

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

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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 activity, each major fund, and the aggregate remaining fund information of the City of Bloomfield Hills, Michigan as of June 30, 2011 and the respective changes in financial position and cash flows, 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 schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

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.

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB Statement No. 54.

Plante & Morse, PLLC

October 20, 2011

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, 2011. Please read it along with the City's financial statements, as it refers to many of the 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 indicate whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they convey how the taxpayers' resources were consumed 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.

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 decrease in combined net assets of \$231,911 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 detail 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 total revenue for governmental activities. Also included as governmental activities are the Major and Local Streets Funds, General Obligation Debt 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, this accounts for our water and sewer activity. 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 for the current and prior fiscal year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Other assets	\$ 6,188,245	\$ 8,524,767	\$ 2,350,611	\$ 2,818,769	\$ 8,538,856	\$ 11,343,536
Capital assets	16,088,669	15,222,871	5,309,714	4,876,919	21,398,383	20,099,790
Total assets	22,276,914	23,747,638	7,660,325	7,695,688	29,937,239	31,443,326
Liabilities						
Current liabilities	1,248,355	1,688,696	453,948	666,367	1,702,303	2,355,063
Long-term liabilities	6,609,197	6,962,897	1,520,520	1,788,236	8,129,717	8,751,133
Total liabilities	7,857,552	8,651,593	1,974,468	2,454,603	9,832,020	11,106,196
Net Assets						
Invested in capital assets - Net of related debt	9,403,051	10,499,878	3,521,221	2,866,224	12,924,272	13,366,102
Restricted	954,092	1,310,420	-	-	954,092	1,310,420
Unrestricted	4,062,219	3,285,747	2,164,636	2,374,861	6,226,855	5,660,608
Total net assets	<u>\$ 14,419,362</u>	<u>\$ 15,096,045</u>	<u>\$ 5,685,857</u>	<u>\$ 5,241,085</u>	<u>\$ 20,105,219</u>	<u>\$ 20,337,130</u>

The City's combined net assets are about \$20,100,000 as compared to about \$20,300,000 for the prior year. This represents a 1.1 percent decrease. The governmental activities portion of net assets decreased by \$676,683, or 4.5 percent, while the business-type activities increased by \$444,772, or 8.5 percent, for a net total change of \$231,911.

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	
	2011	2010	2011	2010	2011	2010
Revenue						
Program revenue:						
Charges for services	\$ 878,840	\$ 775,157	\$ 2,286,985	\$ 3,238,798	\$ 3,165,825	\$ 4,013,955
Operating grants and contributions	317,804	297,465	-	-	317,804	297,465
Capital grants and contributions	-	-	919,281	1,042,646	919,281	1,042,646
General revenue:						
Property taxes	7,359,563	7,188,857	-	-	7,359,563	7,188,857
State-shared revenue	265,380	251,237	-	-	265,380	251,237
Unrestricted investment earnings	71,169	67,821	8,478	2,100	79,647	69,921
Franchise fees	111,223	108,540	-	-	111,223	108,540
Miscellaneous	116,887	254,264	-	-	116,887	254,264
Total revenue	9,120,866	8,943,341	3,214,744	4,283,544	12,335,610	13,226,885
Program Expenses						
General government	3,035,710	3,351,265	-	-	3,035,710	3,351,265
Public safety	4,479,745	4,470,379	-	-	4,479,745	4,470,379
Public works	2,040,201	1,722,327	-	-	2,040,201	1,722,327
Water and sewer	-	-	2,769,972	3,819,638	2,769,972	3,819,638
Interest on long-term debt	241,893	273,557	-	-	241,893	273,557
Total program expenses	9,797,549	9,817,528	2,769,972	3,819,638	12,567,521	13,637,166
Change in Net Assets	\$ (676,683)	\$ (874,187)	\$ 444,772	\$ 463,906	\$ (231,911)	\$ (410,281)

Governmental Activities

As you read through the next several paragraphs, it is important to keep in mind that governmental activities include not only the General Fund, but also the General Obligation Debt Fund, Road Construction Fund, Major and Local Streets Funds, and Drug Enforcement Fund.

