirement benefit payments to qualified employees.
- The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

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 payment-in-lieu of taxes and other 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 revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

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

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

## **Note I - Summary of Significant Accounting Policies (Continued)**

The 2007 taxable valuation of the City totaled \$175,384,497, on which taxes levied consisted of 19.3703 mills for operating purposes, 2.9055 mills for rubbish services, 1.000 mills for court judgments, 2.8000 mills for pension judgments, and 7.0000 mills for funding of the City's pension plans. This resulted in approximately \$4.7 million for operating purposes, rubbish, and judgments and \$1.3 million for City debt. These amounts are recognized in the respective General Fund and 2008 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."

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 2008 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.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

Assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	40 years
Land improvements	20 years
Street lights and traffic signals	15-20 years
Buildings and improvements	35-75 years
Machinery and equipment	15-30 years
Water mains and improvements	60 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 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 for employee terminations as of year end.

**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. 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.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

## **Note 2 - Stewardship, Compliance, and Accountability**

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

**Fund Deficits** - In August 2006, the City updated its deficit elimination plan previously approved by the State of Michigan in October 2005. The State approved the amended plan in September 2006. The plan included many items and called for the General Fund operating deficit to be eliminated during the 2008 fiscal year and the cumulative deficit eliminated by the 2009 fiscal year. The plan calls for the following:

- Increase in income tax revenue by amnesty programs and operational improvements
- Creation of a special assessment district for street lighting
- Increased traffic and ordinance enforcement and revenue
- Sale of certain City-owned property
- Reductions in healthcare costs obtained through changes in the City's health plans
- Reductions in public safety personnel costs

The City succeeded in eliminating the cumulative deficit within the General Fund for the fiscal year ended June 30, 2008. The General Fund did, however, incur an operating deficit during the current year due to the issuance of the 2008 pension bonds and the related employee benefit expenses.

The City has a deficit of \$159,650 within the Community Development Block Grant due to expenditures in excess of available grant funds. The deficit will be eliminated with the receipt of grant reimbursements.

Within the Water and Sewer Fund, the City has incurred both an operating loss of \$2,010,109 and a net deficit of \$2,385,600 for the fiscal year ended June 30, 2008, both of which were due to a large decrease in revenue and a large increase in sewage and disposal costs.

**Noncompliance with Legal or Contractual Provisions** - The City does not distribute delinquent personal property tax collections to all 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. A 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 Former MERS Retirement System 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 City Council in accordance with Public Act 196 of 1997 has authorized investment in all state statutory authority investments 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 approximately \$34,420,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments (Continued)

**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. At year end, the average maturities of the City's investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity
U.S. government or agency bond or note	\$ 1,405,096	4 months

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

Investment Type	Pension Fund	Rating	Rating Organization
Life insurance/CSV	\$ 620,164	Not rated	N/A

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities 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 deferred revenue recorded is as follows:

	<u>Unearned</u>
Grant payments received prior to meeting all eligibility requirements	\$ <u>292,569</u>

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

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

<b>Governmental Activities</b>	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 592,270	\$ -	\$ -	\$ 592,270
Capital assets being depreciated:				
Roads and sidewalks	40,991,000	-	-	40,991,000
Land improvements	562,290	-	-	562,290
Street lights and traffic signals	6,221,817	-	-	6,221,817
Buildings and improvements	1,766,505	-	-	1,766,505
Machinery and equipment	958,814	-	-	958,814
Subtotal	50,500,426	-	-	50,500,426
Accumulated depreciation:				
Roads and sidewalks	10,826,813	1,024,775	-	11,851,588
Land improvements	272,033	7,270	-	279,303
Street lights and traffic signals	6,171,000	-	-	6,171,000
Buildings and improvements	1,766,505	-	-	1,766,505
Machinery and equipment	883,957	6,157	-	890,114
Subtotal	19,920,308	1,038,202	-	20,958,510
Net capital assets being depreciated	30,580,118	(1,038,202)	-	29,541,916
Net capital assets	<u>\$ 31,172,388</u>	<u>\$ (1,038,202)</u>	<u>\$ -</u>	<u>\$ 30,134,186</u>

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 119,272	\$ -	\$ -	\$ 119,272
Construction in progress	-	201,956	-	201,956
Subtotal	119,272	201,956	-	321,228
Capital assets being depreciated:				
Buildings and improvements	1,999,864	-	(1,113,047)	886,817
Land improvements	-	-	73,820	73,820
Machinery and equipment	1,514,504	-	(1,505,204)	9,300
Water mains and improvements	7,793,387	-	13,648,343	21,441,730
Subtotal	11,307,755	-	11,103,912	22,411,667
Accumulated depreciation:				
Buildings and improvements	1,352,293	57,139	(522,615)	886,817
Land improvements	-	-	73,820	73,820
Machinery and equipment	1,436,873	51,051	(1,486,529)	1,395
Water mains and improvements	1,833,859	129,890	13,022,026	14,985,775
Subtotal	4,623,025	238,080	11,086,702	15,947,807
Net capital assets being depreciated	6,684,730	(238,080)	17,210	6,463,860
Net capital assets	<u>\$ 6,804,002</u>	<u>\$ (36,124)</u>	<u>\$ 17,210</u>	<u>\$ 6,785,088</u>

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

Governmental activities:	
General government	\$ 4,065
Public safety	1,670
Public works	1,025,732
Recreation and culture	6,735
Total governmental activities	<u>\$ 1,038,202</u>
Business-type activities - Water and sewer	<u>\$ 238,080</u>

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Nonmajor governmental funds	\$ 54,557
Nonmajor governmental funds	General Fund	103,366
Nonmajor governmental funds	Nonmajor governmental funds	<u>9,545</u>
	Total	<u>\$ 167,468</u>
<b>Advances to/from Other Funds</b>		
General Fund	Water and Sewer Fund	<u>\$ 3,553,126</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 balance owing from the Water and Sewer Fund to the General Fund resulted from loans made for working capital purposes.

