

**City of Bloomfield Hills
Oakland County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2010**

City of Bloomfield Hills, Michigan

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Independent Auditor's Report

To the City Commission
City of Bloomfield Hills
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bloomfield Hills, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2010 and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bloomfield Hills, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the City Commission
City of Bloomfield Hills
Oakland County, Michigan

As described in Note 11, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year. As a result, the government-wide statements and Enterprise Funds now report the cost of retiree health care as those benefits are earned by the employees.

As described in Note 2, the City reported a change in accounting in the current year to include the activity of the Water and Sewer Fund, administered by the County, in the City's financial statements. As a result, the government-wide statements and Enterprise Fund now include the City's water and sewer activity.

Plante & Moran, PLLC

November 30, 2010

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of Bloomfield Hills, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's financial statements.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide general information about 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 answers 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 government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statement (i.e., Tax Collection Fund) provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Government-wide Financial Statements

The government-wide statements provide information about the City as a whole, using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the City's assets and liabilities. One of the major differences between the government-wide statements and the fund financial statements is the inclusion of depreciation in the government-wide statements. We saw a slight decrease in combined net assets of \$874,187 this year. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's overall financial health. The statement of activities reflects all of the current year's revenue and expenses, regardless of when cash is actually received or paid. The government-wide financial statements of the City are divided into two categories. These two categories will be discussed in more specificity later in this management's discussion and analysis.

Governmental Activities - Most of the City's basic services are included in governmental activities such as public safety, public works, and general administration, all of which are accounted for in the General Fund. Property taxes, state-shared revenue, charges for services, licenses and permits, and other revenue comprise the revenue for the governmental activities. Also included as governmental activities are the Major and Local Streets Funds, General Obligation Debt Fund, Budget Stabilization Fund, Drug Enforcement Fund, and Road Construction Fund.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities - Commonly referred to as an Enterprise Fund, the activities shown under this category are related to our water and sewer budgets. These activities are funded through user fees in the form of water and sewer rates, meter charges, industrial surcharges, and capital projects fees.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Other assets	\$ 8,524,767	\$ 7,314,948	\$ 2,818,769	\$ 4,621,462	\$ 11,343,536	\$ 11,936,410
Capital assets	15,222,871	13,668,644	4,876,919	3,809,674	20,099,790	17,478,318
Total assets	23,747,638	20,983,592	7,695,688	8,431,136	31,443,326	29,414,728
Liabilities						
Current liabilities	1,665,480	1,765,047	666,367	1,488,223	2,331,847	3,253,270
Long-term liabilities	6,986,113	3,248,313	1,788,236	2,165,734	8,774,349	5,414,047
Total liabilities	8,651,593	5,013,360	2,454,603	3,653,957	11,106,196	8,667,317
Net Assets						
Invested in capital assets - Net of related debt	10,499,878	10,364,774	2,866,224	1,643,941	13,366,102	12,008,715
Restricted	1,310,420	1,579,271	1,551,060	953,724	2,861,480	2,532,995
Unrestricted	3,285,747	4,026,187	823,801	2,179,514	4,109,548	6,205,701
Total net assets	<u>\$ 15,096,045</u>	<u>\$ 15,970,232</u>	<u>\$ 5,241,085</u>	<u>\$ 4,777,179</u>	<u>\$ 20,337,130</u>	<u>\$ 20,747,411</u>

The City's combined net assets are \$20.3 million as compared to \$20.7 million for the prior year. This represents a 2.0 percent decrease. This decrease was in unrestricted net assets. The governmental activities portion of net assets decreased by \$874,187, or 5.5 percent, while the business-type activities increased by \$463,906, or 9.7 percent.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and in the prior year:

Summary Condensed Income Statement

	Governmental Activities		Business-type Activities		Total	
	2009, as					
	2010	restated	2010	2009 *	2010	2009
Revenue						
Program revenue:						
Charges for services	\$ 775,157	\$ 789,547	\$ 3,238,798	\$ -	\$ 4,013,955	\$ 789,547
Operating grants and contributions	297,465	304,408	-	-	297,465	304,408
Capital grants and contributions	-	-	1,042,646	-	1,042,646	-
General revenue:						
Property taxes	7,188,857	7,328,576	-	-	7,188,857	7,328,576
State-shared revenue	251,237	260,751	-	-	251,237	260,751
Unrestricted investment earnings	68,000	144,160	2,100	-	70,100	144,160
Franchise fees	108,540	93,368	-	-	108,540	93,368
Miscellaneous	254,264	283,159	-	-	254,264	283,159
Total revenue	8,943,520	9,203,969	4,283,544	-	13,227,064	9,203,969
Program Expenses						
General government	3,350,748	2,951,535	-	-	3,350,748	2,951,535
Public safety	4,470,909	4,664,231	-	-	4,470,909	4,664,231
Public works	1,775,483	1,843,730	-	-	1,775,483	1,843,730
Water and sewer	-	-	3,819,638	-	3,819,638	-
Interest on long-term debt	220,567	240,783	-	-	220,567	240,783
Total program expenses	9,817,707	9,700,279	3,819,638	-	13,637,345	9,700,279
Change in Net Assets	\$ (874,187)	\$ (496,310)	\$ 463,906	\$ -	\$ (410,281)	\$ (496,310)

* The information is not available as the activity was not being reported on the financial statements in prior year. See Note 2 for the disclosure of the change in accounting.

Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the General Obligation Debt Fund, the Road Construction Fund, and other nonmajor governmental funds accounts.