The City's total governmental revenue totaled \$9,100,000 in 2011. Property taxes represent \$7,300,000, or 80 percent of the total. Charges for services totaled \$879,000 or 9.7 percent of total revenue. Charges for services primarily support the building department and public safety activities.

During fiscal year 2011, the City received capital improvement charge revenue of approximately \$919,000. 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 only business-type activity is the Water and Sewer Fund. The City purchases water from the Southeastern Oakland County Water Authority (SOCWA), and it in turn purchases water from the Detroit water and sewage 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 sewage department.

The Water and Sewer Fund's major revenue is fees paid by city residents based on actual metered water usage. The debt recorded in this fund is for the retirement of capital improvement bonds for sanitary sewer system improvements.

The business-type activity revenue totaled approximately \$3,200,000; of this total, \$8,478 was interest income. With expenditures totaling \$2,800,000, there was a net asset increase of \$445,000 in the current year.

Capital Assets and Debt Administration

At the end of fiscal year 2011, the City had \$21,400,000 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. This amount increased \$1,300,000 from the previous year, demonstrating a continual investment in the City's infrastructure. See Note 4 to the financial statements for additional information.

In 2010, the City borrowed \$4,000,000 to continue its road improvement program. This repair and replacement program was approved by the City Commission in late 2006, and the program remains ongoing.

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.

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.

City of Bloomfield Hills, Michigan

Management's Discussion and Analysis (Continued)

The following represents financial highlights for the year ended June 30, 2011:

- The City tax millage was increased from 8.30 to 9.05 to offset a 4.8 percent decline in property tax values. With the millage increase, property tax revenue was \$7,381,529 (see page 39) compared to \$7,238,545 in the prior year. Without this millage increase, the City would have lost approximately \$350,000 in property tax revenue. The City continues to face declines in property tax values. Next year, our property tax values decrease 8.2 percent. In 2012/2013, Oakland County projects an additional decline of 5.9 percent for the City.
- The City staff continued their efforts to cut costs in 2010/2011 and, as a result, General Fund expenditures were significantly under budget at \$7,727,022 (see page 39), a decline of \$605,478 from 2009/2010.
- The City Commission increased the assignment of fund balance for retiree health care to \$1,500,000, a \$500,000 increase; and for the first time, they assigned \$50,000 from fund balance toward the future financing of a fire truck (see page 12).
- The City Commission and staff remain committed to improving our roads. Bond proceeds and fund contributions totaling \$1,985,025 (see page 14) were expended toward road and related water and sewer projects this 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. General Fund expenditures were \$262,284 less than the final amended budget.

From a General Fund revenue perspective, the City received more revenue than anticipated. Actual revenue included \$169,419 more than the final amended revenue 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 real and personal 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, continue to rise faster than inflation. The majority of our costs are related to active and retired personnel because we are a service provider. Double-digit increases in health care, pension costs, and the prefunding of retiree health care (GASB Statement No. 45) will continue to place a burden on overall City expenditures as we continue to rely on a declining tax base to maintain services.

Property taxes make up 80 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 2011, the City increased its tax rate to 9.85 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 will decrease 8.2 percent in fiscal year 2011-2012 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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 5,442,477	\$ 842,855	\$ 6,285,332
Receivables (Note 1):			
Customers	-	1,309,086	1,309,086
Accrued interest receivable	20,103	-	20,103
Due from other governmental units	243,180	198,670	441,850
Delinquent personal property taxes	9,910	-	9,910
Special assessments receivable	80,343	-	80,343
Prepaid expenses	175,648	-	175,648
Restricted assets (Note 1)	216,584	-	216,584
Capital assets - Net (Note 4):			
Nondepreciable capital assets	512,085	602,674	1,114,759
Depreciable capital assets - Net	15,576,584	4,707,040	20,283,624
Total assets	22,276,914	7,660,325	29,937,239
Liabilities			
Accounts payable	372,267	175,521	547,788
Accrued liabilities and other	225,577	10,454	236,031
Noncurrent liabilities:			
Due within one year (Note 6):			
Compensated absences	180,000	-	180,000
Current portion of long-term debt	391,918	267,973	659,891
Due in more than one year:			
Compensated absences (Note 6)	315,497	-	315,497
Other postemployment benefit obligation (Note 10)	78,593	-	78,593
Long-term debt (Note 6)	6,293,700	1,520,520	7,814,220
Total liabilities	7,857,552	1,974,468	9,832,020
Net Assets			
Invested in capital assets - Net of related debt	9,403,051	3,521,221	12,924,272
Restricted for:			
Cable television	106,483	-	106,483
Streets and highways	842,589	-	842,589
Drug enforcement	5,020	-	5,020
Unrestricted	4,062,219	2,164,636	6,226,855
Total net assets	\$ 14,419,362	\$ 5,685,857	\$ 20,105,219

