

CITY OF INKSTER,  
MICHIGAN



Year Ended  
June 30, 2014

Financial  
Statements

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# CITY OF INKSTER, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

November 21, 2014

Honorable Members of the  
City Council  
City of Inkster  
Inkster, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Inkster, Michigan* (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Independent Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Inkster Housing Commission discretely presented component unit, which represent 69 percent, 119, percent, and 87 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Inkster Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Opinions*

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inkster, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Emphasis of a Matter*

The City has reported recurring operating deficits in various funds and opinion units. Management's plans with regard to these matters are described in Note 15.

*Other Matters*

*Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the City of Inkster, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

As management of the City of Inkster, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,500,942 (*net position*).
- The government's total net position increased by \$6,095,004. This net increase was a combination of a \$5,902,697 increase in governmental activities net position and a \$192,307 increase in business-type activities net position.
- As of the close of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$1,969,538. This represented an increase of \$2,601,677 in comparison of the prior year.
- The City is currently operating under a consent agreement with the State of Michigan. The agreement contains a variety of financial and operational requirements with the expectation that the accumulated deficits will be eliminated by the end of the five-year period.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* and the *statement of activities* provide information about the activities of the City as a whole and present a longer-term view of the City finances. The longer-view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The governmental activities of the City include general government, public safety, public works, community and economic development, and culture and recreation. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

**Fund Financial Statements.** 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 operation in more detail than the government-wide financial statements by providing information about the City's most significant funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, they focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

**Proprietary Funds.** Proprietary funds are used to report the same functions reported in the business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits and postemployment healthcare to its employees.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$29,500,942 at the close of the most recent fiscal year. The following table shows, in a condensed format, the net position as of the current date and compared to the prior year:

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	6,435,327	5,766,631	8,315,194	10,879,805	14,750,521	16,646,436
Capital assets, net	19,295,024	20,530,366	49,543,565	50,791,818	68,838,589	71,322,184
<b>Total assets</b>	<b>25,730,351</b>	<b>26,296,997</b>	<b>57,858,759</b>	<b>61,671,623</b>	<b>83,589,110</b>	<b>87,968,620</b>
Long-term liabilities	6,437,275	8,261,172	23,203,302	24,997,456	29,640,577	33,258,628
Other liabilities	17,361,687	18,086,616	7,085,904	9,296,921	24,447,591	27,383,537
<b>Total liabilities</b>	<b>23,798,962</b>	<b>26,347,788</b>	<b>30,289,206</b>	<b>34,294,377</b>	<b>54,088,168</b>	<b>60,642,165</b>
Net position						
Net investment in						
capital assets	16,193,618	15,867,917	26,417,838	25,836,694	42,611,456	41,704,611
Restricted	2,787,517	3,206,857	591,990	1,109,127	3,379,507	4,315,984
Unrestricted (deficit)	(17,049,746)	(19,125,565)	559,725	431,425	(16,490,021)	(18,694,140)
<b>Total net position</b>	<b>1,931,389</b>	<b>(50,791)</b>	<b>27,569,553</b>	<b>27,377,246</b>	<b>29,500,942</b>	<b>27,326,455</b>

By far the largest portion of the City's net position, \$42,611,456, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other resources, since capital assets themselves cannot be used to liquidate these liabilities.

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

An additional portion of the City's net position, \$3,379,507 represents resources that are subject to external restriction on how they may be used. The remaining *unrestricted net position* of \$(16,490,021) represents an accumulated deficit.

The government's net position increased by \$6,095,004 during the current fiscal year. This net increase was a combination of an increase of \$192,307 in governmental activities and an increase of \$5,902,697 in business-type activities.

The following table shows the changes in net position during the current year with a comparison to prior year:

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program revenues:						
Charges for services	3,979,814	3,680,103	8,909,774	10,332,696	12,889,588	14,012,799
Operating grants	600,626	953,438	(309)	1,115	600,317	954,553
Capital grants	1,890,043	1,735,524	3,000	(80,984)	1,893,043	1,654,540
General revenues:						
Property taxes	6,819,994	8,374,613	960,795	788,059	7,780,789	9,162,672
State shared revenues	3,292,691	3,192,061	-	-	3,292,691	3,192,061
Unrestricted investment earnings	-	379	-	-	-	379
Gain on sale of capital assets	11,395	121,603	-	-	11,395	121,603
Other revenues	306,458	311,471	-	-	306,458	311,471
<b>Total revenues</b>	<b>16,901,021</b>	<b>18,369,192</b>	<b>9,873,260</b>	<b>11,040,886</b>	<b>26,774,281</b>	<b>29,410,078</b>
<b>Expenses</b>						
General government	3,225,905	5,688,295	-	-	3,225,905	5,688,295
Public safety	3,390,545	6,567,274	-	-	3,390,545	6,567,274
Public works	3,314,173	3,544,593	-	-	3,314,173	3,544,593
Community and economic development	393,480	734,288	-	-	393,480	734,288
Culture and recreation	515,193	667,701	-	-	515,193	667,701
Interest on long-term debt	159,028	330,323	-	-	159,028	330,323
Waste and wastewater	-	-	9,680,953	9,907,636	9,680,953	9,907,636
<b>Total expenses</b>	<b>10,998,324</b>	<b>17,532,474</b>	<b>9,680,953</b>	<b>9,907,636</b>	<b>20,679,277</b>	<b>27,440,110</b>
<b>Change in net position</b>	<b>5,902,697</b>	<b>836,718</b>	<b>192,307</b>	<b>1,133,250</b>	<b>6,095,004</b>	<b>1,969,968</b>
Net position, beginning of year, as restated	(3,971,308)	(887,509)	27,377,246	26,243,996	23,405,938	25,356,487
<b>Net position, end of year</b>	<b>1,931,389</b>	<b>(50,791)</b>	<b>27,569,553</b>	<b>27,377,246</b>	<b>29,500,942</b>	<b>27,326,455</b>

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

**Governmental Activities.** Governmental activities increased the City's net position by \$5,902,697 thereby accounting for 97% of the total growth in net position of the City. This is primarily the result of significant cuts in expenditures, most notably in general government and public safety. These expenditure cuts are comprised of both operational and personnel savings.

**Business-type Activities.** Business-type activities increased the City's net position by \$192,307 accounting for 3% percent of the total growth in the government's net position. This was primarily the result of setting water and sewer rates at a level necessary to allow for operating revenues to exceed operating expenditures. As with governmental activities, the enterprise fund was also subject to both operational and personnel expenditure cuts within the fiscal year.

### Financial Analysis of the Government's Funds

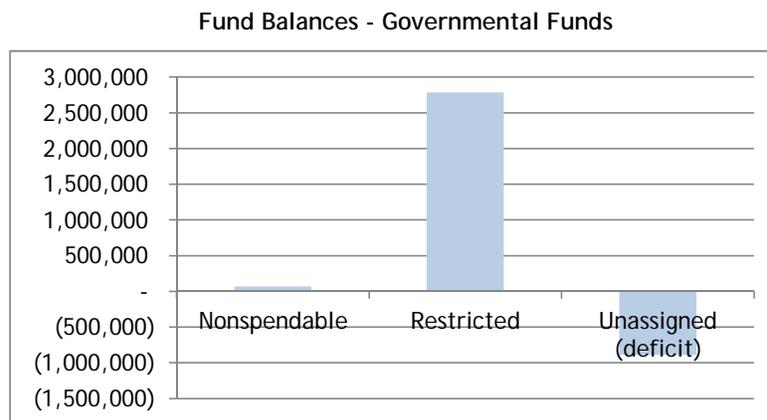
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$1,969,538, an increase of \$2,601,677 in comparison with the prior year. A portion of the fund balance is either nonspendable or restricted by external sources for specific purposes. Unassigned fund balance was (\$888,066).

### General Fund Highlights

The general fund is the chief operating fund of the City. The deficit fund balance of the general fund decreased by \$2,627,031 during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was (\$837,194). A chart summarizing the City's fund balances of governmental funds is provided below:



Additional information on fund balance is provided in Note 9 to the financial statements.

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

Significant budgetary variances, as shown in the budget vs. actual statement of revenues, expenditures and changes in fund balances are as follows:

### Expenditure Variance:

- General Fund, Department of Public Works - Additional expenses were required to adequately and properly maintain City vehicles. In addition, utility expenses proved more than budgeted. It is noted that this Department accounts for 6.4% of total fund expenses and that the Department in total exceeded budget by 2.1%.
- General Fund, City clerk - This reduction in expenditures compared to budget is the result of consolidating polling locations thereby spending less on poll workers and supplies.

### Revenue Variance:

- General Fund Property Taxes - This positive variance is a result of better than expected delinquent property tax collections by the County Treasurer along with associated interest and penalties of these collections.

**Proprietary Fund.** The City's proprietary fund provide the same type of information found in the government-wide financial statements, but in more detail.

### Capital Asset and Debt Administration

**Capital Assets.** The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$68,838,589 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvement and systems, machinery and equipment and finally, office furnishings.

Major capital asset events during the current fiscal year included the following:

- The reduction in construction in progress is a result of the completion of the Greenway Bike path project.
- Following a review of fire apparatus inventory, a piece of excess apparatus was sold, thus accounting for the reduction in the vehicle capital line items.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	307,195	307,195	2,745	2,745	309,940	309,940
Construction in progress	-	325,335	354,900	354,900	354,900	680,235
Land improvements	409,972	429,635	-	-	409,972	429,635
Infrastructure	15,720,396	16,063,378	-	-	15,720,396	16,063,378
Buildings/improvements	1,445,757	1,540,071	-	-	1,445,757	1,540,071
Vehicles	761,086	1,045,073	29,443	33,650	790,529	1,078,723
Machinery and equipment	650,618	819,679	49,156,477	50,400,523	49,807,095	51,220,202
<b>Total capital assets, net</b>	<b>19,295,024</b>	<b>20,530,366</b>	<b>49,543,565</b>	<b>50,791,818</b>	<b>68,838,589</b>	<b>71,322,184</b>

Additional information on the City's capital assets can be found in the footnotes.

# CITY OF INKSTER, MICHIGAN

## Management's Discussion and Analysis

**Long-term Debt.** The City's long-term debt totaled \$29,640,577. This amount includes bonds payable, an emergency loan from the State of Michigan, installment purchase agreements, and compensated absences (earned but unused sick and vacation time).

	Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Bonds payable	3,005,000	4,490,000	21,027,687	22,513,304	24,032,687	27,003,304
Premiums/discounts on bonds	-	-	-	(20,370)	-	(20,370)
Emergency loan	3,000,000	3,000,000	-	-	3,000,000	3,000,000
Installment purchase agreements	96,406	172,449	2,098,040	2,462,190	2,194,446	2,634,639
Compensated absences	335,869	598,723	77,575	42,332	413,444	641,055
<b>Total long-term debt</b>	<b>6,437,275</b>	<b>8,261,172</b>	<b>23,203,302</b>	<b>24,997,456</b>	<b>29,640,577</b>	<b>33,258,628</b>

Additional information on the City's long-term debt can be found in the footnotes.

### Economic Factors and Next Year's Budget and Rates

The fiscal year 2015 budget anticipates revenues in excess of expenditures by approximately \$.864 million dollars as we continue the progress toward eliminating the accumulated deficit in the General Fund. In addition to the focus on the financial condition, attention is now turning to growing the community. A neighborhood revitalization program is underway to grow the tax base, address blight and reduce crime. The "Reinventing Inkster" initiative is underway to grow the local economy. Highest and best use studies will be conducted on City-owned property to help guide the sale of these excess assets. Discussions are underway with developers to improve housing stock. The City, in partnership with the Michigan State Housing Redevelopment Authority, has applied for \$3 million in grant funding to demolish approximately 120 dilapidated residential structures. Also, the City is part of the Michigan State Police "Safer City" program. Partnering with a State Police unit dedicated to the City and along with support from both the County Sheriff and ATF, significant improvements in crime statistics are anticipated. All of these initiatives will add to the tax base. Water and sewer rates will remain higher than desired as the financial condition of the water/sewer fund is still significantly stressed.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for money it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City's Treasurer, 26215 Trowbridge, Inkster, Michigan 48141.