The City's governmental revenue totaled \$8.9 million, with the largest revenue source being property taxes. Property taxes represent \$7.2 million of total governmental revenue, which is approximately 80 percent of total governmental revenue. This percentage of total revenue is slightly up as compared to last year due to lower "total" revenue.

Charges for services totaled \$775 thousand or 8.7 percent of total revenue. Charges for services primarily supports the building department and public safety activities.

During fiscal year 2010, the City received capital improvement charge revenue of approximately \$1 million. This revenue will be set aside in the Water and Sewer Fund and will be used to fund current and future improvements to the water and sewer lines infrastructure.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

Business Activities

The City's business-type activity consists of the Water and Sewer Fund. We provide water as a part of the Southeastern Oakland County Water Authority (SOCWA), which in turn purchases water from the Detroit water and sewerage department. Sewage treatment is provided through Oakland County through the Water Resource Commissioner's office, formerly the Oakland County Drain Commission, which is a customer of the Detroit water and sewerage department.

System revenue is provided primarily through the fees paid by consumers based on actual metered water usage. Also within this fund is the debt for the retirement of capital improvement bonds for sanitary sewer system improvements.

The business-type activity revenue totaled approximately \$4.3 million. Of this \$4.3 million, \$4.1 million was from water and sewer rates and \$.1 million was from interest income. Taking expenditures into consideration totaling \$3.8 million, there was a positive net asset increase of \$.5 million.

Capital Assets and Debt Administration

At the end of fiscal year 2010, the City has a total of \$20.1 million invested in a wide range of capital assets in both governmental and business-type activities, including land, buildings, equipment, roads, and water and sewer lines. The amount increased by \$2.6 million from the previous year, showing continuing investment in the City's infrastructure. See Note 5 to the financial statements for additional information.

In 2010, the City borrowed \$4 million to continue its road improvement program. This repair and replacement program was approved by the City Commission in late 2006.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's significant funds, not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenue and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The City has the following fund types:

Governmental Funds - All 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 the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual financial statements, we refer to our funds as the General Fund, General Obligation Debt Fund, Road Construction Fund, and other nonmajor governmental funds.

The following represents the most significant financial highlights for the year ended June 30, 2010:

- State-shared revenue currently provides the City with \$251,237, which represents a 3.6 percent reduction as compared with fiscal year 2008-2009.
- Property tax and related revenue decreased from \$7,238,545 to \$7,188,857, or 6.9 percent, as compared to fiscal year 2008-2009.
- The General Fund revenue in total was \$310,237 less than the prior year.

Proprietary Fund - Services that are intended to be entirely self-supporting by customer usage fees are reported as proprietary funds. As mentioned above, this would be our Water and Sewer Fund. Proprietary fund statements, such as government-wide statements, provide both short- and long-term financial information.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City administration and City Commission monitored and, if necessary, amended the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act. The audited numbers included \$454,660 more revenue than the original budget and the final amended budget.

From a General Fund revenue perspective, the City received more revenue than anticipated. The additional increases in revenue came from the following revenue sources: property taxes - \$103,660, licenses and permits - \$98,784, and other miscellaneous income of \$199,337.

It has been the City's practice to monitor the revenue and expenditure reports on a monthly basis to track the unfolding fiscal year. These practices will only increase in the 2010-2011 fiscal year when additional financial statements are put in place to help the City Commission become more confident in our reporting.

At year end, General Fund revenue was more than budget by \$454,660 while expenditures were 0.8 percent or \$67,774 under budget.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and the Future

There are several economic factors that will continue to challenge the City. The three major funding sources for cities are property taxes, state-shared revenue, and fees and charges. All three of these sources are subject to limitations that over the last few years and for the foreseeable future will prevent them from increasing at the rate of inflation. Expenses on the other hand are rising faster than inflation. Because we are a service provider, the majority of our costs are related to active and retired personnel. Double-digit increases in healthcare, pension costs, and the pre-funding of retiree health care (GASB No. 45) will continue to place a burden on overall city expenditures as we continue to rely on our tax base to maintain services.

Property taxes make up 81 percent of the City's General Fund budget. This reliance on property taxes will increase in the coming years, as other sources such as state-shared revenue decline or are eliminated.

In May 2010, the City increased its tax rate to 9.05 mills. This action was necessitated to offset anticipated revenue shortfalls in property tax revenue for the next few years. Growth in the City has diminished and the City's taxable values are anticipated to drop in fiscal year 2010-2011 due to falling home prices. It is projected that we will continue to experience further declines over the next few years.

The City continues to look for ways to reduce expenditures through union negotiations, staffing, and possible consolidation of services with neighboring communities.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors 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, please contact the City administration at 248-644-1520, and as always you are welcome to visit our website at www.bloomfieldhillsmi.net.

