

CITY OF INKSTER,
MICHIGAN



Year Ended
June 30, 2013

Financial
Statements and
Single Audit Act
Compliance

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CITY OF INKSTER, MICHIGAN

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Net Changes in Fund Balances of Governmental Funds to to Change in Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
General Fund	22
Local Street Fund	24
Statement of Net Position - Proprietary Fund	25
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	27
Statement of Cash Flows - Proprietary Fund	28
Statement of Net Position - Fiduciary Funds	30
Statement of Changes in Fiduciary Net Position	31
Combining Statement of Net Position - Discretely Presented Component Units	32
Combining Statement of Activities - Discretely Presented Component Units	34
Notes to Financial Statements	38
Required Supplementary Information	
General Employees' Retirement System	72
Policemen and Firemen Retirement System	73
Postemployment Healthcare Plan	74

CITY OF INKSTER, MICHIGAN

Table of Contents

	<u>Page</u>
Combining Fund Financial Statements	
Nonmajor Governmental Funds:	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	78
Agency Funds:	
Combining Statement of Fiduciary Assets and Liabilities	82
Single Audit Act Compliance	
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	85
Schedule of Expenditures of Federal Awards	87
Notes to Schedule of Expenditures of Federal Awards	88
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 <i>Government Auditing Standards</i>	89
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	91
Schedule of Findings and Questioned Costs	93
Summary Schedule of Prior Audit Findings	103



INDEPENDENT AUDITORS' REPORT

November 27, 2013

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, 2013, 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 68 percent, 114, percent, and 86 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, 2013, 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 17.

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 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 27, 2013 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.

Rehmann Johnson LLC

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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, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,326,455 (*net position*).
- The government's total net position increased by \$1,969,968. This net increase was a combination of a \$836,718 increase in governmental activities net position and a \$1,133,250 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 balance deficits of \$632,139. This represented an increase of \$752,055 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 \$27,326,455 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,766,631	\$ 4,110,074	\$10,879,805	\$11,571,864	\$16,646,436	\$15,681,938
Capital assets, net	20,530,366	21,669,286	50,791,818	49,744,738	71,322,184	71,414,024
Total assets	26,296,997	25,779,360	61,671,623	61,316,602	87,968,620	87,095,962
Long-term liabilities	8,261,172	10,840,186	24,997,456	25,416,067	33,258,628	36,256,253
Other liabilities	18,086,616	15,826,683	9,296,921	9,656,539	27,383,537	25,483,222
Total liabilities	26,347,788	26,666,869	34,294,377	35,072,606	60,642,165	61,739,475
Net position						
Net investment in capital assets	15,867,917	14,779,178	25,836,694	24,780,552	41,704,611	39,559,730
Restricted	3,206,857	2,730,524	1,109,127	2,260,792	4,315,984	4,991,316
Unrestricted (deficit)	(19,125,565)	(18,397,211)	431,425	(797,348)	(18,694,140)	(19,194,559)
Total net position	\$ (50,791)	\$ (887,509)	\$27,377,246	\$26,243,996	\$27,326,455	\$25,356,487

By far the largest portion of the City's net position, \$41,704,611, 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, \$4,315,984 represents resources that are subject to external restriction on how they may be used. The remaining *unrestricted net position* of \$(18,694,140) represents an accumulated deficit.

The government's net position increased by \$1,969,968 during the current fiscal year. This net increase was a combination of an increase of \$836,718 in governmental activities and an increase of \$1,133,250 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	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 3,680,103	\$ 4,652,191	\$10,332,696	\$12,363,984	\$14,012,799	\$17,016,175
Operating grants	953,438	1,045,143	1,115	10,955	954,553	1,056,098
Capital grants	1,735,524	1,478,335	(80,984)	-	1,654,540	1,478,335
General revenues:						
Property taxes	8,374,613	9,236,902	788,059	1,173,459	9,162,672	10,410,361
State shared revenues	3,192,061	3,052,264	-	-	3,192,061	3,052,264
Unrestricted investment earnings	379	1,373	-	-	379	1,373
Gain on sale of capital assets	121,603	63,814	-	-	121,603	63,814
Other revenues	311,471	416,799	-	-	311,471	416,799
Total revenues	18,369,192	19,946,821	11,040,886	13,548,398	29,410,078	33,495,219
Expenses						
General government	5,688,295	7,638,830	-	-	5,688,295	7,638,830
Public safety	6,567,274	9,426,497	-	-	6,567,274	9,426,497
Public works	3,544,593	3,122,150	-	-	3,544,593	3,122,150
Community and economic development	734,288	631,995	-	-	734,288	631,995
Culture and recreation	667,701	978,669	-	-	667,701	978,669
Interest on long-term debt	330,323	347,382	-	-	330,323	347,382
Waste and wastewater	-	-	9,907,636	11,392,415	9,907,636	11,392,415
Total expenses	17,532,474	22,145,523	9,907,636	11,392,415	27,440,110	33,537,938
Change in net position	836,718	(2,198,702)	1,133,250	2,155,983	1,969,968	(42,719)
Net position, beginning of year, as restated	(887,509)	1,311,193	26,243,996	24,088,013	25,356,487	25,399,206
Net position, end of year	\$ (50,791)	\$ (887,509)	\$27,377,246	\$26,243,996	\$27,326,455	\$25,356,487