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	\$ 3,035,710	\$ 357,615	\$ -	\$ -
Public safety	4,479,745	521,225	21,774	-
Public works	2,040,201	-	296,030	-
Interest on long-term debt	241,893	-	-	-
Total governmental activities	9,797,549	878,840	317,804	-
Business-type activities - Water and Sewer Fund	2,769,972	2,286,985	-	919,281
Total primary government	<u>\$ 12,567,521</u>	<u>\$ 3,165,825</u>	<u>\$ 317,804</u>	<u>\$ 919,281</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				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2011

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,678,095)	\$ -	\$ (2,678,095)
(3,936,746)	-	(3,936,746)
(1,744,171)	-	(1,744,171)
(241,893)	-	(241,893)
(8,600,905)	-	(8,600,905)
-	436,294	436,294
(8,600,905)	436,294	(8,164,611)
7,359,563	-	7,359,563
265,380	-	265,380
71,169	8,478	79,647
111,223	-	111,223
116,887	-	116,887
7,924,222	8,478	7,932,700
(676,683)	444,772	(231,911)
15,096,045	5,241,085	20,337,130
\$ 14,419,362	\$ 5,685,857	\$ 20,105,219

City of Bloomfield Hills, Michigan

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Capital Projects Fund - Road Construction Fund	Nonmajor Funds	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 4,698,770	\$ -	\$ 743,707	\$ 5,442,477
Receivables:				
Special assessments receivable	80,343	-	-	80,343
Accrued interest receivable	20,103	-	-	20,103
Due from other governmental units	197,548	-	45,632	243,180
Delinquent personal property taxes	9,910	-	-	9,910
Prepaid expenses	175,648	-	-	175,648
Restricted assets (Note 1)	-	216,584	-	216,584
Total assets	<u>\$ 5,182,322</u>	<u>\$ 216,584</u>	<u>\$ 789,339</u>	<u>\$ 6,188,245</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 216,939	\$ 138,926	\$ 16,402	\$ 372,267
Accrued liabilities and other	166,661	-	-	166,661
Deferred revenue (Note 1)	90,253	-	-	90,253
Total liabilities	473,853	138,926	16,402	629,181
Fund Balances				
Nonspendable - Prepaid expenses	175,648	-	-	175,648
Restricted:				
Roads	-	77,658	764,931	842,589
Drug enforcement	-	-	5,020	5,020
Cable television	106,483	-	-	106,483
Assigned:				
Debt service	-	-	2,986	2,986
City road signs	50,000	-	-	50,000
Compensated absences	495,497	-	-	495,497
Other postemployment benefit obligation	1,500,000	-	-	1,500,000
Fire truck	50,000	-	-	50,000
Unassigned	2,330,841	-	-	2,330,841
Total fund balances	<u>4,708,469</u>	<u>77,658</u>	<u>772,937</u>	<u>5,559,064</u>
Total liabilities and fund balances	<u>\$ 5,182,322</u>	<u>\$ 216,584</u>	<u>\$ 789,339</u>	<u>\$ 6,188,245</u>

City of Bloomfield Hills, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **June 30, 2011**