City of Bloomfield Hills, Michigan

Statement of Net Assets June 30, 2010

	Primary Government		
	Governmental	Business-type	
	Activities	Activity	Total
Assets			
Cash and cash equivalents (Note 4)	\$ 5,148,814	\$ 1,333,642	\$ 6,482,456
Receivables (Note 1):			
Customers	-	1,260,383	1,260,383
Due from other governmental units	221,410	224,744	446,154
Delinquent personal property taxes	10,947	-	10,947
Special assessments receivable	101,272	-	101,272
Internal balances (Note 6)	216,760	(216,760)	-
Prepaid expenses and other assets	309,198	-	309,198
Restricted assets (Note 1)	2,299,606	-	2,299,606
Capital assets - Net (Note 5):			
Nondepreciable capital assets	2,313,794	338,476	2,652,270
Depreciable capital assets - Net	12,909,077	4,538,443	17,447,520
Total assets	23,530,878	7,478,928	31,009,806
Liabilities			
Accounts payable	621,481	179,256	800,737
Due to other governmental units	-	34,273	34,273
Accrued liabilities and other	336,650	13,619	350,269
Noncurrent liabilities:			
Due within one year (Note 7):			
Compensated absences	180,000	-	180,000
Current portion of long-term debt	310,589	222,459	533,048
Due in more than one year:			
Compensated absences (Note 7)	250,887	-	250,887
Other postemployment benefit obligation (Note 11)	23,216	-	23,216
Long-term debt (Note 7)	6,712,010	1,788,236	8,500,246
Total liabilities	8,434,833	2,237,843	10,672,676
Net Assets			
Invested in capital assets - Net of related debt	10,499,878	2,866,224	13,366,102
Restricted for:			
PEG-related expenditures	106,483	-	106,483
Streets and highways	1,203,231	-	1,203,231
Drug enforcement	706	-	706
Water capital improvements	-	204,747	204,747
Sewer capital improvements	-	1,346,313	1,346,313
Unrestricted	3,285,747	823,801	4,109,548
Total net assets	\$ 15,096,045	\$ 5,241,085	\$ 20,337,130

City of Bloomfield Hills, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,350,748	\$ 301,589	\$ -	\$ -
Public safety	4,470,909	473,568	4,345	-
Public works	1,775,483	-	293,120	-
Interest on long-term debt	220,567	-	-	-
Total governmental activities	9,817,707	775,157	297,465	-
Business-type activities - Water and Sewer Fund	3,819,638	3,238,798	-	1,042,646
Total primary government	<u>\$ 13,637,345</u>	<u>\$ 4,013,955</u>	<u>\$ 297,465</u>	<u>\$ 1,042,646</u>
General revenue:				
Property taxes				
State-shared revenue				
Unrestricted investment earnings				
Franchise fees - Unrestricted				
Miscellaneous				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year (Note 2)				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2010

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,049,159)	\$ -	\$ (3,049,159)
(3,992,996)	-	(3,992,996)
(1,482,363)	-	(1,482,363)
(220,567)	-	(220,567)
(8,745,085)	-	(8,745,085)
-	461,806	461,806
(8,745,085)	461,806	(8,283,279)
7,188,857	-	7,188,857
251,237	-	251,237
68,000	2,100	70,100
108,540	-	108,540
254,264	-	254,264
7,870,898	2,100	7,872,998
(874,187)	463,906	(410,281)
15,970,232	4,777,179	20,747,411
\$ 15,096,045	\$ 5,241,085	\$ 20,337,130

City of Bloomfield Hills, Michigan

Governmental Funds Balance Sheet June 30, 2010

	General Fund	Road Construction Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 4)	\$ 3,737,907	\$ 238,922	\$ 8,813	\$ 1,163,172	\$ 5,148,814
Receivables:					
Special assessments receivable	101,272	-	-	-	101,272
Due from other governmental units	175,754	-	-	45,656	221,410
Delinquent personal property taxes	10,947	-	-	-	10,947
Due from other funds (Note 6)	216,760	-	216,760	-	433,520
Prepaid expenses and other assets	309,198	-	-	-	309,198
Restricted assets (Note 1)	-	2,299,606	-	-	2,299,606
	<u>\$ 4,551,838</u>	<u>\$ 2,538,528</u>	<u>\$ 225,573</u>	<u>\$ 1,208,828</u>	<u>\$ 8,524,767</u>
Total assets					
	<u>\$ 4,551,838</u>	<u>\$ 2,538,528</u>	<u>\$ 225,573</u>	<u>\$ 1,208,828</u>	<u>\$ 8,524,767</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 138,981	\$ 477,609	\$ -	\$ 4,891	\$ 621,481
Due to other funds (Note 6)	-	-	216,760	-	216,760
Accrued liabilities and other	272,601	-	-	-	272,601
Deferred revenue (Note 1)	112,219	-	-	-	112,219
	<u>523,801</u>	<u>477,609</u>	<u>216,760</u>	<u>4,891</u>	<u>1,223,061</u>
Total liabilities					
	<u>523,801</u>	<u>477,609</u>	<u>216,760</u>	<u>4,891</u>	<u>1,223,061</u>
Fund Balances					
Reserved for:					
Prepaid expenses	309,198	-	-	-	309,198
PEG-related expenditures	106,483	-	-	-	106,483
Road construction	-	2,060,919	-	-	2,060,919
Unreserved, reported in:					
General Fund:					
Designated:					
Compensated absences	430,887	-	-	-	430,887
Subsequent year's expenditures	526,240	-	-	-	526,240
Other postemployment benefits	1,000,000	-	-	-	1,000,000
City road signs	50,000	-	-	-	50,000
Undesignated	1,605,229	-	-	-	1,605,229
Special Revenue Funds:					
Designated for subsequent years' expenditures	-	-	-	383,334	383,334
Undesignated	-	-	-	820,603	820,603
Debt Service Funds -					
Undesignated	-	-	8,813	-	8,813
	<u>4,028,037</u>	<u>2,060,919</u>	<u>8,813</u>	<u>1,203,937</u>	<u>7,301,706</u>
Total fund balances					
	<u>4,028,037</u>	<u>2,060,919</u>	<u>8,813</u>	<u>1,203,937</u>	<u>7,301,706</u>
Total liabilities and fund balances	<u>\$ 4,551,838</u>	<u>\$ 2,538,528</u>	<u>\$ 225,573</u>	<u>\$ 1,208,828</u>	<u>\$ 8,524,767</u>