#### Interfund Transfers

	Transfer Out - Other Nonmajor Governmental Funds
Transfer in - Other nonmajor governmental funds	<u>\$ 1,129,019</u>

The above represents the transfer of debt service principal and interest from the FIA Building Fund to the Building Authority Fund.

### 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, 2008

### Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
1999 Building Authority Bonds:						
Amount of issue - \$11,390,000						
Maturing through 2018	7.75%	\$ 8,745,000	\$ -	\$ 460,000	\$ 8,285,000	\$ 495,000
2003 General Obligation Limited Tax:						
Amount of loan - \$1,000,000						
Maturing through 2023	5.37%	1,000,000	-	-	1,000,000	-
2006 General Obligation Limited Tax:						
Amount of loan - \$1,000,000						
Maturing through 2026	5.37%	1,000,000	-	-	1,000,000	-
2008 General Obligation Limited Tax:						
Amount of loan - \$3,000,000						
Maturing through 2028	5.37%	-	3,000,000	-	3,000,000	-
Revenue bonds:						
2000B Fiscal Stability:						
Amount of issue - \$3,480,000						
Maturing through 2021	4.75%-5.5%	2,780,000	-	140,000	2,640,000	145,000
2003B Fiscal Stability:						
Amount of issue - \$2,225,000						
Maturing through 2023	3.0%-6.0%	1,995,000	-	85,000	1,910,000	85,000
2004A Fiscal Stability:						
Amount of issue - \$6,000,000						
Maturing through 2034	5.15%-6.875%	5,840,000	-	90,000	5,750,000	95,000
2008A Pension Bonds:						
Amount of issue - \$27,000,000						
Maturing through 2037	4.559%	-	27,000,000	-	27,000,000	-
Installment purchase agreement -						
Emergency One fire truck	6.94%	122,197	-	59,050	63,147	63,147
Total bonds and installment obligations		21,482,197	30,000,000	834,050	50,648,147	883,147
Other long-term obligations:						
Compensated absences		949,725	76,397	-	1,026,122	100,000
Net pension obligation		12,786,617	-	8,509,524	4,277,093	-
Workers' compensation		604,000	-	229,000	375,000	165,000
Lawsuits and claims		429,500	338,188	388,216	379,472	379,472
Total other long-term obligations		14,769,842	414,585	9,126,740	6,057,687	644,472
Total governmental activities		\$ 36,252,039	\$ 30,414,585	\$ 9,960,790	\$ 56,705,834	\$ 1,527,619
<b>Business-type Activities</b>						
General obligation bonds:						
1999 General Obligation Bonds:						
Amount of issue - \$6,000,000						
Maturing through 2029	2.50%	\$ 5,069,898	\$ -	\$ 165,000	4,904,898	\$ 170,000
Other long-term obligation -						
Compensated absences		191,308	-	4,893	186,415	5,000
Total business-type activities		\$ 5,261,206	\$ -	\$ 169,893	\$ 5,091,313	\$ 175,000

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations, including the 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:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 883,147	\$ 1,638,025	\$ 2,521,172	\$ 170,000	\$ 120,497	\$ 290,497
2010	1,210,000	2,378,173	3,588,173	175,000	116,185	291,185
2011	1,295,000	2,303,589	3,598,589	180,000	111,747	291,747
2012	1,385,000	2,222,746	3,607,746	185,000	107,185	292,185
2013	1,480,000	2,135,836	3,615,836	190,000	102,497	292,497
2014-2018	11,235,000	9,131,603	20,366,603	1,010,000	438,737	1,448,737
2019-2023	8,015,000	6,407,878	14,422,878	1,150,000	303,737	1,453,737
2024-2028	7,895,000	4,990,587	12,885,587	1,300,000	151,112	1,451,112
2029-2033	8,105,000	3,347,066	11,452,066	544,898	13,434	558,332
2034-2038	9,145,000	1,269,455	10,414,455	-	-	-
Total	<u>\$ 50,648,147</u>	<u>\$ 35,824,958</u>	<u>\$ 86,473,105</u>	<u>\$ 4,904,898</u>	<u>\$ 1,465,131</u>	<u>\$ 6,370,029</u>

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

Description	Amount of Issuance	Year of Issuance	Maturity Date	Total	Current
				Principal and Interest	Year Principal and Interest
				Remaining	Payments
Fiscal Stability Revenue Bonds, Series 2000B	\$ 3,480,000	2000	2021	\$ 3,659,666	\$ 282,295
Fiscal Stability Revenue Bonds, Series 2003B	2,225,000	2003	2023	2,837,463	179,808
Fiscal Stability Revenue Bonds, Series 2004A	6,000,000	2004	2034	11,415,456	438,835
Pension Bonds, Series 2008A	27,000,000	2008	2038	51,073,367	-

The City has committed to appropriate each year, from the state-shared revenue, amounts sufficient to cover the principal and interest requirements of the City's debt. Total principal and interest remaining on the debt is \$68,985,952, with annual requirements ranging from \$1,326,049 in 2009 to \$2,064,989 in the final year. The state-shared revenue, from which appropriations will be made, have averaged \$3,830,316 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 \$900,938 and \$3,678,610, respectively.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Restricted deposits - Cash:	
General Fund	\$ 1,389,276
2008 Pension Bond Debt Service Fund	<u>1,216,800</u>
Total restricted deposits - Cash	<u><u>\$ 2,606,076</u></u>

General Fund and 2008 Pension Bond Debt Service Fund restricted assets are to fund 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. 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.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Risk Management (Continued)

**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:

Estimated liability - June 30, 2006	\$ -
Estimated claims incurred, including changes in estimates	751,422
Claim payments	<u>(147,422)</u>
Estimated liability - June 30, 2007	604,000
Estimated claims incurred, including changes in estimates	(64,568)
Claim payments	<u>(164,432)</u>
Estimated liability - June 30, 2008	<u>\$ 375,000</u>

**Medical Claims** - The City had several commercial health insurance carriers through January 2001. Several of those carriers cancelled their healthcare coverage policies at that time, leaving certain employees without healthcare insurance. All employees were transferred to a new insurance carrier by May 2001. An unknown liability exists for claims incurred by uninsured employees from January 2001 to May 2001.