Fund Balance Reported in Governmental Funds	\$ 5,559,064
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	16,088,669
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	80,343
Delinquent personal property taxes are expected to be collected over several years and are not available to pay for current year expenditures	9,910
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,685,618)
Accrued interest payable is not due and payable in the current period and is not reported in the funds	(58,916)
Compensated absences are not due and payable in the current period and are not reported in the funds	(495,497)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities	(78,593)
Net Assets of Governmental Activities	<u>\$ 14,419,362</u>

City of Bloomfield Hills, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2011

	General Fund	Capital Projects Fund - Road Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 7,381,529	\$ -	\$ -	\$ 7,381,529
Licenses and permits	456,843	-	13,204	470,047
Federal sources	-	-	4,796	4,796
State sources	291,250	-	282,826	574,076
Charges for services	77,515	-	-	77,515
Fines and forfeitures	446,813	-	-	446,813
Interest	67,455	1,764	1,950	71,169
Other	116,887	-	-	116,887
Total revenue	8,838,292	1,764	302,776	9,142,832
Expenditures				
Current:				
General government	2,595,786	-	-	2,595,786
District court	414,461	-	-	414,461
Public safety	4,094,446	-	482	4,094,928
Public works	452,285	-	466,780	919,065
Capital outlay	52,468	1,985,025	269,500	2,306,993
Debt service	117,576	-	436,665	554,241
Total expenditures	7,727,022	1,985,025	1,173,427	10,885,474
Excess of Revenue Over (Under) Expenditures	1,111,270	(1,983,261)	(870,651)	(1,742,642)
Other Financing Sources (Uses)				
Transfers in (Note 5)	-	-	526,482	526,482
Transfers out (Note 5)	(430,838)	-	(95,644)	(526,482)
Total other financing (uses) sources	(430,838)	-	430,838	-
Net Change in Fund Balances	680,432	(1,983,261)	(439,813)	(1,742,642)
Fund Balances - Beginning of year	4,028,037	2,060,919	1,212,750	7,301,706
Fund Balances - End of year	\$ 4,708,469	\$ 77,658	\$ 772,937	\$ 5,559,064

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, 2011**

Net Change in Fund Balances - Total Governmental Funds **\$ (1,742,642)**

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

Governmental funds report capital outlays as expenditures;
however, in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Capital outlay	2,240,067
Depreciation expense	(1,304,819)
Net book value of assets disposed of	(69,450)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(21,966)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	336,981
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Interest expense is recorded when incurred in the statement of activities	5,133
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	(64,610)
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Other postemployment benefit obligation expense is recognized in the statement of activities, but not in the governmental units	<u>(55,377)</u>
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Change in Net Assets of Governmental Activities **\$ (676,683)**

City of Bloomfield Hills, Michigan

Proprietary Funds Statement of Net Assets June 30, 2011

	Enterprise Fund Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 842,855
Receivables:	
Receivables from sales to customers on account	1,309,086
Due from other governmental units	198,670
Total current assets	2,350,611
Noncurrent assets - Capital assets (Note 4)	5,309,714
Total assets	7,660,325
Liabilities	
Current liabilities:	
Accounts payable	175,521
Accrued liabilities and other	10,454
Current portion of long-term debt (Note 6)	267,973
Total current liabilities	453,948
Noncurrent liabilities - Long-term debt (Note 6)	1,520,520
Total liabilities	1,974,468
Net Assets	
Invested in capital assets - Net of related debt	3,521,221
Unrestricted	2,164,636
Total net assets	\$ 5,685,857

City of Bloomfield Hills, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2011

	Enterprise Fund Water and Sewer Fund
Operating Revenue	
Sale of water	\$ 1,319,060
Sewage disposal charges	967,925
Total operating revenue	2,286,985
Operating Expenses	
Cost of water	1,261,508
Cost of sewage treatment	907,728
Operation and maintenance	50,978
Billing and administrative costs	317,635
Depreciation (Note 4)	185,728
Total operating expenses	2,723,577
Operating Loss	(436,592)
Nonoperating Revenue (Expense)	
Investment income	8,478
Interest expense	(46,395)
Total nonoperating expense	(37,917)
Loss Before Contributions	(474,509)
Capital Contributions - Tap fees and capital charges	919,281
Change in Net Assets	444,772
Net Assets - Beginning of year	5,241,085
Net Assets - End of year	\$ 5,685,857