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

City of Bloomfield Hills, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **June 30, 2010**

Fund Balance Reported in Governmental Funds	\$ 7,301,706
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 funds	15,222,871
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	101,272
Delinquent personal property taxes are expected to be collected over several years and are not available to pay for current year expenditures	10,947
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,022,599)
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(64,049)
Compensated absences are not due and payable in the current period and are not reported in the funds	(430,887)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(23,216)
Net Assets of Governmental Activities	<u>\$ 15,096,045</u>

City of Bloomfield Hills, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2010

	General Fund	Road Construction Fund	General Obligation Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 7,238,545	\$ -	\$ -	\$ -	\$ 7,238,545
Licenses and permits	397,684	-	-	14,355	412,039
State sources	262,699	-	-	278,765	541,464
Charges for services	65,767	-	-	-	65,767
Fines and forfeitures	413,129	-	-	-	413,129
Interest	61,995	1,624	179	4,202	68,000
Other	298,916	-	1,297	-	300,213
Total revenue	8,738,735	1,624	1,476	297,322	9,039,157
Expenditures					
Current:					
General government	2,903,394	-	472	1,916	2,905,782
District court	418,867	-	-	-	418,867
Public safety	4,173,031	-	-	-	4,173,031
Public works	449,809	39,979	-	388,900	878,688
Capital outlay	190,555	2,539,843	-	-	2,730,398
Debt service	196,844	53,169	319,275	-	569,288
Total expenditures	8,332,500	2,632,991	319,747	390,816	11,676,054
Excess of Revenue Over (Under) Expenditures	406,235	(2,631,367)	(318,271)	(93,494)	(2,636,897)
Other Financing Sources (Uses)					
Face value of debt issued	44,395	4,000,000	-	-	4,044,395
Transfers in (Note 6)	-	296,136	325,226	94,283	715,645
Transfers out (Note 6)	(621,362)	-	-	(94,283)	(715,645)
Total other financing sources (uses)	(576,967)	4,296,136	325,226	-	4,044,395
Net Change in Fund Balances	(170,732)	1,664,769	6,955	(93,494)	1,407,498
Fund Balances - Beginning of year	4,198,769	396,150	1,858	1,297,431	5,894,208
Fund Balances - End of year	\$ 4,028,037	\$ 2,060,919	\$ 8,813	\$ 1,203,937	\$ 7,301,706

City of Bloomfield Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 1,407,498
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 recorded as capital assets	2,708,890
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(1,142,184)
Gains from the sale of capital assets are reported as revenue in the governmental funds; the statement of activities recorded a gain or loss, included in the general government expense	6,030
Interest expense is recorded when incurred in the statement of activities	(30,110)
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	19,301
Certain revenue reported in the statement of activities in the current years will not provide current financial resources in the governmental funds until future years	(101,667)
Proceeds acquired through the issuance of long-term debt are recorded as other financing sources in governmental funds; the statement of activities records an addition to long-term debt	(4,044,395)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt	325,666
Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental funds	(23,216)
Change in Net Assets of Governmental Activities	<u>\$ (874,187)</u>

City of Bloomfield Hills, Michigan

Proprietary Funds Statement of Net Assets June 30, 2010

	Enterprise Fund Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 4)	\$ 1,333,642
Receivables:	
Receivables from sales to customers on account	1,260,383
Due from other governmental units	224,744
Total current assets	2,818,769
Noncurrent assets - Capital assets (Note 5)	4,876,919
Total assets	7,695,688
Liabilities	
Current liabilities:	
Accounts payable	179,256
Due to other governmental units	34,273
Due to other funds (Note 6)	216,760
Accrued liabilities and other	13,619
Current portion of long-term debt (Note 7)	222,459
Total current liabilities	666,367
Noncurrent liabilities - Long-term debt (Note 7)	1,788,236
Total liabilities	2,454,603
Net Assets	
Invested in capital assets - Net of related debt	2,866,224
Restricted:	
Water capital improvements	204,747
Sewer capital improvements	1,346,313
Unrestricted	823,801
Total net assets	\$ 5,241,085

City of Bloomfield Hills, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2010

	Enterprise Fund Water and Sewer Fund
Operating Revenue	
Sale of water	\$ 1,460,014
Sewage disposal charges	1,158,967
Other operating revenue	619,817
Total operating revenue	3,238,798
Operating Expenses	
Cost of water	1,592,959
Cost of sewage treatment	894,614
Operation and maintenance	853,919
Billing and administrative costs	231,995
Depreciation (Note 5)	168,011
Total operating expenses	3,741,498
Operating Loss	(502,700)
Nonoperating Revenue (Expense)	
Investment income	2,100
Interest expense	(78,140)
Total nonoperating expense	(76,040)
Loss Before Contributions	(578,740)
Capital Contributions - Tap fees and capital charges	1,042,646
Change in Net Assets	463,906
Net Assets - Beginning of year (Note 2)	4,777,179
Net Assets - End of year	\$ 5,241,085

City of Bloomfield Hills, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2010

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 3,269,574
Payments to suppliers	(4,111,770)
Net cash used in operating activities	(842,196)
Cash Flows from Capital and Related Financing Activities	
Issuance of bonds	242,750
Tap fees and capital charges	1,042,646
Purchase of capital assets	(1,235,256)
Principal and interest paid on capital debt	(475,929)
Payment to other funds for reimbursement of capital expenditures	(550,475)
Net cash used in capital and related financing activities	(976,264)
Cash Flows from Investing Activities	2,100
Net Decrease in Cash and Cash Equivalents	(1,816,360)
Cash and Cash Equivalents - Beginning of year	3,150,002
Cash and Cash Equivalents - End of year	\$ 1,333,642
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (502,700)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	168,011
Changes in assets and liabilities:	
Receivables	30,776
Due from other governmental units	(44,443)
Accounts payable	(477,340)
Accrued and other liabilities	(16,500)
Net cash used in operating activities	\$ (842,196)