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## BASIC FINANCIAL STATEMENTS

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# CITY OF INKSTER, MICHIGAN

## Statement of Net Position

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 4,855,573	\$ 2,884,737	\$ 7,740,310	\$ 3,286,576
Restricted cash and cash equivalents	-	591,990	591,990	439,082
Receivables, net	1,409,510	4,734,128	6,143,638	32,246
Internal balances	22,782	(22,782)	-	-
Inventories, prepaid items and other assets	72,994	127,121	200,115	24,943
Capital assets not being depreciated	307,195	357,645	664,840	1,891,187
Capital assets being depreciated, net	18,987,829	49,185,920	68,173,749	27,724,588
Net pension asset	74,468	-	74,468	-
<b>Total assets</b>	<b>25,730,351</b>	<b>57,858,759</b>	<b>83,589,110</b>	<b>33,398,622</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	5,116,850	6,437,697	11,554,547	855,328
Unearned revenue	10,948	-	10,948	1,578
Long-term debt:				
Due within one year	1,435,308	2,480,751	3,916,059	1,386,212
Due in more than one year	5,001,967	20,722,551	25,724,518	18,430,184
Debt guarantee - component unit	3,772,984	-	3,772,984	-
Net other postemployment benefits obligation	8,460,905	648,207	9,109,112	291,784
<b>Total liabilities</b>	<b>23,798,962</b>	<b>30,289,206</b>	<b>54,088,168</b>	<b>20,965,086</b>
<b>Net position</b>				
Net investment in capital assets	16,193,618	26,417,838	42,611,456	13,601,329
Restricted for:				
Major and local streets	2,531,469	-	2,531,469	-
Drug law enforcement	256,048	-	256,048	-
Capital projects	-	591,990	591,990	-
Housing assistance	-	-	-	439,082
Unrestricted (deficit)	(17,049,746)	559,725	(16,490,021)	(1,606,875)
<b>Total net position</b>	<b>\$ 1,931,389</b>	<b>\$ 27,569,553</b>	<b>\$ 29,500,942</b>	<b>\$ 12,433,536</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 3,225,905	\$ 1,596,834	\$ 45,724	\$ -	\$ (1,583,347)
Public safety	3,390,545	1,129,593	53,525	-	(2,207,427)
Public works	3,314,173	987,885	65,883	1,877,112	(383,293)
Community and economic development	393,480	164,575	406,626	-	177,721
Culture and recreation	515,193	100,927	28,868	12,931	(372,467)
Interest on long-term debt	159,028	-	-	-	(159,028)
<b>Total governmental activities</b>	<b>10,998,324</b>	<b>3,979,814</b>	<b>600,626</b>	<b>1,890,043</b>	<b>(4,527,841)</b>
Business-type activities:					
Water and sewer	9,680,953	8,909,774	(309)	3,000	(768,488)
<b>Total primary government</b>	<b>\$ 20,679,277</b>	<b>\$ 12,889,588</b>	<b>\$ 600,317</b>	<b>\$ 1,893,043</b>	<b>\$ (5,296,329)</b>
<b>Component units</b>					
Tax Increment Finance Authority	\$ 1,259,791	\$ -	\$ 230,755	\$ 54,700	\$ (974,336)
Downtown Development Authority	307,234	-	-	-	(307,234)
Brownfield Redevelopment Authority	232,301	-	304,581	-	72,280
Housing Commission	10,572,936	1,120,271	8,332,497	474,185	(645,983)
<b>Total component units</b>	<b>\$ 12,372,262</b>	<b>\$ 1,120,271</b>	<b>\$ 8,867,833</b>	<b>\$ 528,885</b>	<b>\$ (1,855,273)</b>

continued...

# CITY OF INKSTER, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net position</b>				
Net (expense) revenue	\$ (4,527,841)	\$ (768,488)	\$ (5,296,329)	\$ (1,855,273)
General revenues:				
Property taxes	6,819,994	960,795	7,780,789	624,514
State revenue sharing	3,292,691	-	3,292,691	-
Unrestricted investment earnings	-	-	-	(367,760)
Gain on sale of capital assets	3,950	-	3,950	-
Other revenues	306,458	-	306,458	166,905
Total general revenues	10,430,538	960,795	11,391,333	423,659
Change in net position	5,902,697	192,307	6,095,004	(1,431,614)
Net position, beginning of year, as restated	(3,971,308)	27,377,246	23,405,938	13,865,150
Net position, end of year	\$ 1,931,389	\$ 27,569,553	\$ 29,500,942	\$ 12,433,536

concluded.

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2014

	General Fund	Local Streets	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 3,169,357	\$ 402,000	\$ 1,284,216	\$ 4,855,573
Accounts receivable, net	274,654	-	297,365	572,019
Due from other funds	57,530	325,473	991,271	1,374,274
Due from other governments	594,354	74,182	168,955	837,491
Inventory	20,219	-	-	20,219
Prepaid items	49,868	-	-	49,868
<b>Total assets</b>	<b>\$ 4,165,982</b>	<b>\$ 801,655</b>	<b>\$ 2,741,807</b>	<b>\$ 7,709,444</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,921,689	\$ 483	\$ 462,906	\$ 2,385,078
Due to other governments	1,066,137	-	-	1,066,137
Accrued and other liabilities	534,739	1,223	3,635	539,597
Due to other funds	1,293,962	-	57,530	1,351,492
Unearned revenue	-	-	10,948	10,948
<b>Total liabilities</b>	<b>4,816,527</b>	<b>1,706</b>	<b>535,019</b>	<b>5,353,252</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue - other	116,562	-	270,092	386,654
<b>Fund balances (deficits)</b>				
Nonspendable	70,087	-	-	70,087
Restricted	-	799,949	1,987,568	2,787,517
Unassigned (deficit)	(837,194)	-	(50,872)	(888,066)
<b>Total fund balances (deficits)</b>	<b>(767,107)</b>	<b>799,949</b>	<b>1,936,696</b>	<b>1,969,538</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 4,165,982</b>	<b>\$ 801,655</b>	<b>\$ 2,741,807</b>	<b>\$ 7,709,444</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2014

Fund balances - total governmental funds	\$ 1,969,538
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	307,195
Capital assets being depreciated, net	18,987,829
Some items are recorded as revenues and expenditures in the fund statements when paid or when received. These items are recorded on the government-wide statements when incurred in the case of expenditures and when revenues are earned.	
Deferred long-term receivables	386,654
Investment in joint venture	2,907
Certain assets do not represent current financial resources and therefore are not reported in the funds.	
Net pension asset	74,468
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds, loans and installment purchase agreements	(6,101,406)
Accrued interest on long-term debt	(42,757)
Estimate for self-insurance claims payable	(1,083,281)
Net other postemployment benefits obligation	(8,460,905)
Debt guarantee - component unit	(3,772,984)
Compensated absences	(335,869)
<b>Net position of governmental activities</b>	<b>\$ 1,931,389</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General	Local Streets	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 5,713,742	\$ -	\$ 1,106,252	\$ 6,819,994
Licenses and permits	367,298	-	-	367,298
Intergovernmental	3,566,481	523,096	1,901,949	5,991,526
Charges for services	1,553,163	-	982,834	2,535,997
Fines and forfeitures	869,695	-	-	869,695
Investment earnings	-	-	-	-
Refunds and reimbursements	1,688,338	-	-	1,688,338
Other	76,971	-	69,556	146,527
<b>Total revenues</b>	<b>13,835,688</b>	<b>523,096</b>	<b>4,060,591</b>	<b>18,419,375</b>
<b>Expenditures</b>				
Current expenditures:				
General government	4,308,804	-	-	4,308,804
Public safety	5,044,529	-	147	5,044,676
Public works	767,360	402,813	1,800,338	2,970,511
Community and economic development	402,524	-	146,807	549,331
Culture and recreation	-	-	616,423	616,423
Other	584,068	-	-	584,068
Debt service:				
Principal	76,043	1,050,000	435,000	1,561,043
Interest and fiscal charges	12,843	161,485	19,909	194,237
<b>Total expenditures</b>	<b>11,196,171</b>	<b>1,614,298</b>	<b>3,018,624</b>	<b>15,829,093</b>
Revenues over (under) expenditures	2,639,517	(1,091,202)	1,041,967	2,590,282
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	11,395	-	-	11,395
Transfers in	-	513,295	23,881	537,176
Transfers out	(23,881)	-	(513,295)	(537,176)
<b>Total other financing sources (uses)</b>	<b>(12,486)</b>	<b>513,295</b>	<b>(489,414)</b>	<b>11,395</b>
<b>Net change in fund balances</b>	<b>2,627,031</b>	<b>(577,907)</b>	<b>552,553</b>	<b>2,601,677</b>
Fund balances (deficit), beginning of year	(3,394,138)	1,377,856	1,384,143	(632,139)
<b>Fund balances (deficit), end of year</b>	<b>\$ (767,107)</b>	<b>\$ 799,949</b>	<b>\$ 1,936,696</b>	<b>\$ 1,969,538</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds \$ 2,601,677

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, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased / constructed	200,732
Depreciation expense	(1,436,074)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.

Change in deferred revenue for unavailable revenues	(436,998)
Change in investment in joint venture	781

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	1,561,043
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in accrued interest payable on long-term debt	21,450
Change in the liability for estimated self-insurance claims	2,647,818
Change in net pension asset	(721)
Change in net other postemployment benefits obligation	332,602
Change in debt guarantee - component unit	147,533
Change in the accrual for compensated absences	262,854

Change in net position of governmental activities \$ 5,902,697

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 4,854,490	\$ 5,341,000	\$ 5,713,742	\$ 372,742
Licenses and permits	307,495	336,315	367,298	30,983
Intergovernmental	3,544,670	3,616,670	3,566,481	(50,189)
Charges for services	1,166,200	1,609,610	1,553,163	(56,447)
Fines and forfeitures	780,000	854,605	869,695	15,090
Refunds and reimbursements	1,749,220	1,645,760	1,688,338	42,578
Other	36,190	50,150	76,971	26,821
<b>Total revenues</b>	<b>12,438,265</b>	<b>13,454,110</b>	<b>13,835,688</b>	<b>381,578</b>
<b>Expenditures</b>				
General government:				
City council	75,000	70,560	73,010	2,450
District court	890,200	731,410	741,340	9,930
City manager	308,200	279,740	262,895	(16,845)
City clerk	215,500	186,620	132,288	(54,332)
Information technology	195,425	285,425	266,364	(19,061)
Treasury	645,950	736,345	689,543	(46,802)
Buildings and grounds	94,100	251,125	219,208	(31,917)
City attorney	775,000	1,289,410	1,259,444	(29,966)
Personnel	771,150	784,300	664,712	(119,588)
<b>Total general government</b>	<b>3,970,525</b>	<b>4,614,935</b>	<b>4,308,804</b>	<b>(306,131)</b>
Public safety:				
Police administration	3,288,155	3,478,555	3,407,442	(71,113)
Fire	1,647,500	1,539,530	1,449,918	(89,612)
Building	116,700	129,130	133,727	4,597
Code enforcement	60,600	54,600	53,442	(1,158)
<b>Total public safety</b>	<b>5,112,955</b>	<b>5,201,815</b>	<b>5,044,529</b>	<b>(157,286)</b>

continued...

# CITY OF INKSTER, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Expenditures (concluded)</b>				
Public works:				
Department of public works	\$ 839,960	\$ 751,760	\$ 767,360	\$ 15,600
Community and economic development:				
Planning	84,630	102,995	97,943	(5,052)
Economic development	-	-	-	-
Appropriation to Brownfield Redevelopment Authority	300,240	302,235	304,581	2,346
Total community and economic development	384,870	405,230	402,524	(2,706)
Other:				
Insurance and other	1,040,000	760,535	584,068	(176,467)
Debt service:				
Principal	76,043	76,043	76,043	-
Interest and fiscal charges	12,057	12,752	12,843	91
Total debt service	88,100	88,795	88,886	91
<b>Total expenditures</b>	<b>11,436,410</b>	<b>11,823,070</b>	<b>11,196,171</b>	<b>(626,899)</b>
Revenues over (under) expenditures	1,001,855	1,631,040	2,639,517	1,008,477
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	50,000	58,950	11,395	(47,555)
Transfers out	(15,000)	(92,415)	(23,881)	68,534
<b>Total other financing sources (uses)</b>	<b>35,000</b>	<b>(33,465)</b>	<b>(12,486)</b>	<b>20,979</b>
<b>Net change in fund balance</b>	<b>1,036,855</b>	<b>1,597,575</b>	<b>2,627,031</b>	<b>1,029,456</b>
Fund balance (deficit), beginning	(3,394,138)	(3,394,138)	(3,394,138)	-
<b>Fund balance (deficit), end of year</b>	<b>\$ (2,357,283)</b>	<b>\$ (1,796,563)</b>	<b>\$ (767,107)</b>	<b>\$ 1,029,456</b>

concluded.