City of Bloomfield Hills, Michigan

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

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,238,282
Payments to suppliers	(2,552,948)
Net cash used in operating activities	(314,666)
Cash Flows from Capital and Related Financing Activities	
Tap fees and capital charges	919,281
Purchase of capital assets	(618,523)
Principal and interest paid on capital debt	(268,597)
Payment to other funds for reimbursement of principal and interest paid on their behalf in prior year	(216,760)
Net cash used in capital and related financing activities	(184,599)
Cash Flows from Investing Activities	8,478
Net Decrease in Cash and Cash Equivalents	(490,787)
Cash and Cash Equivalents - Beginning of year	1,333,642
Cash and Cash Equivalents - End of year	\$ 842,855
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (436,592)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	185,728
Changes in assets and liabilities:	
Receivables	(48,703)
Due from other governmental units	26,074
Accounts payable and other liabilities	(41,173)
Net cash used in operating activities	\$ (314,666)

City of Bloomfield Hills, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2011

	<u>Agency Funds</u>
Assets - Cash and cash equivalents	<u><u>\$ 597,964</u></u>
Liabilities - Refundable deposits	<u><u>\$ 597,964</u></u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 1 - 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.

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 financial 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, 2011

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 has an ongoing plan to rehabilitate City roads.

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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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

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.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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

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. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is 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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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

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.

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

The 2010 taxable valuation of the City totaled \$808 million, on which taxes levied consisted of 9.05 mills for operating purposes. This resulted in \$7.3 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.

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 a total of \$216,584 in restricted cash in the capital projects fund related to road construction. These unspent funds were transferred to the capital projects fund from the Water and Sewer Fund and the Local Streets Fund in the current year for expenses to be incurred for the road construction project.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$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.

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, 2011, the deferred revenue balance represented \$9,910 of delinquent personal property taxes and \$80,343 of special assessments, totaling \$90,253. 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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

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

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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

- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed - Amounts that have been formally set aside by the City Commission for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Commission.
- Assigned - Intent to spend resources on specific purposes expressed by the City Commission
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - 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 shortfall - July 1, 2010		\$	(89,767)
Current year building permit revenue			344,603
Related expenses:			
Direct costs	\$	229,258	
Estimated indirect costs		36,604	265,862
			<u>78,741</u>
Current year surplus			<u>78,741</u>
Cumulative shortfall - June 30, 2011		\$	<u>(11,026)</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The 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.

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 \$6,497,731 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,569,290 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.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, \$545,491 of investment securities were uninsured and unregistered, with securities held by the Oakland County Investment Pool.

Concentration of Custodial Credit Risk of Investments - Oakland County Investment Pool's investment policy allows for no more than 15 percent be invested with any single financial institution.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

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 City had the following investments:

Investment	Fair Value	Weighted Average Maturity (Years)
Primary Government		
Pooled investment - Oakland County	\$ 545,491	350

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	Fair Value	Rating	Rating Organization
Primary Government			
Pooled investment - Oakland County	\$ 545,491	Not rated	N/A
Comerica - J Fund	56,659	PI	Moody's