City of Bloomfield Hills, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2010

Assets

Cash and cash equivalents	\$ 777,511
Receivables - Other	<u>1,415</u>
Total assets	<u><u>\$ 778,926</u></u>

Liabilities - Refundable deposits

\$ 778,926

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Bloomfield Hills, 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 Bloomfield Hills, Michigan:

Reporting Entity

The City of Bloomfield Hills, Michigan is governed by an elected five-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

Blended Component Unit - The City's Building Authority is governed by a board that is appointed by the Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Government-wide and Fund Financial Statements

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

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

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

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

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 and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

Road Construction Fund - The Road Construction Fund is used to account for the road repair and replacement project, for which bonds are issued to fund the project. The Commission is looking at a 10-year plan to rehabilitate all City roads.

General Obligation Debt Fund - The General Obligation Debt Fund is used to account for the accumulation of resources for the periodic payment of principal and interest on long-term debt.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of those services. The activity of the water distribution and sewage collection systems is administered by Oakland County.

Additionally, the City reports the following fund type:

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

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

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. Tap fees intended to recover the cost of the infrastructure are recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

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 March 1 of the following year, at which time penalties and interest are assessed.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

The City's 2009 tax is levied and collectible on July 1, 2009 and is recognized as revenue in the year ended June 30, 2010, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2009 taxable valuation of the City totaled \$849 million, on which taxes levied consisted of 8.30 mills for operating purposes. This resulted in \$7.1 million for operating. These amounts are recognized in the respective General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash 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 are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. 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 City has unspent bond proceeds of \$2,299,606 that are restricted to be used for future road construction.

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 \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

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

Land improvements	20 years
Building improvements	50 years
Machinery, equipment, and vehicles	5 to 20 years
Sewer drains	50 years
Infrastructure	20 to 50 years

Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2010, the deferred revenue balance represented \$10,947 of delinquent personal property taxes and \$101,272 of special assessments, totaling \$112,219. At the end of the current fiscal year, all deferred revenue related to revenue that was unavailable.

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. There is a liability for half of the unpaid accumulated sick leave since the City has a policy to pay half the amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

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

Fund Equity - In 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. Designations of fund balance represent tentative management plans that are subject to change.

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 - Accounting and Reporting Change

The financial statements for the year ended June 30, 2010 have been restated in order to reflect the activity of the City's Water and Sewer system previously accounted for by the County. In the process of ensuring the City had all of its intangible assets recorded for the purposes of GASB 51, the City came across documentation that indicated that the City had ownership over the water and sewer system, which had previously been believed to be the County's asset. Therefore, in the current year, the City recorded a prior period adjustment to reflect the water and sewer system in its financial statements. The effect of this correction is described in the following table.

	Governmental Activities	Water and Sewer Construction Fund	Business-type Activities - Water and Sewer Fund
Fund balance - June 30, 2009 - As previously reported	\$ 19,914,086	\$ 2,299,914	\$ -
To reflect water and sewer assets previously recorded as an asset in the governmental activities	(3,809,674)	-	3,809,674
To reflect the activity of the Water and Sewer Construction Fund through June 30, 2009 as an Enterprise Fund instead of a Capital Projects Fund	(2,299,914)	(2,299,914)	2,299,914
Adjustment to record activity from the Oakland County Water Resources Commissioner as of June 30, 2009	-	-	833,325
To reflect water and sewer long-term debt previously recorded as long-term debt in the governmental activities	2,165,734	-	(2,165,734)
Fund balance - June 30, 2009 - As restated	<u>\$ 15,970,232</u>	<u>\$ -</u>	<u>\$ 4,777,179</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 3 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2000 is as follows:

Cumulative surplus - July 1, 2009		\$	175,357
Current year building permit revenue			299,304
Related expenses:			
Direct costs	\$	476,878	
Estimated indirect costs		<u>87,550</u>	<u>564,428</u>
Current year shortfall			<u>(265,124)</u>
Cumulative shortfall - June 30, 2010		\$	<u>(89,767)</u>

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The 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 City has designated eight banks for the deposit of its funds. Each financial intermediary, broker, or dealer that holds the City's funds must be provided with a copy of the investment policy and comply with the policy. The investment policy adopted by the City Commission in accordance with Public Act 196 of 1997 has authorized investment in all of the above securities. The City's deposits and investments are currently in compliance with its investment policy and statutory authority.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 4 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,504,409 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$2,431,005 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all 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.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government			
Pooled investment - Oakland County	\$ 538,959	Not rated	N/A
Comerica - J Fund	4,854,807	PI	Moody's