**Life and Dental Insurance** - The City's life and dental insurance coverage for eligible employees was canceled in January 2001; the City is now self-insured for these benefits. An unknown liability exists for claims incurred by uninsured employees from January 2001 through June 2002. No reserves have been established by the City to fund these potential liabilities and no liabilities have been recorded as of June 30, 2008.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan

The City has three defined benefit pension plans, which are summarized as follows:

#### General Employees' Pension Plan

**Plan Description** - The City of Highland Park Employees' Retirement System (ERS) is a single-employer defined benefit pension; this plan covers non-public 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 electing to join the defined contribution plan were refunded their contributions and were then allowed to enroll into that plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 153 retirees and beneficiaries, three inactive employees, and one current active employee. The plan does not issue a separate financial report.

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

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

**Annual Pension Cost** - For the year ended June 30, 2008, the City's annual pension cost of \$7,073,092 exceeded the City's required contribution of \$1,574,764, which is being amortized over an eight-year period. The pension cost for the three most recent years is as follows:

	2008	2007	2006
Annual pension cost (APC)	\$ 7,073,092	\$ 1,841	\$ -
Percentage of APC contributed	100.0%	0.09%	0.00%
Net pension obligation	\$ -	\$ 3,552,840	\$ 1,524,802

## **Note 10 - Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress** - As of December 30, 2007, the most recent actuarial valuation date, the plan was 5.6 percent funded. The actuarial accrued liability for benefits was \$10,133,990 and the actuarial value of assets was \$568,393, resulting in an unfunded actuarial accrued liability of \$9,565,597. The covered payroll (annual payroll for the one active employee covered by the plan) was \$30,235 and the ratio for the unfunded actuarial accrued liability to the covered payroll was 31886.7 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 for benefits.

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2008 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, of which 5.5 percent is attributable to inflation and (b) projected salary increases of 5.5 percent to 9.3 percent per year compounded annually, attributable to inflation. 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 a closed basis. The remaining amortization period is three years.

### **Police and Fire Retirement System**

**Plan Description** - The City of Highland Park Policemen and Firemen Retirement System (PFRS) is a single-employer defined benefit pension; this plan covers public safety officers employed by the City. This plan was closed as of November 1985 to new hires; active members at that time were terminated and enrolled under the MERS plan which is discussed below. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 89 retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

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

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

**Annual Pension Cost** - For the year ended June 30, 2008, the City's annual pension cost of \$1,481,567 exceeded the City's required contribution of \$1,112,833, which is being amortized over an eight-year period. The net pension obligation of the City is calculated as follows:

<b>Police and Fire Retirement Retirement System - Annual Pension Cost</b>	
Annual required contribution	\$ 1,112,833
Contributions made	<u>(1,481,567)</u>
Change in net pension obligation	(368,734)
Net pension obligation - Beginning of year	<u>4,645,827</u>
Net pension obligation - End of year	<u><u>\$ 4,277,093</u></u>

	Fiscal Year Ended June 30		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost (APC)	\$ 1,481,567	\$ 1,527,025	\$ 1,781,884
Percentage of APC contributed	100.0%	68.3%	82.9%
Net pension obligation	\$ 4,277,093	\$ 4,645,827	\$ 3,935,989

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 1,481,567	\$ 1,527,025	\$ 1,781,884
Percentage of APC contributed	100.0%	68.3%	82.9%
Net pension obligation	\$ 4,277,093	\$ 4,645,827	\$ 3,935,989

**Funded Status and Funding Progress** - As of December 31, 2007, the most recent actuarial valuation date, the plan was 6.6 percent funded. The actuarial accrued liability for benefits was \$7,234,338 and the actuarial value of assets was \$474,684, resulting in an unfunded actuarial accrued liability of \$6,759,654. 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 for benefits.

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2007 using the entry age actuarial cost method. Significant actuarial assumptions used include a 7.5 investment rate of return compounded annually, of which 5.5 percent is attributable to inflation. The assumptions 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 a closed basis. The remaining amortization period is three years.

#### Former Michigan Employees' Pension Plan (MERS)

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

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

In September 2007, the City withdrew from MERS and established a new plan known as the Former MERS plan. As a result, MERS refunded the City \$1,008,464, which represents the amount of funds the City had on deposit with the original MERS plan. The City recorded this refund as revenue within the Former MERS Pension Plan fund and began using the funds to pay for the monthly MERS payroll until the balance was exhausted, which occurred in March 2008. At this time, the General Fund began advancing the pension plan the monthly payroll amount. This continued for the remainder of the fiscal year. As a result, the General Fund contributed four months of pension payroll (March through June) at \$141,931 per month.

In June 2008, the City issued pension bonds in the amount of \$27,000,000, of which the Former MERS Pension Plan received \$18,523,238 to be used to fund the monthly MERS payroll as well as reimburse the General Fund for the above payroll advances. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 53 retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

**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 funding policy provides for periodic employer contributions at actuarially determined rates.