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 4 - Capital Assets

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

	Balance July 1, 2010	Reclassifications	Additions	Disposals	Balance June 30, 2011
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 339,638	\$ -	\$ -	\$ -	\$ 339,638
Construction in progress	1,974,156	(3,965,088)	2,163,379	-	172,447
Subtotal	2,313,794	(3,965,088)	2,163,379	-	512,085
Capital assets being depreciated:					
Buildings and improvements	6,797,377	-	24,347	-	6,821,724
Machinery, equipment, and vehicles	4,047,528	-	52,341	(79,790)	4,020,079
Land improvements	240,500	-	-	-	240,500
Infrastructure	16,449,228	3,965,088	-	-	20,414,316
Subtotal	27,534,633	3,965,088	76,688	(79,790)	31,496,619
Accumulated depreciation:					
Buildings and improvements	1,580,856	-	141,543	-	1,722,399
Machinery, equipment, and vehicles	2,696,906	-	308,145	(10,340)	2,994,711
Land improvements	150,313	-	12,025	-	162,338
Infrastructure	10,197,481	-	843,106	-	11,040,587
Subtotal	14,625,556	-	1,304,819	(10,340)	15,920,035
Net capital assets being depreciated	12,909,077	3,965,088	(1,228,131)	(69,450)	15,576,584
Net capital assets	\$ 15,222,871	\$ -	\$ 935,248	\$ (69,450)	\$ 16,088,669
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ 338,476	\$ (354,325)	\$ 618,523	\$ -	\$ 602,674
Capital assets being depreciated:					
Sewer drains	1,388,637	-	-	-	1,388,637
Infrastructure	3,693,540	354,325	-	-	4,047,865
Subtotal	5,082,177	354,325	-	-	5,436,502
Accumulated depreciation:					
Sewer drains	39,675	-	39,676	-	79,351
Infrastructure	504,059	-	146,052	-	650,111
Subtotal	543,734	-	185,728	-	729,462
Net capital assets being depreciated	4,538,443	354,325	(185,728)	-	4,707,040
Net capital assets	\$ 4,876,919	\$ -	\$ 432,795	\$ -	\$ 5,309,714

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 58,375
Public safety	957,309
Public works	<u>289,135</u>
Total governmental activities	<u>\$ 1,304,819</u>

Business-type activities - Water and sewer	<u>\$ 185,728</u>
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Construction Commitments - The City has an active road construction project at year end. At year end, the City's commitment with the contractor is as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Road and water and sewer construction project	\$ 6,646,833	\$ 216,584

Note 5 - Interfund Receivables, Payables, and Transfers

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	Other nonmajor governmental funds - General Obligation Debt Fund	\$ 430,838
Other nonmajor governmental funds - Major Streets Fund	Other nonmajor governmental funds - Local Streets Fund	95,644

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, 2011

Note 6 - 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	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Road Construction Bonds:						
Amount of issue - \$3,000,000	3.75%-					
Maturing through 2018	5.25%	\$ 2,800,000	\$ -	\$ (200,000)	\$ 2,600,000	\$ 250,000
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	100,000
2006 Installment Purchase Obligation - Sweeper:						
Amount of issue - \$124,000						
Maturing through 2011	4.90%	22,242	-	(22,242)	-	-
2008 New Holland Tractor Obligation:						
Amount of issue - \$43,660						
Maturing through 2011	8.35%	15,227	-	(15,227)	-	-
2008 Road Grader Obligation:						
Amount of issue - \$75,975						
Maturing through 2013	4.50%	43,027	-	(12,001)	31,026	15,165
2009 Ford F450 Obligation:						
Amount of issue - \$34,000						
Maturing through 2011	3.96%	17,349	-	(17,349)	-	-
2009 Sterling Big Truck Obligation:						
Amount of issue - \$105,000						
Maturing through 2013	4.07%	80,359	-	(25,767)	54,592	26,753
2010 Caterpillar Obligation:						
Amount of issue - \$44,395						
Maturing through 2013	0.00%	44,395	-	(44,395)	-	-
Total bonds payable		7,022,599	-	(336,981)	6,685,618	391,918
Other long-term obligations - Employee compensated absences		430,887	308,210	(243,600)	495,497	180,000
Total governmental activities		\$ 7,453,486	\$ 308,210	\$ (580,581)	\$ 7,181,115	\$ 571,918

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 6 - 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						
2009 General Obligation Debt - SOCWA bonds:						
Amount of issue - \$945,000						
Maturing through 2017	2.00%-3.25%	\$ 945,000	\$ -	\$ (75,000)	\$ 870,000	\$ 100,000
State Revolving Fund Loan Bloomfield Hills -						
Michigan State Revolving Loan Fund:						
Amount of issue - \$250,000						
Maturing through 2015	2.25%	55,000	-	(10,000)	45,000	10,000
County Contractual Obligations:						
Bloomfield Village CSO Drainage Bonds, Series						
1994 A:						
Amount of issue - \$161,233						
Maturing through 2017	2.00%	61,715	-	(8,229)	53,486	8,486
Bloomfield Village CSO Drainage District						
Refunding Bonds, Series 2001A:						
Amount of issue - \$141,432						
Maturing through 2017	5.14%	66,345	-	(8,743)	57,602	10,029
Bloomfield Village CSO Drain Bonds Series,						
C/2001B:						
Amount of issue - \$242,750						
Maturing through 2017	2.0%-3.0%	242,750	-	(35,230)	207,520	34,458
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%	639,885	-	(85,000)	554,885	105,000
Total bonds payable		\$ 2,010,695	\$ -	\$ (222,202)	\$ 1,788,493	\$ 267,973