CITY OF INKSTER, MICHIGAN

Management's Discussion and Analysis

Governmental Activities. Governmental activities increased the City's net position by \$836,718, thereby accounting for 42% 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 \$1,133,250 accounting for 58% 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

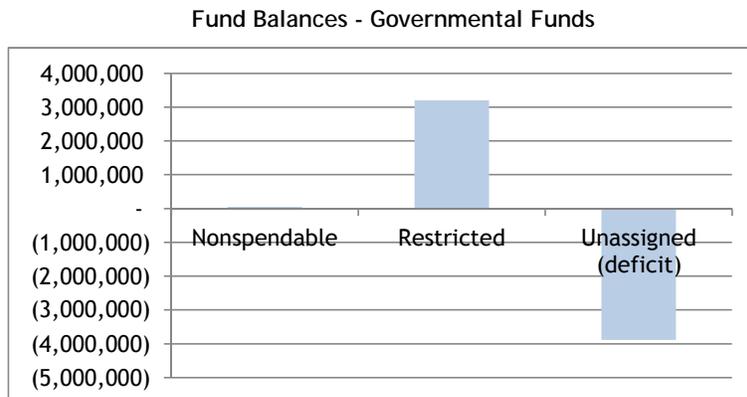
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$(632,139), an increase of \$752,055 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 (\$3,891,025).

General Fund Highlights

The general fund is the chief operating fund of the City. The deficit fund balance of the general fund decreased by \$178,083 during the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the general fund was (\$3,446,167). 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 overages, as shown in the budget vs. actual statement of revenues, expenditures and changes in fund balances are as follows:

- Treasury - Additional expenses were required to adequately and properly monitor and manage the fiscal condition of the organization. During times of fiscal stress, more, not less resources need to be devoted to this aspect of the operation.
- City Attorney - There are approximately 20 active lawsuits as of fiscal year end. Predicting the timing of defense related expenses is difficult. Many of these expenses were incurred by outside legal firms and the coordination and timing of the invoices received by the City prevented earlier action in the form of budget amendments to occur.
- Police Department - The sum of the various police department year end over/under budget position is an over budget condition of \$298,000. This is the result of unbudgeted leave bank payouts that occurred as a result of the layoffs that occurred during the year. In addition, the accrual of comp time and payouts that occurred during the year were not fully budgeted. This issue has been corrected going forward.

It should also be noted that a budget amendment was not processed at year end to “true up” the various departments by moving budgets from under to over departments. This was intentional as management feels it important to present the budget to actual picture at year end as it actually occurred at the department level.

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, 2013, amounted to \$71,322,184 (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 Combined Sewer Over flow project that was under construction at the beginning of the fiscal year was completed and is now operational.
- A city-wide water meter replacement program that was in process at the start of the fiscal year is now completed.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 307,195	\$ 307,195	\$ 2,745	\$ 2,745	\$ 309,940	\$ 309,940
Construction in progress	325,335	514,254	354,900	18,735,555	680,235	19,249,809
Land improvements	429,635	449,300	-	-	429,635	449,300
Infrastructure	16,063,378	16,401,095	-	-	16,063,378	16,401,095
Buildings/improvements	1,540,071	1,647,315	-	-	1,540,071	1,647,315
Vehicles	1,045,073	1,329,060	33,650	37,856	1,078,723	1,366,916
Machinery and equipment	819,679	1,021,067	50,400,523	30,968,582	51,220,202	31,989,649
Total capital assets, net	\$20,530,366	\$21,669,286	\$50,791,818	\$49,744,738	\$71,322,184	\$71,414,024