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 5 - Capital Assets

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

	Balance July 1, 2009 (as restated in Note 2)	Reclassifications	Additions	Disposals	Balance June 30, 2010
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 339,638	\$ -	\$ -	\$ -	\$ 339,638
Construction in progress	1,231,015	(1,100,877)	1,844,018	-	1,974,156
Subtotal	1,570,653	(1,100,877)	1,844,018	-	2,313,794
Capital assets being depreciated:					
Land improvements	240,500	-	-	-	240,500
Buildings and improvements	6,774,352	-	23,025	-	6,797,377
Machinery, equipment, and vehicles	4,007,396	-	232,360	(192,228)	4,047,528
Infrastructure	14,738,864	1,100,877	609,487	-	16,449,228
Subtotal	25,761,112	1,100,877	864,872	(192,228)	27,534,633
Accumulated depreciation:					
Land improvements	138,288	-	12,025	-	150,313
Buildings and improvements	1,444,182	-	136,674	-	1,580,856
Machinery, equipment, and vehicles	2,554,440	-	322,215	(179,749)	2,696,906
Infrastructure	9,526,211	-	671,270	-	10,197,481
Subtotal	13,663,121	-	1,142,184	(179,749)	14,625,556
Net capital assets being depreciated	12,097,991	1,100,877	(277,312)	(12,479)	12,909,077
Net capital assets	<u>\$ 13,668,644</u>	<u>\$ -</u>	<u>\$ 1,566,706</u>	<u>\$ (12,479)</u>	<u>\$ 15,222,871</u>
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ 826,484	\$ (826,484)	\$ 338,476	\$ -	\$ 338,476
Capital assets being depreciated:					
Sewer drains	1,388,637	-	-	-	1,388,637
Infrastructure	1,970,277	826,484	896,779	-	3,693,540
Subtotal	3,358,914	826,484	896,779	-	5,082,177
Accumulated depreciation:					
Sewer drains	-	-	39,675	-	39,675
Infrastructure	375,723	-	128,336	-	504,059
Subtotal	375,723	-	168,011	-	543,734
Net capital assets being depreciated	2,983,191	826,484	728,768	-	4,538,443
Net capital assets	<u>\$ 3,809,675</u>	<u>\$ -</u>	<u>\$ 1,067,244</u>	<u>\$ -</u>	<u>\$ 4,876,919</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 50,399
Public safety	297,825
Public works	<u>793,960</u>
Total governmental activities	<u>\$ 1,142,184</u>
Business-type activities - Water and sewer	<u>\$ 168,011</u>

Construction Commitments - The City has an active road construction project at year end. The projects include the bond issue and the project. At year end, the City's commitment with the contractor is as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Road construction project	\$ 1,700,394	\$ 2,088,536

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	General Obligation Debt Fund	\$ 216,760
General Obligation Debt Fund	Water and Sewer Fund	<u>216,760</u>
	Total	<u>\$ 433,520</u>

The 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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	General Obligation Debt Fund	\$ 325,226
	Road Construction Fund	<u>296,136</u>
	Total General Fund	621,362
Nonmajor governmental fund - Major Streets Fund	Nonmajor governmental fund - Local Streets Fund	<u>94,283</u>
	Total	<u>\$ 715,645</u>

The transfers from the General Fund to the General Obligation Debt Fund represent the use of unrestricted resources to service debt payments, in accordance with budgetary authorizations; and the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenue in accordance with Act 51.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

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. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance (as restated in Note 2)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Road Construction Bonds:						
Amount of issue - \$3,000,000						
Maturing through 2018	3.75%-5.25%	\$ 3,000,000	\$ -	\$ (200,000)	\$ 2,800,000	\$ 200,000
General Obligation Limited Tax Bonds, Series 2010:						
Amount of issue - \$4,000,000						
Maturing through 2025	2.0%-3.5%	-	4,000,000	-	4,000,000	-
2006 Installment Purchase Obligation - Dump truck:						
Amount of issue - \$97,835						
Maturing through 2009	5.75%	20,627	-	(20,627)	-	-
2006 Installment Purchase Obligation - Sweeper:						
Amount of issue - \$124,000						
Maturing through 2011	4.90%	43,338	-	(21,096)	22,242	21,096
2008 New Holland Tractor Obligation:						
Amount of issue - \$43,660						
Maturing through 2011	8.35%	29,770	-	(14,543)	15,227	15,227
2008 Caterpillar Backhoe Obligation:						
Amount of issue - \$35,395						
Maturing through 2010	5.89%	11,750	-	(11,750)	-	-
2008 Road Grader Obligation:						
Amount of issue - \$75,975						
Maturing through 2013	4.50%	59,385	-	(16,358)	43,027	16,412
2009 Ford F450 Obligation:						
Amount of issue - \$34,000						
Maturing through 2011	3.96%	34,000	-	(16,651)	17,349	17,349
2009 Sterling Big Truck Obligation:						
Amount of issue - \$105,000						
Maturing through 2013	4.07%	105,000	-	(24,641)	80,359	25,707
2010 Caterpillar Obligation:						
Amount of issue - \$44,395						
Maturing through 2013	0.00%	-	44,395	-	44,395	14,798
Total bonds payable		3,303,870	4,044,395	(325,666)	7,022,599	310,589
Other long-term obligations - Employee compensated absences		450,188	268,481	(287,782)	430,887	180,000
Total governmental activities		\$ 3,754,058	\$ 4,312,876	\$ (613,448)	\$ 7,453,486	\$ 490,589