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Local Street Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	433,000	523,000	523,096	96
<b>Total revenues</b>	<u>433,000</u>	<u>523,000</u>	<u>523,096</u>	<u>96</u>
<b>Expenditures</b>				
Public works	255,300	512,440	402,813	(109,627)
Debt service:				
Principal	1,050,000	1,050,000	1,050,000	-
Interest and fiscal charges	161,000	161,875	161,485	(390)
<b>Total expenditures</b>	<u>1,466,300</u>	<u>1,724,315</u>	<u>1,614,298</u>	<u>(110,017)</u>
Revenues over (under) expenditures	(1,033,300)	(1,201,315)	(1,091,202)	110,113
<b>Other financing sources</b>				
Transfers in	494,000	494,000	513,295	19,295
<b>Net change in fund balance</b>	<u>(539,300)</u>	<u>(707,315)</u>	<u>(577,907)</u>	<u>129,408</u>
Fund balance, beginning of year	<u>1,377,856</u>	<u>1,377,856</u>	<u>1,377,856</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 838,556</u></u>	<u><u>\$ 670,541</u></u>	<u><u>\$ 799,949</u></u>	<u><u>\$ 129,408</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Net Position

Proprietary Fund

June 30, 2014

	Business-type Activities
	Water and Sewer
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 2,884,737
Accounts receivable, net	4,734,128
Due from other funds	302,691
Inventory	127,121
Total current assets	<u>8,048,677</u>
Noncurrent assets:	
Restricted cash and cash equivalents	591,990
Capital assets not being depreciated	357,645
Capital assets being depreciated, net	49,185,920
Total noncurrent assets	<u>50,135,555</u>
<b>Total assets</b>	<u>58,184,232</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	6,208,635
Accrued liabilities	60,585
Accrued interest payable	168,477
Due to other funds	325,473
Long-term debt, current portion	2,480,751
Total current liabilities	<u>9,243,921</u>
Noncurrent liabilities:	
Long-term debt, net of current portion	20,722,551
Net other postemployment benefits obligation	648,207
Total noncurrent liabilities	<u>21,370,758</u>
<b>Total liabilities</b>	<u>30,614,679</u>
<b>Net position</b>	
Net investment in capital assets	26,417,838
Restricted for capital projects	591,990
Unrestricted	559,725
<b>Total net position</b>	<u>\$ 27,569,553</u>

The accompanying notes are an integral part of these financial statements.

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# CITY OF INKSTER, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund

For the Year Ended June 30, 2014

	Business-type Activities
	Water and Sewer
<b>Operating revenues</b>	
Charges for services	\$ 7,952,695
Other	957,079
	<hr/>
<b>Total operating revenues</b>	<b>8,909,774</b>
	<hr/>
<b>Operating expenses</b>	
Cost of water	1,469,961
Cost of sewage disposal	3,252,028
Wages and fringes	687,438
Operating supplies	24,946
Contractual services	839,932
Repairs and maintenance	746,592
Insurance, claims and other	649,292
Depreciation	1,248,254
	<hr/>
<b>Total operating expenses</b>	<b>8,918,443</b>
	<hr/>
Operating income (loss)	(8,669)
	<hr/>
<b>Nonoperating revenues (expenses)</b>	
Intergovernmental revenue	3,000
Interest expense	(762,819)
Property taxes	960,795
	<hr/>
<b>Total nonoperating revenues (expenses)</b>	<b>200,976</b>
	<hr/>
<b>Change in net position</b>	<b>192,307</b>
	<hr/>
Net position, beginning of year	27,377,246
	<hr/>
<b>Net position, end of year</b>	<b>\$ 27,569,553</b>
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2014

	<b>Business-type Activities</b>
	<b>Water and Sewer</b>
<b>Cash flows from operating activities</b>	
Receipts from customers and users	\$ 11,363,917
Payments to suppliers for goods and services	(9,157,832)
Payments to employees for services	(761,761)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>1,444,324</b>
	<hr/>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from issuance of debt	539,383
Principal paid on debt	(2,389,150)
Interest paid on debt	(709,238)
	<hr/>
<b>Net cash used by capital and related financing activities</b>	<b>(2,559,005)</b>
	<hr/>
<b>Cash flows from noncapital and related financing activities</b>	
Property taxes received	960,795
Grant funds received	3,000
	<hr/>
<b>Net cash flows provided noncapital and and related financing activities</b>	<b>963,795</b>
	<hr/>
<b>Net change in cash and cash equivalents</b>	<b>(150,886)</b>
	<hr/>
Cash and cash equivalents, beginning of year	3,627,613
	<hr/>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,476,727</b>
	<hr/> <hr/>
<b>Cash and cash equivalents as presented in the statement of net position</b>	
Cash and cash equivalents	\$ 2,884,737
Restricted cash and cash equivalents	591,990
	<hr/>
<b>Total cash and cash equivalents</b>	<b>\$ 3,476,727</b>
	<hr/> <hr/>

continued...

# CITY OF INKSTER, MICHIGAN

## Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2014

	Business-type Activities
	Water and Sewer
Reconciliation of operating income to cash provided by operating activities	
Operating income	\$ (8,669)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,248,254
Changes in assets and liabilities:	
Accounts receivable	2,454,143
Inventory	(81,630)
Accounts payable	(1,551,624)
Accrued liabilities	(69,697)
Due to other funds	(541,827)
Compensated absences	35,243
Net other postemployment benefits obligation	(39,869)
<b>Net cash provided by operating activities</b>	<b>\$ 1,444,324</b>

concluded.

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Net Position

Fiduciary Funds

June 30, 2014

	Pension Trust Funds	Agency Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 295,460
Money market funds	2,040,503	-
U.S. government agencies	1,325,688	-
Municipal bonds	5,473,450	-
Corporate bonds	3,325,510	-
International bonds	308,828	-
International stocks	61,642	-
Common stock	14,574,680	-
Real estate securities	163,948	-
Guaranteed investment contract	10,814,280	-
Interest receivable	225,473	-
Contributions receivable	49,332	-
Other receivables	-	285,220
Due from broker	4,019	-
	<u>38,367,353</u>	<u>\$ 580,680</u>
<b>Total assets</b>		
<b>Liabilities</b>		
Due to broker	11,230	\$ -
Bonds and deposits payable	-	580,680
	<u>11,230</u>	<u>\$ 580,680</u>
<b>Total liabilities</b>		
<b>Net position restricted for pension benefits</b>	<u>\$ 38,356,123</u>	

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

## Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended June 30, 2014

	Pension Trust Funds
<b>Additions</b>	
Contributions:	
Employer:	
Wage-based contributions	\$ 1,064,563
Plan members	273,188
Total contributions	<u>1,337,751</u>
Investment income:	
Interest and dividends	1,293,988
Net change in fair value of investments	2,574,244
Total investment income	<u>3,868,232</u>
<b>Total additions</b>	<u>5,205,983</u>
<b>Deductions</b>	
Benefit payments	3,460,610
Administrative expenses	301,109
<b>Total deductions</b>	<u>3,761,719</u>
<b>Change in net position</b>	1,444,264
Net position restricted for pension benefits:	
Beginning of year	<u>36,911,859</u>
<b>End of year</b>	<u><u>\$ 38,356,123</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF INKSTER, MICHIGAN

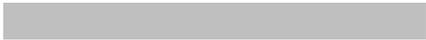
## Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2014

	Beech Daly Tax Increment Finance Authority	Downtown Development Authority	Brownfield Redevelopment Authority
<b>Assets</b>			
Cash and cash equivalents	\$ 583,298	\$ 125,000	\$ -
Restricted cash and cash equivalents	-	-	-
Accounts receivable	16,920	-	-
Prepays	-	-	-
Capital assets not being depreciated	-	-	-
Capital assets being depreciated, net	9,706,145	-	-
<b>Total assets</b>	<b>10,306,363</b>	<b>125,000</b>	<b>-</b>
<b>Liabilities</b>			
Accounts payable	266,078	-	-
Accrued liabilities	-	-	-
Accrued interest payable	102,931	-	37,578
Unearned revenue	1,578	-	-
Long-term debt:			
Due within one year	340,000	125,000	145,000
Due in more than one year	8,320,000	-	3,575,000
Net other postemployment benefits obligation	-	-	-
<b>Total liabilities</b>	<b>9,030,587</b>	<b>125,000</b>	<b>3,757,578</b>
<b>Net position</b>			
Net investment in capital assets	1,046,145	(125,000)	-
Restricted for housing assistance	-	-	-
Unrestricted (deficit)	229,631	125,000	(3,757,578)
<b>Total net position</b>	<b>\$ 1,275,776</b>	<b>\$ -</b>	<b>\$ (3,757,578)</b>

The accompanying notes are an integral part of these financial statements.



Housing Commission	Total
\$ 2,578,278	\$ 3,286,576
439,082	439,082
15,326	32,246
24,943	24,943
1,891,187	1,891,187
18,018,443	27,724,588
<u>22,967,259</u>	<u>33,398,622</u>
83,236	349,314
365,505	365,505
-	140,509
-	1,578
776,212	1,386,212
6,535,184	18,430,184
<u>291,784</u>	<u>291,784</u>
<u>8,051,921</u>	<u>20,965,086</u>
12,680,184	13,601,329
439,082	439,082
1,796,072	(1,606,875)
<u>\$ 14,915,338</u>	<u>\$ 12,433,536</u>

# CITY OF INKSTER, MICHIGAN

## Combining Statement of Activities

Discretely Presented Component Units

For the Year Ended June 30, 2014

	Beech Daly Tax Increment Finance Authority	Downtown Development Authority	Brownfield Redevelopment Authority
<b>Expenses</b>			
Community and economic development	\$ 1,259,791	\$ 307,234	\$ 232,301
Housing assistance	-	-	-
<b>Total expenses</b>	<u>1,259,791</u>	<u>307,234</u>	<u>232,301</u>
<b>Program revenues</b>			
Charges for services	-	-	-
Operating grants and contributions	230,755	-	304,581
Capital grants and contributions	54,700	-	-
<b>Total program revenues</b>	<u>285,455</u>	<u>-</u>	<u>304,581</u>
<b>Net (expense) revenue</b>	<u>(974,336)</u>	<u>(307,234)</u>	<u>72,280</u>
<b>General revenues</b>			
Property taxes	565,325	-	59,189
Unrestricted investment earnings	2,652	-	-
Other revenues	109,791	-	-
<b>Total general revenues</b>	<u>677,768</u>	<u>-</u>	<u>59,189</u>
<b>Change in net position</b>	<u>(296,568)</u>	<u>(307,234)</u>	<u>131,469</u>
<b>Net position, beginning of year</b>	<u>1,572,344</u>	<u>307,234</u>	<u>(3,889,047)</u>
<b>Net position, end of year</b>	<u>\$ 1,275,776</u>	<u>\$ -</u>	<u>\$ (3,757,578)</u>

The accompanying notes are an integral part of these financial statements.



Housing Commission	Total
\$ -	\$ 1,799,326
10,572,936	10,572,936
<u>10,572,936</u>	<u>12,372,262</u>
1,120,271	1,120,271
8,332,497	8,867,833
474,185	528,885
<u>9,926,953</u>	<u>10,516,989</u>
<u>(645,983)</u>	<u>(1,855,273)</u>
-	624,514
(370,412)	(367,760)
57,114	166,905
<u>(313,298)</u>	<u>423,659</u>
(959,281)	(1,431,614)
<u>15,874,619</u>	<u>13,865,150</u>
<u>\$ 14,915,338</u>	<u>\$ 12,433,536</u>

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## NOTES TO FINANCIAL STATEMENTS

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Inkster, Michigan (the "City") is a municipal corporation governed by an elected City Council and administered by an appointed City Manager. The City provides the following services: public safety (police and fire), public works (including highways and streets), culture and recreation, community and economic development, water and sewer utilities, and general administration.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

#### Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and as such, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statement to emphasize that they are legally separate from the government.

#### *Blended Component Unit*

**City of Inkster Building Authority** - The City of Inkster Building Authority is governed by a board which is appointed by the City Council. Its sole purpose is to finance and construct the City's public buildings. The Building Authority has no assets, liabilities or net position for the year ended June 30, 2014 or financial activity for the year then ended and accordingly is not reported in the current year financial statements.

#### *Discretely Presented Component Units*

The following component units are reported within the component unit column in the statement of net position. A voting majority of the governing bodies of each of these component units is appointed by the City Council.