**Annual Pension Cost** - For the year ended June 30, 2008, the City's annual pension cost of \$18,433,363 exceeded the City's required contribution amount of \$2,785,272, which is being amortized over a nine-year period. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2008	2007*	2006*
Annual pension cost (APC)	\$ 18,433,363	\$ -	\$ -
Percentage of APC contributed	100.0%	0.0%	0.0%
Net pension obligation	\$ -	\$ 2,806,066	\$ 1,665,840

\* The historical data provided represents the actuarial history of the original MERS plan. The current year information reflects the Former MERS Pension Plan information.

## **Note 10 - Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress** - As of December 31, 2007, the most recent actuarial valuation date, the plan was 14 percent funded. The actuarial accrued liability for benefits was \$24,883,961 and the actuarial value of assets was \$3,494,590, resulting in an unfunded actuarial accrued liability of \$21,389,371. The covered payroll (annual payroll for active employees covered by the plan) was \$1,051,075, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2,035.1 percent.

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

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2007 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, of which 4.5 percent is attributable to inflation and (b) projected salary increases of 4.5 percent to 12.9 percent per year compounded annually, attributable to inflation. 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 percentage of payroll on a closed basis. The remaining amortization period is nine years.

## **Note 11 - Contingent Liabilities**

**Lawsuits and Claims** - The City is a defendant in various lawsuits and asserted claims. A provision in the amount of \$379,472 has been recorded for the estimated obligation for certain of these lawsuits and asserted claims. Management and legal counsel believe the City's ultimate exposure with respect to these actions is not determinable. No provision has been made in the accompanying financial statements for additional potential liabilities, if any, that may arise from the suits and asserted claims, or any unasserted claims that relate to current or prior activities of the City.

**Income Tax Refunds** - The City has recorded a liability in the General Fund totaling approximately \$342,000 of income tax refund claims filed by various taxpayers. Fiscal years 2000 through 2004 refund claims were refinanced with funds obtained through fiscal stabilization bonds and other General Fund resources. Since fiscal year 2005, the City has paid refund claims based on its expendable available resources.

### **Note 11 - Contingent Liabilities (Continued)**

**Public Act 51 Noncompliance** - In July 2000, the State of Michigan began withholding Public Act 51 shared revenues 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 Street 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 July 2002, the State of Michigan began releasing current shared revenues to the City, but not the previously withheld funds due to Act noncompliance. By agreement reached during 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, 2008, the outstanding loan balance was \$637,118, which is reported as advances receivable in the Major and Local Street Funds and advances payable in the General Fund.

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

### **Note 12 - Other Postemployment Benefits**

The City provides postemployment life and health insurance coverage pursuant to union contracts, paying various percentages for these benefits depending on the particular contract. The City is self-insured for postemployment life insurance coverage. Certain retirees have co-pay obligations for these benefits, as provided by contract. During the fiscal year ended June 30, 2008, the net cost for the postemployment benefits was \$782,417.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 12 - Other Postemployment Benefits (Continued)

The following are condensed financial statements for the pension plan and retiree health care plans:

	General Employees' Retirement System	Police and Fire Retirement System	Former MERS Pension Plan	Total
<b>Statement of Net Assets</b>				
Cash and investments	\$ 7,848,448	\$ 421,211	\$ 17,893,706	\$ 26,163,365
Other assets	33,399	40,289	141,931	215,619
Liabilities	2,300	19,950	-	22,250
Net assets	<u>\$ 7,879,547</u>	<u>\$ 441,550</u>	<u>\$ 18,035,637</u>	<u>\$ 26,356,734</u>
<b>Statement of Changes in Net Assets</b>				
Investment income	\$ 46,692	\$ 526	\$ 13,561	\$ 60,779
Contributions	7,074,648	1,520,012	19,441,827	28,036,487
Benefit payments	1,333,329	1,079,804	1,415,251	3,828,384
Other decreases	343,300	400,536	4,500	748,336
Change in net assets	<u>\$ 5,444,711</u>	<u>\$ 40,198</u>	<u>\$ 18,035,637</u>	<u>\$ 23,520,546</u>

### Note 13 - Interest Rate Swap

**Objective of Interest Rate Swap** - As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in June 2008, the City entered into an interest rate swap in connection with its \$27 million 2008 Series A variable rate pension bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 4.56 percent.

**Terms** - The swap will provide an interest rate hedge for a period of five years, from an effective date of July 1, 2008 to the termination date of July 1, 2013. Under the swap, the City pays the counterparty a fixed payment of 4.56 percent and receives a variable payment computed as 100 percent of the London Interbank Offered Rate (LIBOR). The swap has a notional amount of \$27 million and the associated variable rate bond has a \$27 million principal amount. The swap was entered into at the same time the bonds were issued (June 2008). The hedge will amortize such that after November 1, 2011, the notional amount outstanding of the hedge will equal exactly 50 percent of the outstanding principal of the bonds. This was done to manage the termination value of the swap after the three-year letter of credit expires, while hedging for as long a period of possible. Related to this, the City is placing \$350,000 aside as a reserve for future termination risk within the 2008 Pension Bonds Debt Service Fund.

### Note 13 - Interest Rate Swap (Continued)

**Fair Value** - Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$26,443,282 as of June 30, 2008. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the standard fair market value calculation. 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 of the swap.