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Beginning Balance (as restated in Note 2)	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities						
Evergreen-Farmington Bonds: Amount of issue - \$12,500 Maturing through 2010	3.70%	\$ 1,056	\$ -	\$ (1,056)	\$ -	\$ -
Evergreen-Farmington Permanent Meter and Interceptor Rehabilitation: Amount of issue - \$785,104 Maturing through 2009	2.31%	8,982	-	(8,982)	-	-
State Revolving Fund Loan Bloomfield Hills - Michigan State Revolving Loan Fund: Amount of issue - \$250,000 Maturing through 2015	2.25%	70,000	-	(15,000)	55,000	10,000
Bloomfield Village CSO Drainage Bonds, Series 1994 A: Amount of issue - \$161,233 Maturing through 2017	2.00%	69,944	-	(8,229)	61,715	8,229
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001A: Amount of issue - \$141,432 Maturing through 2017	5.14%	75,345	-	(9,000)	66,345	9,000
Bloomfield Village CSO Drainage District Refunding Bonds, Series 2001B: Amount of issue - \$468,013 Maturing through 2017	4.20%-5.00%	270,522	-	(270,522)	-	-
Bloomfield Village CSO Drain Bonds Series, C/2001B: Amount of issue - \$242,750 Maturing through 2017	2.0%-3.0%	-	242,750	-	242,750	35,230
City of Bloomfield Hills CSO Drainage District Drain Refunding Bonds, Series 2003: Amount of issue - \$1,125,000 Maturing through 2017	2.25%-3.38%	724,885	-	(85,000)	639,885	85,000
2009 General Obligation Debt - SOCWA bonds: Amount of issue - \$945,000 Maturing through 2017	2.00%-3.25%	945,000	-	-	945,000	75,000
Total bonds payable		<u>\$ 2,165,734</u>	<u>\$ 242,750</u>	<u>\$ (397,789)</u>	<u>\$ 2,010,695</u>	<u>\$ 222,459</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 310,589	\$ 241,958	\$ 552,547	\$ 222,459	\$ 52,068	\$ 274,527
2012	408,020	223,343	631,363	267,973	46,428	314,401
2013	403,990	210,198	614,188	272,344	39,988	312,332
2014	350,000	197,000	547,000	292,602	32,828	325,430
2015	400,000	184,000	584,000	321,573	24,485	346,058
2016	500,000	168,750	668,750	331,573	14,865	346,438
2017	550,000	149,063	699,063	302,171	4,887	307,058
2018	700,000	126,375	826,375	-	-	-
2019	800,000	101,313	901,313	-	-	-
2020	300,000	83,000	383,000	-	-	-
2021	400,000	72,250	472,250	-	-	-
2022	400,000	59,250	459,250	-	-	-
2023	500,000	43,750	543,750	-	-	-
2024	500,000	26,250	526,250	-	-	-
2025	500,000	8,750	508,750	-	-	-
Total	\$ 7,022,599	\$ 1,895,250	\$ 8,917,849	\$ 2,010,695	\$ 215,549	\$ 2,226,244

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (MMRMA) state pool for claims related to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's state pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 9 - Defined Benefit Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all public safety union employees and department of public works (DPW) union employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 1.7 percent and 5 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2010, the City's annual pension cost of \$853,645 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis for the general administration, public works, and executive divisions and on an open basis for the public safety dispatch, public safety officers, public safety command, and executive divisions. The remaining amortization period is between 10 and 30 years.

	Fiscal Year Ended June 30		
	2008	2009	2010
Annual pension cost (APC)	\$ 729,862	\$ 835,125	\$ 853,645
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 9 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2008	2009	2010
Actuarial value of assets	\$ 15,649,890	\$ 15,651,148	\$ 15,651,378
Actuarial accrued liability (AAL)			
(entry age)	\$ 25,443,447	\$ 26,586,401	\$ 26,757,641
Unfunded AAL (UAAL)	\$ 9,793,557	\$ 10,935,253	\$ 11,106,263
Funded ratio	61.5 %	58.9 %	58.5 %
Covered payroll	\$ 2,112,739	\$ 2,353,244	\$ 2,531,426
UAAL as a percentage of covered payroll	463.5 %	464.7 %	438.7 %

Note 10 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time nonunion employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by a City Commission approved resolution, the City contributes 1 percent of employees' gross earnings for nonunion employees. The City's total nonunion payroll during the current year was \$484,090. The current year contribution was calculated based on covered payroll, resulting in an employer contribution of \$4,841.

Nonunion employees also receive a 15 percent contribution toward their deferred compensation plan. Nonunion employees are not required but many elect to make contributions to the plan. Nonunion employees' accounts are fully vested immediately.

Note 11 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses. This is an agent multiple employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan (MERS).

Funding Policy - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the City has made contributions to advance-fund these benefits, as determined by the City Commission through annual budget resolutions.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended June 30, 2010, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years for active employees and 15 years for current retirees. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 988,433
Annual OPEB cost	988,433
Amounts contributed:	
Payments of current premiums	(765,217)
Advance funding	(200,000)
Increase in net OPEB obligation	23,216
OPEB obligation - Beginning of year	-
OPEB obligation - End of year	\$ 23,216

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

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution *</u>	<u>Net OPEB Obligation</u>
6/30/10	1/1/09	\$ 988,433	\$ 23,216

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

The funding progress of the plan as of the most recent valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (Percent) (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/09	\$ -	\$ 11,358,067	\$ 11,358,067	-	\$ 1,910,384	594.5

Note 11 - Other Postemployment Benefits (Continued)

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

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

In the January 1, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements of 0.5 percent to an ultimate rate of 4 percent after eight years. Both rates included a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The amortization period at June 30, 2010 is 30 years for active participants and 15 years for retirees.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2010

Note 12 - Joint Venture

The City is a member of Southeastern Oakland County Water Authority (the "Water Authority"), which consists of 12 municipalities in Oakland County. The City purchases water from the Water Authority. The City appoints one member to the joint venture's governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$156,000 related to payments to the Water Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Water Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

Note 13 - Upcoming Reporting Changes

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement GASB Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Required Supplemental Information