**Beech Daly Tax Increment Finance Authority (the "TIFA")** - The TIFA was created to improve deteriorated areas in the TIFA district, encourage historical preservation, and to promote economic growth within the district. The TIFA's governing body, which consists of 13 members, is selected by the City Council. The TIFA does not issue separate financial statements.

**Downtown Development Authority (the "DDA")** - The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA is governed by a 9-member board which is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue separate financial statements.

## CITY OF INKSTER, MICHIGAN

### Notes to Financial Statements

The Brownfield Redevelopment Authority (the "BRA") - The BRA was created to encourage the redevelopment of contaminated property within the City by providing economic incentives through tax increment financing for certain eligible activities and Brownfield Redevelopment Authority single business tax credits. The BRA is governed by a board of not less than 5 members, each selected by the City Council. In addition, the BRA's budget is subject to approval by the City Council. The BRA does not issue separate financial statements.

**Inkster Housing Commission** - The Housing Commission was created by the City Council under the provisions of Public Act 18. It was created for the purpose of distributing rental assistance to low-income residents of the City. Because members of the Housing Commission board are appointed by the City Council and can be removed at will, the City is deemed to have effective control over the activities of the Housing Commission. The Housing Commission is presented in the accompanying financial statements on its fiscal year end ending December 31. Complete financial statements of the Housing Commission are separately prepared and can be obtained from its administrative office at:

Inkster Housing Commission  
27441 Lehigh Street  
Inkster, MI 48141

#### *Joint Ventures*

The City is a member of the Nankin Transit Commission, which provides transportation services to the residents of Garden City, Westland, Canton, Wayne, and Inkster. The participating communities provide annual funding for its operations. During the current year, the City contributed \$34,000 for its operations. The City has no definable equity interest in the Nankin Transit Commission at June 30, 2014. Complete financial statements for the Nankin Transit Commission can be obtained from its administrative offices at:

Nankin Transit Commission  
37137 Marquette  
Westland, Michigan 48185

The City is a member of the Central Wayne County Sanitation Authority (the "Authority"). The City appoints one member to the Authority's governing body which approves the annual budget. The debt of the Authority is being financed through current operations and a property tax millage. The City has recorded an investment related to its share of the net position of the Authority in the government-wide statement of net position. The investment as of June 30, 2014 amounted to \$2,907. Complete financial statements of the Authority can be obtained from its administrative office at:

Central Wayne County Sanitation Authority  
3355 W. Wayne Road  
Wayne, Michigan 48184

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Government-Wide and Fund Financial Statements*

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

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

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

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are 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 revenues 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, intergovernmental revenue, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in another fund.

The *local streets special revenue fund* accounts for restricted revenues received through the State of Michigan under Public Act 51. Expenditures include maintenance and construction of streets and costs of financing such expenditures.

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the operation and maintenance of the water and sewer systems, capital additions and improvements, and retirement of related long-term debt. Financing is provided by user charges and property taxes.

Additionally, the City reports the following fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *agency fund* accounts for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. Agency funds account for property tax collections, are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations.

The *pension trust funds* account for the activities of the General Employees' Retirement Plan and the Policemen and Firemen Retirement Plan, defined benefit pension plans administered by the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the City's water/wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues 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 revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

## CITY OF INKSTER, MICHIGAN

### Notes to Financial Statements

Restricted net position is reported for amounts that are subject to restrictions beyond the City's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and equity**

##### *Deposits and investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

State statutes authority the City to invest in the following types of investments. The City's formal investment policy is consistent with the state statutes.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Receivables and payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program grants and capital grants for capital assets are recorded as receivables and revenues at the time reimbursable project costs are incurred. Revenues received in advance of project costs being incurred are recorded as unearned revenue.

### *Restricted cash and cash equivalents*

Assets which are restricted for specified uses by bond debt requirements, grant provisions or other external requirements are classified as restricted assets. Restricted assets in the Housing Commission component unit represent funding received from the U.S. Department of Housing and Urban Development for modernization and development activities. Restricted assets in the water and sewer enterprise fund consist of amounts held by Wayne County for construction and maintenance of shared infrastructure assets.

### *Inventories, prepaid items and other assets*

Inventories in the proprietary fund are accounted for utilizing the consumption method and are valued at lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

Other assets include amounts incurred in issuance of bonds payable. Such costs are recorded as an asset and amortized using the straight-line method over the life of the related bonds.

### *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 columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

	Years
Roads and sidewalks	15-30
Water and sewer systems	40-100
Buildings and improvements	40-50
Vehicles	3-10
Office furnishings	7-10
Other tools and equipment	7-10

### *Deferred outflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City does not have items that qualify for reporting as deferred outflows of resources.

### *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time. A liability for sick and vacation time is accrued when incurred in the government-wide and proprietary fund financial statements, whereas it is reported in governmental funds only if it has matured, for example, as a result of employee resignations or retirements.

### *Long-term obligations*

In the government-wide financial statements, and 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 position. Bond premiums and discounts 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.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Deferred inflows of resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City's governmental funds report unavailable revenues, which arise only under a modified basis of accounting, from amounts due from others for services rendered. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

### *Fund equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City currently has no committed fund balance. The City has no *assigned fund balance* as the City Council has not yet given authority for the making of such assignments; assigned fund balances are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund or for any fund in a deficit position.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

### *Property taxes*

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 31, and winter taxes are levied on December and are due without penalty on or before February 14. The City bills and collects its own property taxes for general governmental services. A portion of the general fund levy is allocated to the major and local streets special revenue funds each year, as determined by the City Council. Additionally, the City collects taxes for Wayne County and various townships and school districts. Collections of property taxes and remittances to the appropriate authorities are accounted for in the tax collection agency fund.

### *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.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Accounting for the Guarantee*

At June 30, 2014, the City records a liability for \$3,772,984, which represents the present value of the expected future outflows of the guarantee of the Brownfield Redevelopment Authority's 2006 issuance of general obligation bonds as reported as debt of the Authority, and prepared using the economic resources measurement focus.

## 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### *Budgetary information*

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. Debt service funds are also included in the budgetary process; however, State statutes do not require legally adopted budgets for such funds.

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 department level. Expenditures at this level in excess of amounts budgeted for activities are a violation of Michigan law. Budget amendments are proposed as needed and subject to formal approval by the City Council.

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. For the year ended June 30, 2014, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance with Finance Budget
<b>General fund</b>			
General government:			
City council	\$ 70,560	\$ 73,010	\$ 2,450
District court	731,410	741,340	9,930
Public safety:			
Building	129,130	133,727	4,597
Public works - department of public works	751,760	767,360	15,600
Community and economic development - appropriation to Brownfield Redevelopment Authority	302,235	304,581	2,346
Debt service	88,795	88,886	91

### *Deficit fund balance / net position*

At June 30, 2014, the City reported deficit fund balance / net position in multiple funds and opinion units. A summary of the year-end deficits is as follows:

Fund / Opinion Unit	Deficit Fund Balance / Net Position
General fund - total fund balance	\$ (767,107)
Rubbish collection fund - total fund balance	(29,884)
Brownfield Redevelopment Authority - total net position	(3,757,578)

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The City is operating under a consent agreement with the State of Michigan to eliminate its various fund balance/net position deficits. The consent agreement contains various fiscal, budgetary and other compliance requirements. The agreement will remain in effect until, among other conditions, no funds are in a deficit position. It should be noted that the community development block grant and miscellaneous grant funds report fund deficits of \$44,277 and \$58,187, respectively. However, the State of Michigan Department of Treasury in *Numbered Letter 2014-1* indicates that these are not considered fund deficits since the deferred inflow of resources exceeds the fund balances in both of these funds at June 30, 2014.

The deficit in the Brownfield Redevelopment Authority component unit relates to a housing project that began in fiscal year 2004 whereby the City issued bonds payable to finance engineering, acquisition, and demolition of a housing project. As part of an agreement with a local developer, the City paid for the infrastructure of 108 homes and intended to make debt service payments from property tax captures in the development. However, the project has not proceeded as planned. Property tax captures have not been sufficient to meet debt service costs and the developer is unable to satisfy their guarantee on the debt payments.

### *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. Beginning January 1, 2000, 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 activity for the year ended June 30, 2014, is as follows:

Cumulative surplus (shortfall), beginning of year,	\$ (417,734)
Building permit revenue	309,814
Related expenses:	
Building inspector	<u>(169,537)</u>
Cumulative surplus (shortfall), end of year	<u>\$ (277,457)</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 3. DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposits and investments as of June 30, 2014:

	Primary Government	Fiduciary Funds	Component Units	Totals
Cash and cash equivalents	\$ 7,740,310	\$ 295,460	\$ 3,286,576	\$ 11,322,346
Restricted cash and cash equivalents	591,990	-	439,082	1,031,072
Investments	-	38,088,529	-	38,088,529
<b>Total</b>	<b>\$ 8,332,300</b>	<b>\$ 38,383,989</b>	<b>\$ 3,725,658</b>	<b>\$ 50,441,947</b>

#### Deposits and investments

Demand deposits (checking/savings accounts)	\$ 11,757,357
Deposits held with others	591,990
Investments - pension trust funds	38,088,529
Investments - other	3,406
Cash on hand	665

**Total** \$ 50,441,947

*Custodial Credit Risk - Deposits.* Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of June 30, 2014, \$10,881,992 of the City's total bank balance of \$11,516,909 was exposed to custodial credit risk.

In accordance with State law, all deposits are uncollateralized and held in the City's name. Due to the dollar amounts of deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution 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 - Investments.* Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agent but not in the government's name. All investments are held in the name of the City by a counterparty, and thus are not exposed to custodial credit risk. Following is a summary of the City's investments as of June 30, 2014:

	Pension Trust Funds	Other Investments	Total
Money market funds	\$ 2,040,503	\$ 3,406	\$ 2,043,909
U.S. government agencies	1,325,688	-	1,325,688
Municipal bonds	5,473,450	-	5,473,450
Corporate bonds	3,325,510	-	3,325,510
International bonds	308,828	-	308,828
International stocks	61,642	-	61,642
Common stock	14,574,680	-	14,574,680
Real estate securities	163,948	-	163,948
Guaranteed investment contract	10,814,280	-	10,814,280
<b>Total investments</b>	<b>\$ 38,088,529</b>	<b>\$ 3,406</b>	<b>\$ 38,091,935</b>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

*Credit Risk.* State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. Credit risk ratings, where applicable, are summarized as follows:

	Pension Trust Funds	Other Investments	Total
S&P AAA/AAAm	\$ 639,954	\$ 3,406	\$ 643,360
S&P AA	4,984,543	-	4,984,543
S&P A	2,268,660	-	2,268,660
S&P BBB	1,457,573	-	1,457,573
S&P BB	111,844	-	111,844
S&P B	26,788	-	26,788
Not subject to credit risk	10,814,280	-	10,814,280
Unrated	17,784,887	-	17,784,887
<b>Total investments</b>	<b>\$ 38,088,529</b>	<b>\$ 3,406</b>	<b>\$ 38,091,935</b>

*Interest Rate Risk.* Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. Maturity dates for investments held at year-end are as follows:

	Pension Trust Funds	Other Investments	Total
No maturity	\$ 27,655,053	\$ 3,406	\$ 27,658,459
Due within one year	1,259,236	-	1,259,236
Due in 1-5 years	3,937,110	-	3,937,110
Due in 6-10 years	3,368,100	-	3,368,100
Due in 11-15 years	1,745,950	-	1,745,950
Due in more than 15 years	123,080	-	123,080
<b>Total investments</b>	<b>\$ 38,088,529</b>	<b>\$ 3,406</b>	<b>\$ 38,091,935</b>

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The City mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. The City's exposure to foreign currency risk is as follows:

Investment (currency in U.S. dollar)	Amount
International bonds	\$ 308,828
International stocks	61,642
	<u>\$ 370,470</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All investments held at year end are listed above.

### 4. RECEIVABLES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
Accounts receivable	\$ 616,019	\$ 5,724,597	\$ -	\$ 32,246
Allowance for uncollectible amounts	(44,000)	(990,469)	-	-
Contributions receivable	-	-	49,332	-
Interest receivable	-	-	225,473	-
Due from other governments	837,491	-	285,220	-
Due from broker	-	-	4,019	-
<b>Total receivables</b>	<b>\$ 1,409,510</b>	<b>\$ 4,734,128</b>	<b>\$ 564,044</b>	<b>\$ 32,246</b>

In governmental funds, deferred revenue of \$386,654 represent amounts that are considered unavailable. Such items are recognized fully in the government-wide statements.