**Credit Risk** - As of June 30, 2008, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aa2 by Moody's Investors Service, AA- by Standard & Poor's, and A+ by Fitch Ratings as of June 30, 2008. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 by Moody's Investor's Services or A- by Standard & Poor's, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

**Basis Risk** - The swap exposes the government to basis risk should there be a temporary shortfall between the interest rate paid on the underlying variable bonds and the floating rate received on the swap. This could result in a realized fixed rate on the swap that is higher than the nominal rate in the contract. The City intends to monitor the performance of the remarketing agent on the variable rate bond and to continually evaluate the economic viability of the variable index used on the swap. The amortization of the debt service of the bonds contains a cushion of 40 basis points (0.40 percent) to allow for basis risk and still remain within the City's ability to service the debt. At June 30, 2008, the synthetic rate was 4.56 percent and the variable rate was 2.46 percent.

### **Note 13 - Interest Rate Swap (Continued)**

**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 14 - Accounting and Reporting Change**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. During the current year, the City has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been added.
- Government-wide financial statements, prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, sidewalks, etc.), have been provided.
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets (deficit) include infrastructure assets (roads, sidewalks, etc.) not previously accounted for by the City as well as assets that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at July, 1, 2007 previously reported in the General Fixed Asset Account Group have been adjusted to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

# City of Highland Park, Michigan

## Notes to Financial Statements June 30, 2008

### Note 15 - Prior Period Adjustment

In preparation for the adoption of Governmental Accounting Standards Board Statement Number 34 (see Note 14), the City hired an independent appraisal company to take an inventory of its fixed assets. As a result of said inventory, the beginning balance of fixed assets and net assets of the Water and Sewer Fund were adjusted as follows:

Net deficit - June 30, 2007	\$ (313,159)
Adjustment to fixed asset balance to agree with inventory	<u>17,210</u>
Net deficit - July 1, 2007, as restated	<u>\$ (295,949)</u>

### Note 16 - Going Concern/Management's Plans

In June 2001, the State of Michigan Department of Treasury (the "State") appointed an Emergency Financial Manager (EFM) to run the City in accordance with Section 12(1) of Public Act 72 of 1990. The EFM was charged with the responsibility of balancing the annual operating budget and eliminating the cumulative General Fund deficit that totaled approximately \$11,275,000 at June 30, 2001. In addition to the General Fund deficit and many other financial and operating matters, the EFM also had to address the repayment of the Water and Sewer Fund borrowing of approximately \$4,900,000 from the General Fund. The State's original EFM was replaced with the current EFM in April 2005.

The EFM submitted a detailed plan on how he was going to eliminate all deficits and address all other operating matters. In addition, the EFM submits an annual deficit elimination plan to the State detailing the action plan for all funds in a deficit. The General Fund at June 30, 2008 did not have a cumulative deficit. The General Fund had a fund balance of \$3,075,801 but did have an unreserved, undesignated deficit of \$1,970,087 due to the inability of the Water and Sewer Fund to repay its interfund borrowings of \$3,553,126 (balance remaining from the 2001 amount noted above). The General Fund also had an operating surplus (outside of the pension bond contribution) of \$549,861. The Water and Sewer Fund had a net change in net assets of (\$2,072,441) for the year ended June 30, 2008.

The EFM has committed approximately \$1,000,000 annually from the General Fund toward the debt service of the new pension bonds beginning in the 2008/2009 fiscal year and has passed a balanced budget incorporating this commitment. The \$1,000,000 above, coupled with the voter-approved millage, should be sufficient to cover the annual debt service payments.

## **Note 16 - Going Concern/Management's Plans (Continued)**

To address the Water and Sewer Fund operating shortfall, the EFM passed a water and sewer usage rate increase subsequent to year end. The EFM is committed to reviewing the water and sewer rates at least annually to ensure the operating shortfall is eliminated and to ensure there is adequate cash flow to continue the reduction of the interfund borrowing between the General and Water and Sewer Funds.

## **Required Supplemental Information**

---

# City of Highland Park, Michigan

## Note to Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

**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 currently adopted under the directive of the Emergency Financial Manager.

The budget process is initiated in April, when the finance department estimates the revenues, 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 Emergency Financial Manager to determine the adjustments needed to balance the operating budget. The budget is submitted to the City Council in June for informational purposes and comments. After a public hearing, the final budget is adopted by a resolution from the Emergency Financial Manager no later than June 30 of each year.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at June 30, 2008 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted in the General Fund as follows:

	Amended Budget	Actual
General government	\$ 2,469,403	\$ 2,701,857
Public safety	3,399,930	3,461,344
Public works	1,947,260	2,111,897
Employee benefits	1,124,200	28,010,760
Debt service	1,147,330	2,408,536

Within the general government, the salaries as well as the legal costs were greater than anticipated. Within public safety, overtime costs were greater than budgeted. Within public works, payments made to utility vendors were greater than budgeted. Employee benefit costs were greater than budgeted due to the issuance of the 2008 pension bonds and the related contributions, and the debt service costs were greater than budgeted due to the 2008 pension bond issuance costs.