CITY OF INKSTER, MICHIGAN

Management's Discussion and Analysis

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

Long-term Debt. The City's long-term debt totaled \$33,258,628. 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	
	2013	2012	2013	2012	2013	2012
Bonds payable	\$ 4,490,000	\$ 6,495,000	\$22,513,304	\$22,706,589	\$27,003,304	\$29,201,589
Premiums/discounts on bonds	-	-	(20,370)	(51,161)	(20,370)	(51,161)
Emergency loan	3,000,000	3,000,000	-	-	3,000,000	3,000,000
Installment purchase agreements	172,449	395,108	2,462,190	2,719,678	2,634,639	3,114,786
Compensated absences	598,723	950,078	42,332	40,961	641,055	991,039
Total long-term debt	\$ 8,261,172	\$10,840,186	\$24,997,456	\$25,416,067	\$33,258,628	\$36,256,253

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 2014 budget anticipates revenues in excess of expenditures by approximately \$1.500 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 address blight and crime. This program involves the Chief Judge of the District Court, key members of City staff and community leaders. 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. Both 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, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,779,683	\$ 2,518,486	\$ 6,298,169	\$ 4,333,964
Restricted cash and cash equivalents	-	1,109,127	1,109,127	2,509,890
Receivables, net	1,834,822	7,188,271	9,023,093	76,942
Internal balances	22,782	(22,782)	-	-
Due from primary government	-	-	-	541,827
Inventories, prepaid items and other assets	54,155	86,703	140,858	348,647
Capital assets not being depreciated	632,530	357,645	990,175	5,772,776
Capital assets being depreciated, net	19,897,836	50,434,173	70,332,009	22,619,175
Net pension asset	75,189	-	75,189	-
Total assets	26,296,997	61,671,623	87,968,620	36,203,221
Liabilities				
Accounts payable and accrued expenses	9,288,354	8,067,018	17,355,372	1,020,923
Due to component unit	-	541,827	541,827	-
Unearned revenue	4,755	-	4,755	6,223
Long-term debt:				
Due within one year	1,744,163	2,375,739	4,119,902	1,257,779
Due in more than one year	6,517,009	22,621,717	29,138,726	19,793,526
Net other postemployment benefits obligation	8,793,507	688,076	9,481,583	259,620
Total liabilities	26,347,788	34,294,377	60,642,165	22,338,071
Net position				
Net investment in capital assets	15,867,917	25,836,694	41,704,611	14,214,082
Restricted for:				
Major and local streets	2,967,612	-	2,967,612	-
Drug law enforcement	239,245	-	239,245	-
Capital projects	-	1,109,127	1,109,127	-
Housing assistance	-	-	-	641,275
Unrestricted (deficit)	(19,125,565)	431,425	(18,694,140)	(990,207)
Total net position	\$ (50,791)	\$ 27,377,246	\$ 27,326,455	\$ 13,865,150

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

CITY OF INKSTER, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 5,688,295	\$ 1,296,391	\$ 49,302	\$ -	\$ (4,342,602)
Public safety	6,567,274	1,383,855	230,291	-	(4,953,128)
Public works	3,544,593	948,578	89,477	1,735,524	(771,014)
Community and economic development	734,288	13,451	528,844	-	(191,993)
Culture and recreation	667,701	37,828	55,524	-	(574,349)
Interest on long-term debt	330,323	-	-	-	(330,323)
Total governmental activities	17,532,474	3,680,103	953,438	1,735,524	(11,163,409)
Business-type activities:					
Water and sewer	9,907,636	10,332,696	1,115	(80,984)	345,191
Total primary government	\$ 27,440,110	\$ 14,012,799	\$ 954,553	\$ 1,654,540	\$ (10,818,218)
Component units					
Tax Increment Finance Authority	\$ 1,028,506	\$ -	\$ 242,009	\$ 54,489	\$ (732,008)
Downtown Development Authority	11,870	-	-	-	(11,870)
Brownfield Redevelopment Authority	236,486	-	280,439	-	43,953
Housing Commission	11,101,939	1,186,964	8,370,647	604,667	(939,661)
Total component units	\$ 12,378,801	\$ 1,186,964	\$ 8,893,095	\$ 659,156	\$ (1,639,586)

continued...