Payables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
Accounts payable	\$ 2,385,078	\$ 6,208,635	\$ -	\$ 349,314
Due to other governments	1,066,137	-	-	-
Accrued and other liabilities	539,597	60,585	-	365,505
Estimated claims liability	1,083,281	-	-	-
Accrued interest on long-term debt	42,757	168,477	-	140,509
Due to broker	-	-	11,230	-
Bonds and deposits payable	-	-	580,680	-
<b>Total payables</b>	<b>\$ 5,116,850</b>	<b>\$ 6,437,697</b>	<b>\$ 591,910</b>	<b>\$ 855,328</b>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 5. CAPITAL ASSETS

#### Primary government

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 307,195	\$ -	\$ -	\$ 307,195
Construction in progress	325,335	187,803	(513,138)	-
	<u>632,530</u>	<u>187,803</u>	<u>(513,138)</u>	<u>307,195</u>
Capital assets, being depreciated:				
Land improvements	588,289	-	-	588,289
Infrastructure	25,215,805	513,137	-	25,728,942
Buildings/improvements	7,429,053	12,930	-	7,441,983
Vehicles	6,066,919	-	(146,600)	5,920,319
Machinery and equipment	5,387,698	-	-	5,387,698
	<u>44,687,764</u>	<u>526,067</u>	<u>(146,600)</u>	<u>45,067,231</u>
Less accumulated depreciation for:				
Land improvements	(158,654)	(19,663)	-	(178,317)
Infrastructure	(9,152,427)	(856,119)	-	(10,008,546)
Buildings/improvements	(5,888,982)	(107,244)	-	(5,996,226)
Vehicles	(5,021,846)	(283,987)	146,600	(5,159,233)
Machinery and equipment	(4,568,019)	(169,061)	-	(4,737,080)
	<u>(24,789,928)</u>	<u>(1,436,074)</u>	<u>146,600</u>	<u>(26,079,402)</u>
Total capital assets being depreciated, net	<u>19,897,836</u>	<u>(910,007)</u>	<u>-</u>	<u>18,987,829</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 20,530,366</u>	<u>\$ (722,204)</u>	<u>\$ (513,138)</u>	<u>\$ 19,295,024</u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,745	\$ -	\$ -	\$ 2,745
Construction in progress	354,900	-	-	354,900
	<u>357,645</u>	<u>-</u>	<u>-</u>	<u>357,645</u>
Capital assets, being depreciated:				
Buildings/improvements	66,444	-	-	66,444
Furniture and equipment	69,086	-	-	69,086
Water and sewer distribution systems	65,604,071	-	-	65,604,071
	<u>65,739,601</u>	<u>-</u>	<u>-</u>	<u>65,739,601</u>
Less accumulated depreciation for:				
Buildings/improvements	(66,444)	-	-	(66,444)
Furniture and equipment	(35,436)	(4,207)	-	(39,643)
Water and sewer distribution systems	(15,203,547)	(1,244,047)	-	(16,447,594)
	<u>(15,305,427)</u>	<u>(1,248,254)</u>	<u>-</u>	<u>(16,553,681)</u>
Total capital assets being depreciated, net	<u>50,434,174</u>	<u>(1,248,254)</u>	<u>-</u>	<u>49,185,920</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 50,791,819</u>	<u>\$ (1,248,254)</u>	<u>\$ -</u>	<u>\$ 49,543,565</u>

At June 30, 2014, the City had outstanding construction commitments in business-type activities of \$60,900.

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

<b>Depreciation of governmental activities by function</b>	
General government	\$ 399,127
Public safety	101,110
Public works	862,485
Culture and recreation	73,352
	<u>1,436,074</u>
<b>Total governmental activities</b>	<u>\$ 1,436,074</u>
<b>Depreciation of business-type activities by function</b>	
Water and sewer	<u>\$ 1,248,254</u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

Discretely presented component units

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Beech Daly Tax Increment Financing Authority</b>					
Capital assets, not being depreciated -					
Construction in progress	\$ 3,488,073	\$ 3,342,200	\$ -	\$ (6,830,273)	\$ -
Capital assets, being depreciated -					
Buildings/improvements	2,025,340	6,700,274	-	-	8,725,614
Infrastructure	3,130,000	-	-	-	3,130,000
Furniture and equipment	173,763	130,000	-	-	303,763
	<u>5,329,103</u>	<u>6,830,274</u>	<u>-</u>	<u>-</u>	<u>12,159,377</u>
Less accumulated depreciation for:					
Buildings/improvements	(481,004)	(67,511)	-	-	(548,515)
Infrastructure	(1,658,000)	(154,166)	-	-	(1,812,166)
Furniture and equipment	(86,758)	(5,793)	-	-	(92,551)
	<u>(2,225,762)</u>	<u>(227,470)</u>	<u>-</u>	<u>-</u>	<u>(2,453,232)</u>
Total capital assets being depreciated, net	<u>3,103,341</u>	<u>6,602,804</u>	<u>-</u>	<u>-</u>	<u>9,706,145</u>
<b>TIFA capital assets, net</b>	<u>\$ 6,591,414</u>	<u>\$ 9,945,004</u>	<u>\$ -</u>	<u>\$ (6,830,273)</u>	<u>\$ 9,706,145</u>
<b>Downtown Development Authority</b>					
Capital assets, not being depreciated -					
Land	\$ 277,068	\$ -	\$ (277,068)	\$ -	\$ -
Capital assets, being depreciated -					
Land improvements	203,014	-	(203,014)	-	-
Less accumulated depreciation for -					
Land improvements	<u>40,600</u>	<u>10,150</u>	<u>50,750</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated, net	<u>162,414</u>	<u>10,150</u>	<u>(152,264)</u>	<u>-</u>	<u>-</u>
<b>DDA capital assets, net</b>	<u>\$ 439,482</u>	<u>\$ 10,150</u>	<u>\$ (429,332)</u>	<u>\$ -</u>	<u>\$ -</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Housing Commission</b>				
Capital assets not being depreciated -				
Land	\$ 1,891,187	\$ -	\$ -	\$ 1,891,187
Construction in progress	116,448	-	(116,448)	-
	<u>2,007,635</u>	<u>-</u>	<u>(116,448)</u>	<u>1,891,187</u>
Capital assets, being depreciated:				
Buildings	21,810,280	-	-	21,810,280
Leasehold improvements	27,505,019	617,608	-	28,122,627
Furniture and equipment	1,027,306	23,215	(69,381)	981,140
	<u>50,342,605</u>	<u>640,823</u>	<u>(69,381)</u>	<u>50,914,047</u>
Less accumulated depreciation	(30,987,958)	(1,975,799)	68,153	(32,895,604)
	<u>19,354,647</u>	<u>(1,334,976)</u>	<u>(1,228)</u>	<u>18,018,443</u>
<b>Housing Commission capital assets, net</b>	<u>\$ 21,362,282</u>	<u>\$ (1,334,976)</u>	<u>\$ (117,676)</u>	<u>\$ 19,909,630</u>

## 6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances at year end was as follows:

Due from Fund	Due to Fund			
	General Fund	Nonmajor Governmental	Water and Sewer	Total
General fund	\$ -	\$ 57,530	\$ -	\$ 57,530
Local streets	-	-	325,473	325,473
Nonmajor governmental funds	991,271	-	-	991,271
Water and sewer	302,691	-	-	302,691
<b>Totals</b>	<u>\$ 1,293,962</u>	<u>\$ 57,530</u>	<u>\$ 325,473</u>	<u>\$ 1,676,965</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made. Under the terms of the City's consent agreement with the State, no additional interfund balances may be created. The outstanding amounts at year-end will be repaid when sufficient resources are available.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

In addition to the internal balances noted above, the agency fund reported a receivable of \$272,777 from the general fund. Since the agency fund represents resources being held in a fiduciary capacity, this amount has been recorded as accounts receivable with the offsetting liability reported in accounts payable of the general fund.

For the year ended June 30, 2014, interfund transfers are summarized as follows:

Transfers In	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Totals
Local streets	\$ -	\$ 513,295	\$ 513,295
Nonmajor governmental funds	23,881	-	23,881
<b>Totals</b>	<b>\$ 23,881</b>	<b>\$ 513,295</b>	<b>\$ 537,176</b>

Transfers are used to: (1) move revenues to nonmajor governmental funds from the general fund for allowable grant administrative costs and (2) move revenues from the major street fund to the local street fund as allowed by Act 51.

## 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2014 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable	\$ 4,490,000	\$ -	\$ (1,485,000)	\$ 3,005,000	\$ 1,290,000
Emergency loan	3,000,000	-	-	3,000,000	-
Installment purchase agreements	172,449	-	(76,043)	96,406	61,341
Total installment debt	7,662,449	-	(1,561,043)	6,101,406	1,351,341
Compensated absences	598,723	16,104	(278,958)	335,869	83,967
<b>Total governmental activities</b>	<b>\$ 8,261,172</b>	<b>\$ 16,104</b>	<b>\$ (1,840,001)</b>	<b>\$ 6,437,275</b>	<b>\$ 1,435,308</b>
<b>Business-type activities</b>					
Bonds payable	\$ 22,513,304	\$ 539,383	\$ (2,025,000)	\$ 21,027,687	\$ 2,105,000
Installment purchase agreements	2,462,190	-	(364,150)	2,098,040	356,357
Total installment debt	24,975,494	539,383	(2,389,150)	23,125,727	2,461,357
Net premiums/discounts on bonds	(20,370)	-	20,370	-	-
Compensated absences	42,332	35,243	-	77,575	19,394
<b>Total business-type activities</b>	<b>\$ 24,997,456</b>	<b>\$ 574,626</b>	<b>\$ (2,368,780)</b>	<b>\$ 23,203,302</b>	<b>\$ 2,480,751</b>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Component units</b>					
Bonds payable	\$ 12,845,000	\$ -	\$ (465,000)	\$ 12,380,000	\$ 485,000
Land contract	150,000	-	(25,000)	125,000	125,000
Loans payable	4,327,265	-	(185,832)	4,141,433	195,826
Installment purchase agreements	3,635,619	-	(547,606)	3,088,013	572,192
Total installment debt	20,957,884	-	(1,223,438)	19,734,446	1,378,018
Compensated absences	93,421	-	(11,471)	81,950	8,194
<b>Total component units</b>	<b>\$ 21,051,305</b>	<b>\$ -</b>	<b>\$ (1,234,909)</b>	<b>\$ 19,816,396</b>	<b>\$ 1,386,212</b>

### Governmental activities - bonds payable

2002 Michigan Transportation Fund Refunding Bonds; \$1,780,000 at issuance; payable in one remaining installment of \$200,000 with interest at 4.625 percent in August 2014	\$ 200,000
2006 General Obligation Bonds for street improvements; \$5,000,000 at issuance; payable in annual installments of \$535,000 to \$580,000; interest payable semi-annually at 4.25 percent through March 2016	1,135,000
2007 General Obligation Bonds; \$5,000,000 at issuance; payable in annual installments of \$535,000 to 580,000; interest payable semi-annually at 4.10 percent through March 2017	<u>1,670,000</u>
<b>Total governmental activities bonds payable</b>	<b><u>\$ 3,005,000</u></b>

### Business-type activities - bonds payable

1999B Sewage Disposal System Revenue Bonds; \$2,730,000 at issuance; due in annual installments of \$270,000 to \$285,000; interest payable semi-annually at 4.75 to 4.80 percent through November 2015	\$ 555,000
1999A Sewage Disposal System Revenue Bonds; \$6,390,000 at issuance; due in annual installments of \$610,000 to \$640,000; interest payable semi-annually at 4.75 to 4.80 percent through November 2015	1,250,000
1994 State Revolving Loan Fund; \$2,590,000 at issuance; due in annual installments of \$155,000; interest payable semi-annually at 2.0 percent through April 2016	310,000
2010 Clean Water Revolving Fund Bonds; \$643,525 at issuance; due in annual installments of \$30,000 to \$38,525 plus interest at 2.50 percent, semi-annually through April 1, 2030	538,525

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### Business-type activities - bonds payable (concluded)

2008 Clean Water Revolving Fund Bonds; \$21,160,000 approved financing; due in annual installments of \$890,000 to \$1,330,000; interest payable semi-annually at 2.5 percent through October 2030; not yet drawn in full	\$ 16,079,162
2007 General Obligation Unlimited Tax Bonds; \$3,200,000 at issuance; due in annual installments of \$150,000 to \$240,000; interest payable semi-annually at 4.00 to 5.25 percent through March 2026	<u>2,295,000</u>
<b>Total business-type activities bonds payable</b>	<b><u>\$ 21,027,687</u></b>

### Component units - bonds payable

2002 Tax Increment Finance Authority Bonds; \$1,375,000 at issuance; due in annual installments of \$95,000 to \$105,000; semi-annually at 4.60 to 5.00 percent through November 2019	\$ 605,000
2006 Tax Increment Finance Authority Bonds; \$1,270,000 at issuance; due in annual installments of \$60,000 to \$100,000; interest payable semi-annually at 4.60 to 5.00 percent through November 2025	915,000
2006 Brownfield Redevelopment Authority Tax Increment Bonds; \$4,155,000 at issuance; due in annual installments of \$145,000 to \$525,000; interest payable semi-annually at 6.00 to 6.125 percent through November 2025	3,720,000
2010 Tax Increment Finance Authority General Obligation Bonds; \$7,660,000 at issuance; due in annual installments of \$175,000 to \$590,000; interest payable semi-annually at 5.50 to 8.125 percent through May 2035	<u>7,140,000</u>
<b>Total component units bonds payable</b>	<b><u>\$ 12,380,000</u></b>

*Emergency loan payable.* The City has entered into an emergency loan agreement with a State agency for program purposes. The loan is due in ten equal installments beginning in March 2022. Interest is payable annually at a rate of 0.10 percent.