City of Bloomfield Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 7,134,885	\$ 7,134,885	\$ 7,238,545	\$ 103,660
Licenses and permits	298,900	298,900	397,684	98,784
State-shared revenue and grants	268,700	268,700	262,699	(6,001)
Charges for services	55,800	55,800	65,767	9,967
Fines and forfeitures	420,000	420,000	413,129	(6,871)
Investment income	41,190	41,190	61,995	20,805
Other revenue:				
Special assessments	17,000	17,000	51,979	34,979
Other miscellaneous income	47,600	47,600	246,937	199,337
Total revenue	8,284,075	8,284,075	8,738,735	454,660
Expenditures				
Current:				
General government:				
City Commission	4,528	4,528	3,704	824
City manager	130,721	130,721	130,727	(6)
Treasurer	88,629	88,629	88,030	599
Assessing	49,700	49,700	42,683	7,017
General administration	1,531,971	1,756,971	1,563,410	193,561
Clerk	90,759	90,759	87,059	3,700
Buildings and grounds	188,240	188,240	182,560	5,680
Attorney	248,865	255,365	255,328	37
Building and planning	271,402	271,402	476,335	(204,933)
Engineering	102,530	102,530	56,558	45,972
Library	18,000	18,000	17,000	1,000
Total general government	2,725,345	2,956,845	2,903,394	53,451
48th District Court	420,000	420,000	418,867	1,133
Public safety	4,024,840	4,048,840	4,173,031	(124,191)
Public works	603,060	603,060	449,809	153,251
Capital outlay	182,000	217,000	190,555	26,445
Debt service	154,529	154,529	196,844	(42,315)
Total expenditures	8,109,774	8,400,274	8,332,500	67,774
Excess of Revenue Over (Under) Expenditures	174,301	(116,199)	406,235	522,434
Other Financing Sources (Uses)				
Proceeds from issuance of debt	-	-	44,395	44,395
Transfers out	(838,122)	(838,122)	(621,362)	216,760
Total other financing uses	(838,122)	(838,122)	(576,967)	261,155
Net Change in Fund Balance	(663,821)	(954,321)	(170,732)	783,589
Fund Balance - Beginning of year	4,198,769	4,198,769	4,198,769	-
Fund Balance - End of year	\$ 3,534,948	\$ 3,244,448	\$ 4,028,037	\$ 783,589

City of Bloomfield Hills, Michigan

Notes to Required Supplemental Information Year Ended June 30, 2010

Budgetary Information - The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 30, the finance director/treasurer and the city manager prepare a proposed operating budget for the fiscal year commencing July 1 and submit it to the City Commission. The budget must be adopted through a passage of a budget resolution no later than May 31.
2. Public hearings are conducted to obtain citizen comments.
3. The legislative budget is adopted by department and fund on a departmental basis. Line item detail is provided as a general guideline. Throughout the year, the Commission receives the requests to amend the activity budget. All amendments must be approved by a vote of the City Commission. Changes in line items within an activity may be made and approved by the finance director/treasurer.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Bloomfield Hills, Michigan incurred the following expenditures that were significantly in excess of budgetary amounts:

	Amended Budget	Actual	Variance
Public safety	\$ 4,048,840	\$ 4,173,031	\$ (124,191)
Debt service	154,529	196,844	(42,315)
Building and planning	271,402	476,335	(204,933)

Public safety expenditures were in excess of budget due to an unanticipated increase in overtime wages and MERS contributions. Debt service expenditures were in excess of budget due to an unanticipated purchase of DPW equipment on capital lease. Building and planning expenditures over budget relate to accounting transactions entered into in the current year to reconcile balances in related to building permits in the Trust and Agency Fund.

Other Supplemental Information

City of Bloomfield Hills, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2010

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	
Assets				
Cash and investments	\$ 707,684	\$ 454,782	\$ 706	\$ 1,163,172
Due from other governmental units	30,883	14,773	-	45,656
Total assets	<u>\$ 738,567</u>	<u>\$ 469,555</u>	<u>\$ 706</u>	<u>\$ 1,208,828</u>
Liabilities and Fund Balances				
Liabilities - Accounts payable	\$ 3,459	\$ 1,432	\$ -	\$ 4,891
Fund Balances - Unreserved, reported in - Special Revenue funds:				
Designated for subsequent years' expenditures	239,907	143,427	-	383,334
Undesignated	495,201	324,696	706	820,603
Total fund balances	<u>735,108</u>	<u>468,123</u>	<u>706</u>	<u>1,203,937</u>
Total liabilities and fund balances	<u>\$ 738,567</u>	<u>\$ 469,555</u>	<u>\$ 706</u>	<u>\$ 1,208,828</u>

City of Bloomfield Hills, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2010

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	
Revenue				
Licenses and permits	\$ 3,589	\$ 10,766	\$ -	\$ 14,355
State sources	188,567	90,198	-	278,765
Investment income	2,427	1,775	-	4,202
Total revenue	194,583	102,739	-	297,322
Expenditures				
Current:				
General government	1,144	772	-	1,916
Public works	96,506	292,394	-	388,900
Total expenditures	97,650	293,166	-	390,816
Excess of Revenue Over (Under) Expenditures	96,933	(190,427)	-	(93,494)
Other Financing Sources (Uses)				
Transfers in	-	94,283	-	94,283
Transfers out	(94,283)	-	-	(94,283)
Total other financing sources (uses)	(94,283)	94,283	-	-
Net Change in Fund Balances	2,650	(96,144)	-	(93,494)
Fund Balances - Beginning of year	732,458	564,267	706	1,297,431
Fund Balances - End of year	\$ 735,108	\$ 468,123	\$ 706	\$ 1,203,937