# City of Highland Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Property taxes	\$ 4,888,435	\$ 4,843,224	\$ 4,618,913	\$ (224,311)
Income taxes	2,400,000	2,450,000	2,574,491	124,491
Licenses and permits	50,000	53,000	65,310	12,310
Intergovernmental	3,900,746	3,901,446	3,685,007	(216,439)
Charges for services	-	340,000	316,853	(23,147)
Fines and forfeitures	720,724	810,724	872,589	61,865
Interest and investment earnings	60,000	80,000	87,230	7,230
Other	440,000	565,000	655,963	90,963
<b>Total revenues</b>	<b>12,459,905</b>	<b>13,043,394</b>	<b>12,876,356</b>	<b>(167,038)</b>
<b>Expenditures</b>				
General government:				
Council	67,450	67,950	68,009	(59)
District court	582,106	541,256	549,275	(8,019)
Administration	125,750	262,700	448,059	(185,359)
Finance	445,056	467,701	438,381	29,320
Income tax	60,200	76,050	69,064	6,986
Assessor	48,000	43,750	56,216	(12,466)
Attorney	577,500	693,450	750,451	(57,001)
Clerk	110,100	146,100	147,793	(1,693)
Personnel	66,045	57,100	60,437	(3,337)
Treasurer	117,650	113,346	114,172	(826)
<b>Total general government</b>	<b>2,199,857</b>	<b>2,469,403</b>	<b>2,701,857</b>	<b>(232,454)</b>
Public safety:				
Police	4,398,503	2,765,510	2,809,419	(43,909)
Fire	535,160	598,560	615,728	(17,168)
Code enforcement	34,135	35,860	36,197	(337)
<b>Total public safety</b>	<b>4,967,798</b>	<b>3,399,930</b>	<b>3,461,344</b>	<b>(61,414)</b>
Public works:				
Public service administration	1,679,748	1,502,260	1,655,232	(152,972)
Rubbish and garbage collection	440,000	445,000	456,665	(11,665)
<b>Total public works</b>	<b>2,119,748</b>	<b>1,947,260</b>	<b>2,111,897</b>	<b>(164,637)</b>
Recreation and cultural - Parks and recreation	60,000	623,500	610,746	12,754
Community and economic development	1,000	47,075	21,355	25,720
Employee benefits:				
Pension contributions	70,000	38,000	27,026,179	(26,988,179)
Workers' compensation	258,500	264,500	202,163	62,337
Other benefits	660,300	821,700	782,418	39,282
<b>Total employee benefits</b>	<b>988,800</b>	<b>1,124,200</b>	<b>28,010,760</b>	<b>(26,886,560)</b>
Debt service	997,330	1,147,330	2,408,536	(1,261,206)
<b>Total expenditures</b>	<b>11,334,534</b>	<b>10,758,698</b>	<b>39,326,495</b>	<b>(28,567,797)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>1,125,371</b>	<b>2,284,696</b>	<b>(26,450,139)</b>	<b>(28,734,835)</b>
<b>Other Financing Sources</b>				
Proceeds from issuance of debt	1,000,000	3,000,000	30,000,000	(27,000,000)
Proceeds from the sale of capital assets	200,000	200,000	-	200,000
<b>Total other financing sources</b>	<b>1,200,000</b>	<b>3,200,000</b>	<b>30,000,000</b>	<b>(26,800,000)</b>
<b>Net Change in Fund Balances</b>	<b>2,325,371</b>	<b>5,484,696</b>	<b>3,549,861</b>	<b>(1,934,835)</b>
<b>Fund Deficit - Beginning of year</b>	<b>(474,060)</b>	<b>(474,060)</b>	<b>(474,060)</b>	<b>-</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,851,311</b>	<b>\$ 5,010,636</b>	<b>\$ 3,075,801</b>	<b>\$ (1,934,835)</b>

# City of Highland Park, Michigan

## Required Supplemental Information General Employees' Pension Plan Schedule of Funding Progress June 30, 2008 (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll
6/30/88	\$ 8,914	\$ 23,006	\$ 14,092	38.7	\$ 1,702	828.0
6/30/93	10,065	20,093	10,028	50.1	675	1,485.6
6/30/95	14,084	19,046	4,962	73.9	415	1,195.7
6/30/99	12,059	16,639	4,580	72.5	190	2,410.5
6/30/06	3,676	10,726	7,050	34.3	30	23,500.0
12/31/07	568	10,134	9,566	5.6	30	31,886.7

The schedule of employer contributions is as follows:

Year Ended June 30	Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/03	*	*	*
6/30/04	*	*	*
6/30/05	*	*	*
6/30/06	*	*	*
6/30/07	6/30/06	\$ 2,030	0.09%
6/30/08	12/31/07	1,575	449%

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

# City of Highland Park, Michigan

---

**Required Supplemental Information**  
**General Employees' Pension Plan Schedule of Funding Progress**  
**(Continued)**  
**June 30, 2008**  
(dollar amounts in thousands)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level dollar, closed
Remaining amortization period	3 years
Asset valuation method	Four-year smooth market
Actuarial assumptions:	
Investment rate of return**	7.5%
Projected salary increases**	5.5% - 9.3%
**Includes inflation at	5.5%
Cost of living adjustments	None

# City of Highland Park, Michigan

## Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2008 (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
6/30/93	\$ 2,623	\$ 18,691	\$ 16,068	14.0
6/30/95	4,006	16,432	12,426	24.4
6/30/99	3,452	15,845	12,393	21.8
12/31/02	321	11,454	11,133	2.8
6/30/06	369	8,139	7,770	4.5
12/31/07	475	7,234	6,759	6.6

The schedule of employer contributions is as follows:

Year Ended June 30	Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/03	12/31/02	\$ 2,150	0.00%
6/30/04	*	*	*
6/30/05	*	*	*
6/30/06	*	2,150	82.9%
6/30/07	6/30/06	2,237	68.3%
6/30/08	12/31/07	1,113	133.0%

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

# City of Highland Park, Michigan

---

**Required Supplemental Information**  
**Police and Fire Retirement System Schedule of Funding Progress**  
**(Continued)**  
**June 30, 2008**  
(dollar amounts in thousands)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level dollar, closed
Remaining amortization period	3 years
Asset valuation method	Four-year smooth market
Actuarial assumptions:	
Investment rate of return**	7.5
Projected salary increases**	n/a
**Includes inflation at	5.0%
Cost of living adjustments	None

# City of Highland Park, Michigan

## Required Supplemental Information Former Michigan Employees' Retirement System (MERS) Schedule of Funding Progress June 30, 2008 (dollar amounts in thousands)