*Loan payable.* The Housing Commission component unit has a loan outstanding through the Capital Fund Financing Program (CFFP) for renovations. The loan is due in monthly installments of \$34,049 including interest at 5.25 percent with final payment due in November 2024.

*Land contract payable.* The Downtown Development Authority component unit purchased certain parcels through a non-interest bearing land contract in the original amount of \$225,000. Repayment is due in one remaining annual installments of \$125,000 scheduled to be paid in full in year 2019.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

*Installment purchase agreements.* The City enters into installment purchase agreements for equipment, vehicles, and energy upgrades. Installment purchase agreements outstanding at year-end are as follows:

	Final Payment Date	Interest Rate	Original Amount	Amount Outstanding
<b>Governmental activities</b>				
2009 Chevy vehicle lease	12/30/2015	5.50%	\$ 160,545	49,441
2010 AT&T equipment lease	09/01/2015	6.12%	169,013	46,965
<b>Total governmental activities</b>			<b>\$ 329,558</b>	<b>\$ 96,406</b>
<b>Business-type activities</b>				
2012 water meter lease	09/26/2019	3.00%	\$ 2,613,068	\$ 2,098,040
<b>Component units</b>				
2007 energy efficiency upgrades	03/31/2020	4.40%	\$ 6,324,830	\$ 3,088,013

Debt service requirements to maturity for all installment debt of the City are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,351,341	\$ 129,036	\$ 2,461,357	\$ 634,999	\$ 1,378,018	\$ 1,172,090
2016	1,170,065	76,098	2,542,127	548,779	1,314,242	1,109,099
2017	580,000	27,198	1,508,224	482,370	1,377,184	1,041,896
2018	-	3,418	1,549,656	439,900	1,441,928	970,824
2019	-	3,418	1,591,433	396,048	1,481,917	895,677
2020-2024	900,000	14,934	6,695,244	1,389,802	4,831,740	3,616,069
2025-2029	1,500,000	6,095	6,655,000	446,848	4,714,417	2,051,886
2030-2034	600,000	260	122,686	2,015	2,605,000	892,969
2035	-	-	-	-	590,000	47,938
<b>Total</b>	<b>\$ 6,101,406</b>	<b>\$ 260,457</b>	<b>\$ 23,125,727</b>	<b>\$ 4,340,761</b>	<b>\$ 19,734,446</b>	<b>\$ 11,798,448</b>

## 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 all claims except for workers' compensation and general liability. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

*Workers' compensation insurance.* The City is self-insured for workers' compensation claims up to \$300,000 individually. Stop-loss coverage is purchased from a commercial carrier for amounts exceeding that limit.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

*General liability insurance.* The City is self-insured for general liability claims up to \$2,000,000 individually. Stop-loss coverage is purchased from a commercial carrier for amounts exceeding that limit.

The City estimates the liability for workers' compensation and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as an estimate for claims incurred but not yet reported. Changes in the estimated liability for the years ended June 30 are as follows:

	Workers' Compensation	General Liability	Total
Estimated liability, July 1, 2012	\$ 531,813	\$ 2,411,174	\$ 2,942,987
Claims incurred and changes in estimates	(198,408)	1,586,100	1,387,692
Claim payments	(190,082)	(409,498)	(599,580)
Estimated liability, June 30, 2013	143,323	3,587,776	3,731,099
Claims incurred and changes in estimates	140,795	(2,507,621)	(2,366,826)
Claim payments	(83,123)	(197,869)	(280,992)
Estimated liability, June 30, 2014	\$ 200,995	\$ 882,286	\$ 1,083,281

## 9. FUND BALANCES - GOVERNMENTAL FUNDS

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 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. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Local Streets	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 20,219	\$ -	\$ -	\$ 20,219
Prepays	49,868	-	-	49,868
	70,087	-	-	70,087
Restricted:				
Major and local streets	-	799,949	1,731,520	2,531,469
Drug law enforcement	-	-	256,048	256,048
	-	799,949	1,987,568	2,787,517
Unassigned (deficit)	(837,194)	-	(50,872)	(888,066)
Total fund balances - governmental funds	\$ (767,107)	\$ 799,949	\$ 1,936,696	\$ 1,969,538

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 10. NET INVESTMENT IN CAPITAL ASSETS

Following is a summary of the City's net investment in capital assets as presented in the government-wide statement of net position:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 307,195	\$ 357,645	\$ 1,891,187
Capital assets being depreciated, net	18,987,829	49,185,920	27,724,588
	<u>19,295,024</u>	<u>49,543,565</u>	<u>29,615,775</u>
Related debt:			
Total installment debt	6,101,406	23,125,727	19,734,446
Less non-capital related debt	(3,000,000)	-	(3,720,000)
Bond premiums and discounts, net	-	-	-
	<u>3,101,406</u>	<u>23,125,727</u>	<u>16,014,446</u>
Net investment in capital assets	<u>\$ 16,193,618</u>	<u>\$ 26,417,838</u>	<u>\$ 13,601,329</u>

### 11. CONDENSED FINANCIAL INFORMATION - PENSION TRUST FUNDS

Financial activity for the pension trust funds is summarized as follows:

	Plan Net Position		
	General Employees' Retirement System	Policemen and Firemen Retirement System	Total Pension Trust Funds
Assets			
Investments:			
Money market funds	\$ -	\$ 2,040,503	\$ 2,040,503
U.S. government agencies	-	1,325,688	1,325,688
Municipal bonds	-	5,473,450	5,473,450
Corporate bonds	-	3,325,510	3,325,510
International bonds	-	308,828	308,828
Common stock	-	14,574,680	14,574,680
Real estate securities	-	163,948	163,948
Guaranteed investment contract	10,814,280	-	10,814,280
International stocks	-	61,642	61,642
Total investments	<u>10,814,280</u>	<u>27,274,249</u>	<u>38,088,529</u>
Interest receivable	-	225,473	225,473
Contributions receivable	16,673	32,659	49,332
Due from broker	-	4,019	4,019
Total assets	<u>10,830,953</u>	<u>27,536,400</u>	<u>38,367,353</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

	Plan Net Position		
	General Employees' Retirement System	Policemen and Firemen Retirement System	Total Pension Trust Funds
<b>Liabilities</b>			
Due to broker	\$ -	\$ 11,230	\$ 11,230
<b>Net position restricted for pension benefits</b>	<u>\$ 10,830,953</u>	<u>\$ 27,525,170</u>	<u>\$ 38,356,123</u>
	Change in Plan Net Position		
	General Employees' Retirement System	Policemen and Firemen Retirement System	Total Pension Trust Funds
<b>Additions</b>			
Contributions:			
Employer:			
Wage-based contributions	\$ 681,957	\$ 382,606	\$ 1,064,563
Property tax judgment levy	-	-	-
Plan members	46,852	226,336	273,188
Total contributions	<u>728,809</u>	<u>608,942</u>	<u>1,337,751</u>
Investment income:			
Interest and dividends	441,390	852,598	1,293,988
Net change in fair value of investments	(52,811)	2,627,055	2,574,244
Total investment income	<u>388,579</u>	<u>3,479,653</u>	<u>3,868,232</u>
Investment expense	-	-	-
Net investment income	<u>388,579</u>	<u>3,479,653</u>	<u>3,868,232</u>
<b>Total additions</b>	<u>1,117,388</u>	<u>4,088,595</u>	<u>5,205,983</u>
<b>Deductions</b>			
Benefit payments	1,000,081	2,460,529	3,460,610
Administrative expenses	74,943	226,166	301,109
<b>Total deductions</b>	<u>1,075,024</u>	<u>2,686,695</u>	<u>3,761,719</u>
<b>Change in net position</b>	42,364	1,401,900	1,444,264
Net position, beginning of year	<u>10,788,589</u>	<u>26,123,270</u>	<u>36,911,859</u>
<b>Net position, end of year</b>	<u>\$ 10,830,953</u>	<u>\$ 27,525,170</u>	<u>\$ 38,356,123</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 12. OTHER POSTEMPLOYMENT BENEFITS

#### *Primary Government*

*Plan Description.* The City of Inkster administered a single-employer defined benefit healthcare plan (the "Plan") up through December 31, 2013. This Plan provided a health insurance benefit to certain retirees, which was funded on the pay-as-you-go basis. Effective January 1, 2014, the City provides an annual stipend to existing retirees to help them secure health care insurance. This stipend is a variable amount according to pre and post Medicare status. For current employees hired before December 2010, when they retire, they will also receive a monthly stipend as described above. Current employees hired after December 2010 are provided an annual payment into an HSA to help support their post-employment health care insurance needs.

*Funding policy.* The stipend amounts may be amended by the City Council.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost was calculated based on the annual required contribution of the employer (ARC). The ARC 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 (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 531,574
Interest on net OPEB obligation	402,967
Adjustment to annual required contribution	<u>(597,030)</u>
Net OPEB cost (expense)	337,511
Contributions made	<u>(709,982)</u>
Decrease in net OPEB obligation	(372,471)
Net OPEB obligation, beginning of year	<u>9,481,583</u>
Net OPEB obligation, end of year	<u>\$ 9,109,112</u>

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two previous fiscal years was as follows:

Three-Year Trend Information			
Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 2,068,408	27.3%	\$ 8,264,599
2013	1,964,260	38.0%	9,481,583
2014	337,511	210.4%	9,109,112

*Funded Status and Funding Progress.* As of June 30, 2014, the actuarial accrued liability for benefits was \$7,379,799, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$2,198,031 and the ratio of the UAAL to the covered payroll was 336 percent.

The projection of future benefit payments for an ongoing plan involves 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 as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and 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 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 June 30, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.25 percent investment rate of return, a 3.0 percent inflation rate, and an annual healthcare cost trend rate is not applicable since the city's explicit subsidy is not expected to increase in the future. 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 dollar amount on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

### *Housing Commission Component Unit*

*Plan Description.* The City of Inkster Housing Commission administers a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described above, the Plan provides health insurance a benefits to certain retirees, which are funded on the pay-as-you-go basis.

*Funded Status and Funding Progress.* As of December 31, 2013, the actuarial accrued liability for benefits was \$246,982, which was 24% funded. The annual required contribution for the year ended December 31, 2013 was \$44,686.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 13. CONTINGENCIES

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. The City has been named in one lawsuit involving a claim for alleged discrimination. The City and its legal counsel is not able to determine an estimate for the loss, should an adverse outcome prevail, at this time. The City's retention amount for this lawsuit is \$150,000. The claims expense will be recognized in the year the related property taxes are due and collectible. Another lawsuit involves a claim for alleged retaliation and discrimination, for which the City and its legal counsel is not able to determine an estimate for the loss, should an adverse outcome prevail, at this time. The City's retention amount for this lawsuit is \$2,000,000. Another claim against the City involves a claim for a slip and fall from an alleged dangerous sidewalk for which the City and its legal counsel is not able to determine an estimate for the loss, should an adverse outcome prevail, at this time. The City's retention amount for this lawsuit is \$2,000,000.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

### 14. SUBSEQUENT EVENTS

Subsequent to year-end, the City received an adverse judgment in the amount of \$149,000. If the City is unsuccessful in its appeal of the judgment, then the settlements will be financed with a judgment levy on the City's real property tax roll, as authorized by the City Council.