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
2012	\$ 391,918	\$ 224,647	\$ 616,565	\$ 267,973	\$ 46,428	\$ 314,401
2013	393,700	210,865	604,565	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	302,428	4,887	307,315
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	\$ 6,685,618	\$ 1,655,263	\$ 8,340,881	\$ 1,788,493	\$ 163,481	\$ 1,951,974

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 6 - Long-term Debt (Continued)

County Contractual Obligations - The above contractual obligations to the County are the result of the County issuance of bonds on the City's behalf. The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for various drain projects. The remaining principal and interest to be paid on the bonds total \$992,142. During the current year, net revenue of the system was (\$250,864) compared to the annual debt requirements of \$191,500.

Note 7 - 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.

Note 8 - 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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 8 - Defined Benefit Pension Plan (Continued)

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, 2011, the City's annual pension cost of \$890,391 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, 2008 using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent 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		
	2009	2010	2011
Annual pension cost (APC)	\$ 835,125	\$ 853,645	\$ 890,391
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2008	2009	2010
Actuarial value of assets	\$ 15,651,148	\$ 15,651,378	\$ 15,693,243
Actuarial accrued liability (AAL)			
(entry age)	\$ 26,586,401	\$ 26,757,641	\$ 27,636,950
Unfunded AAL (UAAL)	\$ 10,935,253	\$ 11,106,263	\$ 11,943,707
Funded ratio	58.9 %	58.5 %	56.8 %
Covered payroll	\$ 2,353,244	\$ 2,531,426	\$ 2,244,043
UAAL as a percentage of covered payroll	464.7 %	438.7 %	532.2 %

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 9 - 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 \$433,728. The current year contribution was calculated based on covered payroll, resulting in an employer contribution of \$4,337.

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 10 - 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.

Funding Progress - For the year ended June 30, 2011, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of 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)	\$ 988,646
Interest on net OPEB obligation	1,741
Annual required contribution adjustment	<u>774</u>
Annual OPEB cost	991,161
Amounts contributed:	
Payments of current premiums	(710,784)
Advance funding	<u>(225,000)</u>
Increase in net OPEB obligation	55,377
OPEB obligation - Beginning of year	<u>23,216</u>
OPEB obligation - End of year	<u>\$ 78,593</u>

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 10 - Other Postemployment Benefits (Continued)

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
6/30/11	1/1/09	988,646	78,593

* 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

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.

City of Bloomfield Hills, Michigan

Notes to Financial Statements June 30, 2011

Note 10 - Other Postemployment Benefits (Continued)

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.