The schedule of funding progress is as follows\*:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll
12/31/02	\$ 3,951	\$ 21,682	\$ 17,731	18.2	\$ 1,337	1,326.2
12/31/03	8,542	23,091	14,549	37.0	1,440	1,010.3
12/31/04	7,643	23,544	15,901	32.5	1,297	1,226.0
12/31/05	6,295	23,686	17,391	26.6	1,103	1,576.7
12/31/06	4,910	23,907	18,997	20.5	1,157	1,641.9
12/31/07	3,495	24,884	21,389	14.0	1,051	2,035.1

The schedule of employer contributions is as follows\*:

Year Ended June 30	Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/03	12/31/02	\$ -	0.0%
6/30/04	12/31/03	-	0.0%
6/30/05	12/31/04	627	0.0%
6/30/06	12/31/05	1,038	0.0%
6/30/07	12/31/06	1,140	0.0%
6/30/08	12/31/07	2,785	662.0%

\* The historical data provided represents the actuarial history of the original MERS plan. The current year information reflects the Former MERS Pension Plan information.

# City of Highland Park, Michigan

---

## Required Supplemental Information Former Michigan Employees' Retirement System (MERS) (Continued) Schedule of Funding Progress June 30, 2008 (dollar amounts in thousands)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed
Remaining amortization period	9 years
Asset valuation method	Four-year smooth 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

	Major Streets	Local Streets	Federal Grants	Demolition	Drug Forfeiture	Community Projects and Food	FIA Building
<b>Assets</b>							
Cash and cash equivalents	\$ 583,933	\$ 539,687	\$ 39,102	\$ 75,989	\$ 27,599	\$ -	\$ -
Investments	-	-	-	-	-	-	1,413,687
Receivables - Other	-	-	-	-	-	-	-
Due from other governmental units	119,982	34,719	-	45,473	-	-	-
Due from other funds	-	-	-	150	-	34,114	-
Advances from other funds	51,314	585,804	-	-	-	-	-
Restricted assets	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 755,229</b>	<b>\$ 1,160,210</b>	<b>\$ 39,102</b>	<b>\$ 121,612</b>	<b>\$ 27,599</b>	<b>\$ 34,114</b>	<b>\$ 1,413,687</b>
<b>Liabilities and Fund Balances (Deficit)</b>							
<b>Liabilities</b>							
Accounts payable	\$ 30,209	\$ 34,094	\$ -	\$ 52,000	\$ 6,631	\$ -	\$ -
Due to other governmental units	-	-	29,526	-	-	-	-
Due to other funds	-	-	9,576	-	-	-	-
Deferred revenue	-	-	-	45,473	-	-	-
<b>Total liabilities</b>	<b>30,209</b>	<b>34,094</b>	<b>39,102</b>	<b>97,473</b>	<b>6,631</b>	<b>-</b>	<b>-</b>
<b>Fund Balances (Deficit)</b>							
Reserved - Debt service	-	-	-	-	-	-	-
Unreserved - Undesignated	725,020	1,126,116	-	24,139	20,968	34,114	1,413,687
<b>Total fund balances (deficit)</b>	<b>725,020</b>	<b>1,126,116</b>	<b>-</b>	<b>24,139</b>	<b>20,968</b>	<b>34,114</b>	<b>1,413,687</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 755,229</b>	<b>\$ 1,160,210</b>	<b>\$ 39,102</b>	<b>\$ 121,612</b>	<b>\$ 27,599</b>	<b>\$ 34,114</b>	<b>\$ 1,413,687</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

Special Revenue Funds			Debt Service Funds		Total Nonmajor Governmental Funds
Federal Accounts	Community Development Block Grant	CDBG Program Income	2008 Pension Bonds Debt Service	Building Authority	
\$ -	\$ 26,852	\$ 43,465	\$ -	\$ -	\$ 1,336,627
-	-	-	-	-	1,413,687
-	-	-	19,120	-	19,120
-	158,266	-	-	-	358,440
69,102	9,545	-	-	-	112,911
-	-	-	-	-	637,118
-	-	-	1,216,800	-	1,216,800
<b>\$ 69,102</b>	<b>\$ 194,663</b>	<b>\$ 43,465</b>	<b>\$ 1,235,920</b>	<b>\$ -</b>	<b>\$ 5,094,703</b>
\$ -	\$ 151,066	\$ -	\$ -	\$ -	\$ 274,000
-	-	-	-	-	29,526
-	44,981	9,545	-	-	64,102
-	158,266	33,920	-	-	237,659
-	354,313	43,465	-	-	605,287
-	-	-	1,235,920	-	1,235,920
69,102	(159,650)	-	-	-	3,253,496
69,102	(159,650)	-	1,235,920	-	4,489,416
<b>\$ 69,102</b>	<b>\$ 194,663</b>	<b>\$ 43,465</b>	<b>\$ 1,235,920</b>	<b>\$ -</b>	<b>\$ 5,094,703</b>