### 15. FUNDING UNCERTAINTIES

On December 2, 2011, the State of Michigan Governor appointed a seven-member financial review team to assess the financial condition of the City. The team concluded that the City was in a condition of severe financial stress. Pursuant to Public Act of 4 of 2011, on February 29, 2012, the City signed and executed a consent agreement with the State of Michigan. The key initiatives of the consent agreement are as follows:

- Budget modifications to eliminate fund balance/net position deficits and provide for liquidation of all interfund balances
- Alternate service delivery and potential consolidation of public services
- Hiring of an accounting firm to assist in preparing timely and accurate financial information
- Monthly cash flow forecasts and revenue and expenditures budgetary reports
- Collective bargaining powers have been revoked and any changes or extension to current collective bargaining agreements are subject to approval by the Michigan Department of Treasury
- Quarterly reporting on litigation and claims

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### 16. RETIREMENT PLANS

#### General Employees' Retirement System

##### *General Information about the Pension Plan*

*Plan Administration.* The City sponsors the General Employees' Retirement System, a single-employer, defined benefit pension plan which covers full-time employees over the age of 21 with one year of service and a job classification other than police or fire. The plan is closed to new hires. The Plan provides retirement, disability and death benefit to plan members and their beneficiaries. It is accounted for as a separate pension trust fund. Stand-alone financial reports are not prepared. The contribution requirements of the Plan are established and may be amended by the City Council, subject to collective bargaining agreements.

*Plan management.* Management of the City of Inkster Retirement Income Plan is in accordance with the Plan Document originally effective July 1, 1956 and last restated July 1, 2013. The Employer, which per the Plan Document is the plan administrator for purposes of the Code, shall have the sole discretionary right, authority, and power to interpret and construe the Plan and to determine any disputes arising thereunder.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have established market values are reported at estimated fair values as determined by the custodian under the direction of the City Council with the assistance of a valuation service. Administrative costs are financed through investment earnings.

*Contributions.* The obligation to contribute to the System for these employees was established by City ordinances and state statute and requires a contribution from the employees of 5% of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 26.2% of covered payroll.

*Plan membership.* At June 30, 2013, the date of the latest actuarial valuation, System membership consisted of the following:

Retirees and beneficiaries receiving benefits	54
Terminated employees entitled to but not yet receiving benefits	8
Vested active members	<u>28</u>
<b>Total membership</b>	<b><u>90</u></b>

*Plan Benefits .* Benefits are provided to full time non police and fire employees over age 21 with one year of service, at 2.5% of final earnings multiplied by credited service years.

The financial statements of the System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Employer Disclosures under GASB Statement 27*

The annual pension cost (APC) for the year ended June 30, 2014 is \$201,847, which was also the actual amount contributed. The annual pension cost was equal to the City's required and actual contribution. There a net pension asset recorded at the beginning and end of the fiscal year. The annual required contribution (ARC) was determined as part of an actuarial valuation as of June 30, 2013, using the projected unit credit cost method.

#### Three-Year Trend Information

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
2012	\$ 373,383	100%	\$ (74,702)
2013	261,676	100%	(75,189)
2014	201,847	100%	(74,468)

The funded status of the System as of June 30, 2013, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 12,619,324
Actuarial value of assets	10,896,444
Unfunded AAL (UAAL)	<u>\$ 1,722,880</u>
Funded ratio	<u>86.3%</u>
Covered payroll	<u>\$ 962,730</u>
UAAL as % of covered payroll	<u>179.0%</u>

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 and mortality. Actuarially determined amounts 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 as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value is determined using the projected unit credit cost method.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and 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. GASB Statement 27 required supplementary information is presented after the notes to the financial statements section of this report; additional information as of June 30, 2013, the date of the latest actuarial valuation, includes:

Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Stated contract value of funds, with market value adjustment

The actuarial assumptions include: 7% investment rate of return; 2% projected salary increases.

### *Pension Plan Disclosures under GASB Statement 67*

*Net pension liability of the City.* The components of the net pension liability of the City at June 30, 2014, are as follows:

Total pension liability	\$ 13,361,196
Plan fiduciary net position	10,736,740
City's net pension liability	<u>\$ 2,624,456</u>
 Plan fiduciary net position as a percentage of the total pension liability	 80.36%

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2013 (and rollforward to June 30, 2014), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	2 percent, average
Investment rate of return	7 percent, net of pension plan investment expense, including inflation

The rollforward used the entry age actuarial cost method.

Mortality rates were based on the 2013 IRS Static Mortality Table for Males or Females, as appropriate.

The actuarial assumptions used in the June 30, 2013 valuation have been chosen to anticipate the long-term experience of the Plan.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the System's investment allocation policy) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Guaranteed Investment Contract Prudential Securities	100%	7.0%

The actual money-weighted rate of return for the year ended June 30, 2014 was 4.11%.

*Discount rate.* The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 7 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6 percent) or 1-percentagepoint higher (8 percent) than the current rate:

	1% Decrease (6%)	Current Discount (7%)	1% Increase (8%)
City's net pension liability	\$ 3,991,707	\$ 2,624,456	\$ 1,498,788

### Police and Fire Retirement System

#### *General Information about the Pension Plan*

*Plan administration.* The City sponsors the Policemen and Firemen Retirement System, a single-employer defined benefit pension plan which covers full time employees over the age of 21 within the police and fire departments. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. It is accounted for as a separate pension trust fund. Stand alone financial reports are not prepared. The contribution requirements of the Plan are established and may be amended by the City Council, subject to collective bargaining agreements.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have established market values are reported at estimated fair values as determined by the custodian under the direction of the City Council with the assistance of a valuation service. Administrative costs are financed through investment earnings.

*Plan management.* Management of the Policemen and Firemen Retirement System is vested in the City of Inkster's Policemen and Firemen Retirement System Board of Trustees, which consists of five members, one appointed by the Mayor, one appointed by the Council, one member appointed by the fire force and one appointed by the police force.

*Plan Membership.* Plan membership at June 30, 2013, the date of the latest actuarial valuation, consisted of the following:

Retirees and beneficiaries receiving benefits	66
Vested active members	37
Vested inactive members	<u>6</u>
<b>Total membership</b>	<b><u><u>109</u></u></b>

*Plan benefits.* The Plan provides retirement benefits to full time fire and police personnel and their beneficiaries. Benefits are provided to those with at least 25 years of service, regardless of age, at 2.75% of final average compensation (FAC) times the first 25 years of service, and 2.5% FAC times the next five years of service, and 1% of FAC for service over 30 years. Members hired after July 1, 2012 receive a benefit of 2.5% of FAC. Firefighters receive no cost of living adjustments. Police Command, Non-Union and Police Officers (members who retired after July 1, 2001) receive an annual benefit of 1/2% COLA for 3 years after retirement, 1% COLA 5 years after retirement, and 2% COLA 10 years after retirement.

*Contributions.* The obligation to contribute to the Plan for these employees was established by City ordinances and state statute and requires a contribution from the employees of 12% of gross wages for fire members and 12% for Police Command and Non-Union members effective July 1, 2012, and Police Officers 6.53% effective July 1, 2005. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 19.88% of covered payroll.

### *Employer Disclosures under GASB Statement 27*

The annual pension cost (APC) for the year ended June 30, 2014 is \$382,606. The APC was equal to the City's required and actual contribution. There was no net pension obligation at the beginning or the end of the fiscal year. The ARC was determined as part of an actuarial valuation as of June 30, 2013, using the entry age cost method.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### Three-Year Trend Information

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2012	\$ 393,224	100%	\$ -
2013	399,725	100%	-
2014	382,606	100%	-

The funded status of the System as of June 30, 2013, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 31,651,478
Actuarial value of assets	26,225,747
Unfunded AAL (UAAL)	<u>\$ 5,425,731</u>
Funded ratio	<u>82.9%</u>
Covered payroll	<u>\$ 2,009,679</u>
UAAL as % of covered payroll	<u>270.0%</u>

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 and mortality. Actuarially determined amounts 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 as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value is determined using the entry age actuarial cost method.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and 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. GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report; additional information as of June 30, 2013, the date of the latest actuarial valuation, includes:

Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	21 years
Asset valuation method	5-year smoothed market

The actuarial assumptions include: 8% investment rate of return; 4 to 7% projected salary increases including 4% inflation; no assumed rate of payroll growth; and no cost-of-living inflationary adjustments to benefits.

### *Pension Plan Disclosures under GASB Statement 67*

*Net pension liability of the City.* The components of the net pension liability of the City at June 30, 2014, are as follows:

Total pension liability	\$ 34,193,255
Plan fiduciary net position	27,492,512
City's net pension liability	<u>\$ 6,700,743</u>
 Plan fiduciary net position as a percentage of the total pension liability	 80.4%

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2013 (and rollforward to June 30, 2014), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4 percent
Salary increases	7 - 4 percent, average, including inflation
Investment rate of return	8 percent

Mortality rates were based on the 1983 Group Annuity Mortality Table for Males or Females.

The total pension liability was determined based on the annual valuation data as of June 30, 2013 rolled forward to June 30, 2014.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (see the discussion of the System's investment allocation policy) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
<b>Equities</b>		
Domestic equities	50%	8.0%
International equities	10%	8.0%
Fixed Income	40%	8.0%
Cash	0%	8.0%

*Discount rate.* The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the 8% discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with GASB 67, paragraph 44.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 8 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount (8%)	1% Increase (9%)
City's net pension liability	\$ 10,332,168	\$ 6,700,743	\$ 3,629,768

### Defined Contribution Retirement Plan

The General Employees' Retirement System is closed to new hires. Employees hired after a certain date are enrolled in a defined contribution plan. An employer match is provided only for certain bargaining units, none of which had active employees in the current year. Accordingly, there were no employer contributions to the plan for the year ended June 30, 2014.

# CITY OF INKSTER, MICHIGAN

## Notes to Financial Statements

### *Housing Commission Component Unit*

The Housing Commission offers a non-mandatory defined contribution retirement plan to all full-time employees with at least one year of service. Participants are required to contribute 3 percent of annual wages. The Housing Commission's contribution to the plan for its fiscal year ended December 31, 2013 was \$97,735.

## 17. BOND PAYMENT GUARANTEE

In 2006, the City of Inkster guaranteed the 2006 20-year, \$4,155,000 general obligation bond of the Brownfield Redevelopment Authority, a legally separate discrete component unit, in accordance with the related borrowing resolution. The bonds mature annually through November 2025, with semiannual interest payments. In the event that the Brownfield Redevelopment Authority is unable to make a payment, the City is required to make that payment or any deficiency. As a result of insufficient captured tax revenue that occurred starting in 2010, the City determined that it was more likely than not the City would be required to pay a portion of the remaining obligation of the Brownfield Redevelopment Authority's debt service payments based on the guarantee. The amount of the liability recognized is the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

## 18. RESTATEMENT

The City adopted the provisions of GASB Statement #70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees* in the current year. As a result, the beginning net assets of governmental activities was reduced by \$3,920,517 at June 30, 2013.