Note 11 - Upcoming Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

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

Required Supplemental Information

City of Bloomfield Hills, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 7,389,612	\$ 7,389,612	\$ 7,381,529	\$ (8,083)
Licenses and permits	320,800	377,900	456,843	78,943
State-shared revenue and grants	225,838	247,418	291,250	43,832
Charges for services	42,600	70,200	77,515	7,315
Fines and forfeitures	425,000	425,000	446,813	21,813
Investment income	36,789	36,789	67,455	30,666
Other revenue:				
Special assessments	15,388	27,750	27,729	(21)
Other miscellaneous income	55,260	94,204	89,158	(5,046)
Total revenue	8,511,287	8,668,873	8,838,292	169,419
Expenditures				
Current:				
General government:				
City Commission	1,575	1,574	698	876
City manager	131,335	131,335	130,974	361
Treasurer	87,712	76,612	75,995	617
Assessing	51,500	51,500	43,430	8,070
General administration	1,809,718	1,548,928	1,515,742	33,186
Clerk	96,714	96,714	87,374	9,340
Buildings and grounds	170,500	164,215	168,282	(4,067)
Attorney	286,700	253,800	266,503	(12,703)
Building and planning	225,020	261,350	273,889	(12,539)
Engineering	66,900	35,000	25,105	9,895
Library	19,600	8,000	7,794	206
Total general government	2,947,274	2,629,028	2,595,786	33,242
48th District Court	425,000	425,000	414,461	10,539
Public safety	4,589,190	4,162,540	4,094,446	68,094
Public works	613,423	577,540	452,285	125,255
Capital outlay	106,800	76,800	52,468	24,332
Debt service	103,600	118,398	117,576	822
Total expenditures	8,785,287	7,989,306	7,727,022	262,284
Excess of Revenue (Under) Over Expenditures	(274,000)	679,567	1,111,270	431,703
Other Financing Uses - Transfers out	(252,240)	(430,838)	(430,838)	-
Net Change in Fund Balance	(526,240)	248,729	680,432	431,703
Fund Balance - Beginning of year	4,028,037	4,028,037	4,028,037	-
Fund Balance - End of year	\$ 3,501,797	\$ 4,276,766	\$ 4,708,469	\$ 431,703

City of Bloomfield Hills, Michigan

Note to Required Supplemental Information Year Ended June 30, 2011

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.

Other Supplemental Information

City of Bloomfield Hills, Michigan

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

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Drug Enforcement Fund	General Obligation Debt Fund	
Assets					
Cash and investments	\$ 474,215	\$ 261,486	\$ 5,020	\$ 2,986	\$ 743,707
Receivables	30,863	14,769	-	-	45,632
Total assets	<u>\$ 505,078</u>	<u>\$ 276,255</u>	<u>\$ 5,020</u>	<u>\$ 2,986</u>	<u>\$ 789,339</u>
Liabilities and Fund Balances					
Liabilities - Accounts payable	\$ 11,294	\$ 5,108	\$ -	\$ -	\$ 16,402
Fund Balances					
Restricted:					
Roads	493,784	271,147	-	-	764,931
Drug enforcement	-	-	5,020	-	5,020
Assigned - Debt service	-	-	-	2,986	2,986
Total fund balances	<u>493,784</u>	<u>271,147</u>	<u>5,020</u>	<u>2,986</u>	<u>772,937</u>
Total liabilities and fund balances	<u>\$ 505,078</u>	<u>\$ 276,255</u>	<u>\$ 5,020</u>	<u>\$ 2,986</u>	<u>\$ 789,339</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, 2011

	Special Revenue Funds			Debt Service Funds	Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Drug Enforcement Fund	General Obligation Debt Fund	
Revenue					
Licenses and permits	\$ 3,301	\$ 9,903	\$ -	\$ -	\$ 13,204
Federal grants	-	-	4,796	-	4,796
State sources	191,289	91,537	-	-	282,826
Investment income	1,205	745	-	-	1,950
Total revenue	195,795	102,185	4,796	-	302,776
Expenditures					
Current:					
Public safety	-	-	482	-	482
Public works	141,475	325,305	-	-	466,780
Capital outlay	200,000	69,500	-	-	269,500
Debt service	-	-	-	436,665	436,665
Total expenditures	341,475	394,805	482	436,665	1,173,427
Excess of Revenue (Under) Over Expenditures	(145,680)	(292,620)	4,314	(436,665)	(870,651)
Other Financing Sources (Uses)					
Transfers in	-	95,644	-	430,838	526,482
Transfers out	(95,644)	-	-	-	(95,644)
Total other financing (uses) sources	(95,644)	95,644	-	430,838	430,838
Net Change in Fund Balances	(241,324)	(196,976)	4,314	(5,827)	(439,813)
Fund Balances - Beginning of year	735,108	468,123	706	8,813	1,212,750
Fund Balances - End of year	<u>\$ 493,784</u>	<u>\$ 271,147</u>	<u>\$ 5,020</u>	<u>\$ 2,986</u>	<u>\$ 772,937</u>