# City of Highland Park, Michigan

## Special Revenue Funds

	Major Streets	Local Streets	Federal Grants	Demolition	Drug Forfeiture	Community Projects and Food	FIA Building
<b>Revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ 150	\$ -	\$ -	\$ -
Intergovernmental	787,250	211,880	44,059	203,527	-	-	-
Rental income	-	-	-	-	-	-	1,070,690
Interest and investment earnings	26,318	28,071	-	3,500	816	-	73,471
Other	-	-	-	-	16,591	-	-
<b>Total revenues</b>	<b>813,568</b>	<b>239,951</b>	<b>44,059</b>	<b>207,177</b>	<b>17,407</b>	<b>-</b>	<b>1,144,161</b>
<b>Expenditures</b>							
Current:							
Public works	1,124,277	575,094	-	-	-	-	-
Community and economic development	-	-	-	249,000	-	-	-
Capital outlay	-	-	44,059	-	16,631	-	-
Debt service	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>1,124,277</b>	<b>575,094</b>	<b>44,059</b>	<b>249,000</b>	<b>16,631</b>	<b>-</b>	<b>-</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(310,709)</b>	<b>(335,143)</b>	<b>-</b>	<b>(41,823)</b>	<b>776</b>	<b>-</b>	<b>1,144,161</b>
<b>Other Financing Sources (Uses)</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(1,129,019)
<b>Total other financing (uses) sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,129,019)</b>
<b>Net Change in Fund Balances</b>	<b>(310,709)</b>	<b>(335,143)</b>	<b>-</b>	<b>(41,823)</b>	<b>776</b>	<b>-</b>	<b>15,142</b>
<b>Fund Balances - Beginning of year</b>	<b>1,035,729</b>	<b>1,461,259</b>	<b>-</b>	<b>65,962</b>	<b>20,192</b>	<b>34,114</b>	<b>1,398,545</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 725,020</b>	<b>\$ 1,126,116</b>	<b>\$ -</b>	<b>\$ 24,139</b>	<b>\$ 20,968</b>	<b>\$ 34,114</b>	<b>\$ 1,413,687</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Special Revenue Funds			Debt Service Funds		
Federal Accounts	Community Development Block Grant	CDBG Program Income	2008 Pension Bonds Debt Service	Building Authority	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 1,235,755	\$ -	\$ 1,235,905
-	438,433	37,158	-	-	1,722,307
-	-	-	-	-	1,070,690
-	-	-	165	-	132,341
-	-	-	-	-	16,591
-	438,433	37,158	1,235,920	-	4,177,834
-	-	-	-	-	1,699,371
-	598,083	37,158	-	-	884,241
-	-	-	-	-	60,690
-	-	-	-	1,129,019	1,129,019
-	598,083	37,158	-	1,129,019	3,773,321
-	(159,650)	-	1,235,920	(1,129,019)	404,513
-	-	-	-	1,129,019	1,129,019
-	-	-	-	-	(1,129,019)
-	-	-	-	1,129,019	-
-	(159,650)	-	1,235,920	-	(724,506)
69,102	-	-	-	-	4,084,903
<b>\$ 69,102</b>	<b>\$ (159,650)</b>	<b>\$ -</b>	<b>\$ 1,235,920</b>	<b>\$ -</b>	<b>\$ 4,489,416</b>

# City of Highland Park, Michigan

	Pension Trust Funds			Total
	General Employees' Retirement System	Police and Fire Retirement System	Former MERS Pension Plan	
<b>Current Assets</b>				
Cash and cash equivalents	\$ 7,118,922	\$ 353,131	\$ 17,866,594	\$ 25,338,647
Investments:				
Stocks	109,362	68,080	27,112	204,554
Life insurance/CSV	620,164	-	-	620,164
Prepaid costs	<u>33,399</u>	<u>40,289</u>	<u>141,931</u>	<u>215,619</u>
Total assets	7,881,847	461,500	18,035,637	26,378,984
<b>Liabilities</b>				
Accounts payable	2,300	19,950	-	22,250
Due to other governmental units	-	-	-	-
Deposits payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,300</u>	<u>19,950</u>	<u>-</u>	<u>22,250</u>
<b>Net Assets Held for Pension</b>	<u><u>\$ 7,879,547</u></u>	<u><u>\$ 441,550</u></u>	<u><u>\$ 18,035,637</u></u>	<u><u>\$ 26,356,734</u></u>

**Other Supplemental Information  
Combining Statement of Net Assets  
Fiduciary Funds  
June 30, 2008**

Agency Funds

Tax Collections	Fire Insurance Escrow	30th District Court	Total
\$ 1,093,948	\$ 584,063	\$ 68,214	\$ 1,746,225
-	-	-	-
-	-	-	-
<u>\$ 1,093,948</u>	<u>\$ 584,063</u>	<u>\$ 68,214</u>	<u>\$ 1,746,225</u>
\$ -	\$ -	\$ -	\$ -
1,093,948	-	29,323	1,123,271
-	584,063	38,891	622,954
<u>\$ 1,093,948</u>	<u>\$ 584,063</u>	<u>\$ 68,214</u>	<u>\$ 1,746,225</u>

# City of Highland Park, Michigan

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2008

	Pension Trust Funds			Total
	General Employees' Retirement System	Police and Fire Retirement System	Former MERS Pension Plan	
<b>Additions</b>				
Investment income (loss):				
Interest and dividends	\$ 96,035	\$ 3,983	\$ 13,561	\$ 113,579
Net decrease in fair value of investments	(49,343)	(3,457)	-	(52,800)
Net investment income	46,692	526	13,561	60,779
Contributions:				
Employer	7,073,092	1,481,567	18,433,363	26,988,022
Employee	1,556	38,445	-	40,001
Refunded reserves	-	-	1,008,464	1,008,464
Total contributions	7,074,648	1,520,012	19,441,827	28,036,487
Total additions	7,121,340	1,520,538	19,455,388	28,097,266
<b>Deductions</b>				
Benefit payments	1,333,329	1,079,804	1,415,251	3,828,384
Healthcare benefits	330,948	399,493	-	730,441
General and administrative	12,352	1,043	4,500	17,895
Total deductions	1,676,629	1,480,340	1,419,751	4,576,720
<b>Net Increase in Net Assets Held in Trust</b>	5,444,711	40,198	18,035,637	23,520,546
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	2,434,836	401,352	-	2,836,188
End of year	<b>\$ 7,879,547</b>	<b>\$ 441,550</b>	<b>\$ 18,035,637</b>	<b>\$ 26,356,734</b>