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## REQUIRED SUPPLEMENTARY INFORMATION

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

### General Employees' Retirement System

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
06/30/2004	\$ 7,177,000	\$ 7,177,000	\$ -	100.0%	\$ 1,884,000	0.0%
06/30/2006	7,991,000	7,991,000	-	100.0%	2,134,232	0.0%
06/30/2008	8,781,000	8,781,000	-	100.0%	2,016,001	0.0%
06/30/2010	9,382,303	11,342,060	1,959,757	82.7%	2,208,782	88.7%
06/30/2012	10,286,468	12,462,796	2,176,328	82.5%	1,501,498	144.9%
06/30/2013	10,896,444	12,619,324	1,722,880	86.3%	962,730	179.0%

#### Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2008	\$ 345,988	93.4%
2009	345,988	92.5%
2010	345,988	110.0%
2011	438,726	67.6%
2012	374,424	100.0%
2013	262,163	100.0%
2014	201,847	100.4%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

General Employees' Retirement System

Last Two Fiscal Years

Fiscal Year Ended	Annual Money- Weighted Rate of Return, Net of Investment Expense
6/30/2014	4.11%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

General Employees' Retirement System  
 Schedule of Changes in the City's Net Pension Liability and Related Ratios  
 Year ended June 30, 2014

<b>Change in total pension liability</b>	
Service cost	\$ 77,087
Interest	893,856
Changes of benefit terms	-
Differences between expected and actual expense	113,605
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(1,075,024)
<b>Net change in total pension liability</b>	<u>9,524</u>
<b>Total pension liability, beginning</b>	<u>13,351,672</u>
<b>Total pension liability, ending (a)</b>	<u>13,361,196</u>
<b>Change in plan fiduciary net position</b>	
Contributions - employer	686,852
Contributions - member	45,385
Net investment income	448,782
Benefit payments, including refunds of member contributions	(1,075,024)
Administrative expense	(74,943)
<b>Net change in plan fiduciary net position</b>	<u>31,052</u>
<b>Plan fiduciary net position, beginning</b>	<u>10,705,688</u>
<b>Plan fiduciary net position, ending (b)</b>	<u>10,736,740</u>
<b>City's net pension liability, ending (a)-(b)</b>	<u><u>\$ 2,624,456</u></u>
Plan fiduciary net position as a percentage of the total pension liability	80%
Covered-employee payroll	962,730
City's net pension liability as a percentage of covered payroll	272.6%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

Schedule of City Contributions - General Employees' Retirement System  
Last Two Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2013	\$ 261,676	\$ 261,676	\$ -	\$ 1,501,498	17.4%
6/30/2014	201,847	201,847	-	962,730	21.0%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

### Policemen and Firemen Retirement System

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
06/30/2007	\$ 28,519,000	\$ 27,116,000	\$ (1,403,000)	105.2%	\$ 4,473,940	-31.4%
06/30/2008	29,483,000	28,282,000	(1,201,000)	104.2%	4,672,419	-25.7%
06/30/2009	28,721,000	29,428,000	707,000	97.6%	4,736,464	14.9%
06/30/2010	28,714,000	31,363,000	2,649,000	91.6%	5,250,000	50.5%
06/30/2011	28,351,803	31,991,174	3,639,371	88.6%	4,690,039	77.6%
06/30/2012	26,803,179	31,735,670	4,932,491	84.5%	3,116,746	158.3%
06/30/2013	26,225,747	31,651,478	5,425,731	82.9%	2,009,679	270.0%

#### Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2008	\$ 320,265	0.0%
2009	330,376	0.0%
2010	361,307	0.0%
2011	345,961	0.0%
2012	393,224	100.0%
2013	399,725	100.0%
2014	382,606	100.0%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

Policemen and Firemen Retirement System

Last Two Fiscal Years

Fiscal Year Ended	Annual Money- Weighted Rate of Return, Net of Investment Expense
6/30/2014	13.60%

**CITY OF INKSTER, MICHIGAN**

**Required Supplementary Information**

Policemen and Firemen Retirement System  
 Schedule of Changes in the City's Net Pension Liability and Related Ratios  
 Year ended June 30, 2014

	<b>2014</b>
<b>Change in total pension liability</b>	
Service cost	\$ 392,000
Interest	2,449,516
Changes of benefit terms	-
Differences between expected and actual expense	2,157,315
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(2,457,054)
<b>Net change in total pension liability</b>	<u>2,541,777</u>
<b>Total pension liability, beginning</b>	<u>31,651,478</u>
<b>Total pension liability, ending (a)</b>	<u>34,193,255</u>
<b>Change in plan fiduciary net position</b>	
Contributions - employer	382,606
Contributions - member	215,583
Net investment income	3,253,487
Benefit payments, including refunds of member contributions	(2,457,054)
Administrative expense	(25,300)
Other	-
<b>Net change in plan fiduciary net position</b>	<u>1,369,322</u>
<b>Plan fiduciary net position, beginning</b>	<u>26,123,270</u>
<b>Plan fiduciary net position, ending (b)</b>	<u>27,492,592</u>
<b>City's net pension liability, ending (a)-(b)</b>	<u>\$ 6,700,663</u>
Plan fiduciary net position as a percentage of the total pension liability	80.4%
Covered-employee payroll	2,009,679
City's net pension liability as a percentage of covered payroll	333.4%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

Schedule of City Contributions - Policemen and Firemen Retirement System  
Last Two Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2013	\$ 399,725	\$ 399,725	\$ -	\$ 3,116,746	12.8%
6/30/2014	382,606	382,606	-	2,009,679	19.0%

# CITY OF INKSTER, MICHIGAN

## Required Supplementary Information

### Postemployment Healthcare Plan

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
06/30/2010	\$ -	\$ 31,461,943	\$ 31,461,943	0.0%	\$ 8,959,002	351.2%
06/30/2011	-	28,168,220	28,168,220	0.0%	4,249,604	662.8%
06/30/2012	-	27,341,036	27,341,036	0.0%	4,377,092	624.6%
06/30/2013	-	7,379,799	7,379,799	0.0%	2,198,031	335.7%

#### Schedule of Employer Contributions

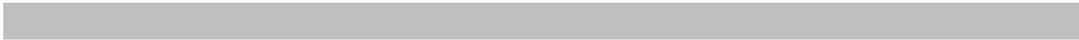
Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2011	\$ 3,192,885	31.9%
2012	2,191,025	25.8%
2013	2,123,394	33.4%
2014	531,574	133.6%

**COMBINING FUND FINANCIAL  
STATEMENTS AND SCHEDULES**

# CITY OF INKSTER, MICHIGAN

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue		
	Major Streets	Rubbish Collection	Community Development Block Grant
<b>Assets</b>			
Cash and cash equivalents	\$ 576,434	\$ 309,711	\$ 4,803
Accounts receivable	-	-	191,196
Due from other funds	991,271	-	-
Due from other governments	168,955	-	-
<b>Total assets</b>	<b>\$ 1,736,660</b>	<b>\$ 309,711</b>	<b>\$ 195,999</b>
<b>Liabilities</b>			
Accounts payable	\$ 3,394	\$ 339,595	\$ 34,640
Accrued liabilities	1,746	-	649
Due to other funds	-	-	9,133
Unearned revenue	-	-	4,658
<b>Total liabilities</b>	<b>5,140</b>	<b>339,595</b>	<b>49,080</b>
<b>Deferred inflows of resources</b>			
Unavailable revenue -other	-	-	191,196
<b>Fund balances (deficit)</b>			
Restricted	1,731,520	-	-
Unassigned (deficit)	-	(29,884)	(44,277)
<b>Total fund balances (deficit)</b>	<b>1,731,520</b>	<b>(29,884)</b>	<b>(44,277)</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,736,660</b>	<b>\$ 309,711</b>	<b>\$ 195,999</b>



Special Revenue				
Drug Law Enforcement	Parks and Recreation	Miscellaneous Grants	PEG Public Improvement	Totals
\$ 256,999	\$ 103,873	\$ -	\$ 32,396	\$ 1,284,216
-	20,709	58,397	27,063	297,365
-	-	-	-	991,271
-	-	-	-	168,955
<u>\$ 256,999</u>	<u>\$ 124,582</u>	<u>\$ 58,397</u>	<u>\$ 59,459</u>	<u>\$ 2,741,807</u>
\$ 951	\$ 80,616	\$ 3,710	\$ -	\$ 462,906
-	1,240	-	-	3,635
-	-	48,397	-	57,530
-	-	6,290	-	10,948
<u>951</u>	<u>81,856</u>	<u>58,397</u>	<u>-</u>	<u>535,019</u>
-	20,709	58,187	-	270,092
256,048	-	-	-	1,987,568
-	22,017	(58,187)	59,459	(50,872)
<u>256,048</u>	<u>22,017</u>	<u>(58,187)</u>	<u>59,459</u>	<u>1,936,696</u>
<u>\$ 256,999</u>	<u>\$ 124,582</u>	<u>\$ 58,397</u>	<u>\$ 59,459</u>	<u>\$ 2,741,807</u>

# CITY OF INKSTER, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2014

	Special Revenue		
	Major Streets	Rubbish Collection	Community Development Block Grant
<b>Revenues</b>			
Property taxes	\$ -	\$ 588,074	\$ -
Intergovernmental	1,044,787	-	287,326
Charges for services	-	889,015	63
Other	-	-	-
<b>Total revenues</b>	<b>1,044,787</b>	<b>1,477,089</b>	<b>287,389</b>
<b>Expenditures</b>			
Current:			
Public safety	-	-	-
Public works	180,969	1,358,587	-
Community development	-	-	85,482
Recreation and culture	-	-	-
Debt service:			
Principal	195,000	-	240,000
Interest and fiscal charges	13,759	-	6,150
<b>Total expenditures</b>	<b>389,728</b>	<b>1,358,587</b>	<b>331,632</b>
Revenues over (under) expenditures	655,059	118,502	(44,243)
<b>Other financing sources (uses)</b>			
Transfers in	-	-	-
Transfers out	(513,295)	-	-
<b>Total other financing sources (uses)</b>	<b>(513,295)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>141,764</b>	<b>118,502</b>	<b>(44,243)</b>
Fund balances (deficit), beginning of year	1,589,756	(148,386)	(34)
<b>Fund balances (deficit), end of year</b>	<b>\$ 1,731,520</b>	<b>\$ (29,884)</b>	<b>\$ (44,277)</b>



Special Revenue					
Drug Law Enforcement	Parks and Recreation	Miscellaneous Grants	PEG Public Improvement	Totals	
\$ -	\$ 518,178	\$ -	\$ -	\$ 1,106,252	
16,950	18,771	534,115	-	1,901,949	
-	93,756	-	-	982,834	
-	10,097	-	59,459	69,556	
<u>16,950</u>	<u>640,802</u>	<u>534,115</u>	<u>59,459</u>	<u>4,060,591</u>	
147	-	-	-	147	
-	-	260,782	-	1,800,338	
-	-	61,325	-	146,807	
-	616,423	-	-	616,423	
-	-	-	-	-	
-	-	-	-	435,000	
-	-	-	-	19,909	
<u>147</u>	<u>616,423</u>	<u>322,107</u>	<u>-</u>	<u>3,018,624</u>	
<u>16,803</u>	<u>24,379</u>	<u>212,008</u>	<u>59,459</u>	<u>1,041,967</u>	
-	20,000	3,881	-	23,881	
-	-	-	-	(513,295)	
-	20,000	3,881	-	(489,414)	
16,803	44,379	215,889	59,459	552,553	
239,245	(22,362)	(274,076)	-	1,384,143	
<u>\$ 256,048</u>	<u>\$ 22,017</u>	<u>\$ (58,187)</u>	<u>\$ 59,459</u>	<u>\$ 1,936,696</u>	

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## AGENCY FUNDS

# CITY OF INKSTER, MICHIGAN

## Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2014

	Escrow Fund	Tax Collection Fund	District Court Trust	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 204,693	\$ 38,055	\$ 52,712	\$ 295,460
Accounts receivable	272,777	-	12,443	285,220
<b>Total assets</b>	<b>\$ 477,470</b>	<b>\$ 38,055</b>	<b>\$ 65,155</b>	<b>\$ 580,680</b>
<b>Liabilities</b>				
Due to others	\$ 477,470	\$ 38,055	\$ 65,155	\$ 580,680

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 21, 2014

Honorable members of the City Council  
of the City of Inkster  
Inkster, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Inkster* (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2014. Our report includes a reference to other auditors who audited the financial statements of the Inkster Housing Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is disclosed as follows:

#### **2014-FS-01 - Amounts Held for Others**

Finding Type. Noncompliance with Laws and Regulations

Criteria. The City collects payments in lieu of taxes (PILOT) on behalf of other governmental taxing authorities. Amounts collected on behalf of others should be remitted timely and as required by state statute.

Condition. The City's general fund has a liability of approximately \$1,066,000 for payments in lieu of taxes collected in years 1994 through 2011 that have not yet been distributed to the intended units of local government. This is in violation of state statutes.

Cause. This condition is the result of incomplete historical records necessary to calculate the amount payable by entity, as well as insufficient cash flow.

Effect. As a result of this condition, the City is in violation of State law pertaining to the transmittal of payments of PILOT to other governmental units.

Recommendation. We recommend that management consider whether the additional personnel time necessary to reconcile research the historical records to determine the proper allocable amounts to the units of government is feasible under current budgetary constraints, and then to make payments to the units under a plan that will eliminate this liability.

View of Responsible Officials. The outstanding PILOT liability stems from activity dating back from 1994-2011. PILOT calculations received in fiscal years since then have been distributed in full to the appropriate taxing authorities. The funds are currently not available to distribute the entire liability, and the City will ensure that the taxing units are paid as resources become available.

**City of Inkster’s Response to Finding**

The City’s response to the findings identified in our audit is described above. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

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