CITY OF INKSTER, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (11,163,409)	\$ 345,191	\$ (10,818,218)	\$ (1,639,586)
General revenues:				
Property taxes	8,374,613	788,059	9,162,672	860,000
State revenue sharing	3,192,061	-	3,192,061	-
Unrestricted investment earnings	379	-	379	10,133
Gain on sale of capital assets	121,603	-	121,603	-
Other revenues	311,471	-	311,471	23,536
Total general revenues	12,000,127	788,059	12,788,186	893,669
Change in net position	836,718	1,133,250	1,969,968	(745,917)
Net position, beginning of year, as restated	(887,509)	26,243,996	25,356,487	14,611,067
Net position, end of year	\$ (50,791)	\$ 27,377,246	\$ 27,326,455	\$ 13,865,150

concluded.

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

CITY OF INKSTER, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2013

	General Fund	Local Streets	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,846,150	\$ 983,488	\$ 950,045	\$ 3,779,683
Accounts receivable, net	777,505	-	216,473	993,978
Due from other funds	51,158	325,473	991,271	1,367,902
Due from other governments	603,662	72,317	164,865	840,844
Inventory	31,685	-	-	31,685
Prepaid items	20,344	-	-	20,344
Total assets	\$ 3,330,504	\$ 1,381,278	\$ 2,322,654	\$ 7,034,436
Liabilities				
Accounts payable	\$ 2,563,035	\$ 2,704	\$ 669,154	\$ 3,234,893
Due to other governments	1,066,137	-	-	1,066,137
Accrued and other liabilities	1,185,906	718	5,394	1,192,018
Due to other funds	1,293,962	-	51,158	1,345,120
Deferred revenue	615,602	-	208,050	823,652
Unearned revenue	-	-	4,755	4,755
Total liabilities	6,724,642	3,422	938,511	7,666,575
Fund balances (deficits)				
Nonspendable	52,029	-	-	52,029
Restricted	-	1,377,856	1,829,001	3,206,857
Unassigned (deficit)	(3,446,167)	-	(444,858)	(3,891,025)
Total fund balances (deficits)	(3,394,138)	1,377,856	1,384,143	(632,139)
Total liabilities and fund balances (deficits)	\$ 3,330,504	\$ 1,381,278	\$ 2,322,654	\$ 7,034,436

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, 2013

Fund balances - total governmental funds	\$ (632,139)
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	632,530
Capital assets being depreciated, net	19,897,836
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	823,652
Investment in joint venture	2,126
Certain assets do not represent current financial resources and therefore are not reported in the funds.	
Net pension asset	75,189
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	(7,662,449)
Accrued interest on long-term debt	(64,207)
Estimate for self-insurance claims payable	(3,731,099)
Net other postemployment benefits obligation	(8,793,507)
Compensated absences	(598,723)
Net position of governmental activities	<u>\$ (50,791)</u>

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, 2013

	General	Local Streets	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 5,709,114	\$ 1,499,737	\$ 1,165,762	\$ 8,374,613
Licenses and permits	289,801	-	-	289,801
Intergovernmental	3,666,237	436,765	1,667,930	5,770,932
Charges for services	1,291,504	-	760,639	2,052,143
Fines and forfeitures	757,589	-	-	757,589
Investment earnings	379	-	2,453	2,832
Refunds and reimbursements	1,385,788	-	-	1,385,788
Other	33,935	-	2,050	35,985
Total revenues	13,134,347	1,936,502	3,598,834	18,669,683
Expenditures				
Current expenditures:				
General government	4,452,039	-	-	4,452,039
Public safety	5,578,594	-	17,587	5,596,181
Public works	917,326	195,039	1,780,886	2,893,251
Community and economic development	596,958	-	136,404	733,362
Culture and recreation	-	-	586,566	586,566
Other	1,261,443	-	-	1,261,443
Debt service:				
Principal	160,237	1,590,000	477,422	2,227,659
Interest and fiscal charges	19,093	224,666	44,971	288,730
Total expenditures	12,985,690	2,009,705	3,043,836	18,039,231
Revenues over (under) expenditures	148,657	(73,203)	554,998	630,452
Other financing sources (uses)				
Proceeds from sale of capital assets	33,053	-	88,550	121,603
Transfers in	-	497,861	3,627	501,488
Transfers out	(3,627)	-	(497,861)	(501,488)
Total other financing sources (uses)	29,426	497,861	(405,684)	121,603
Net change in fund balances	178,083	424,658	149,314	752,055
Fund balances (deficit), beginning of year, as restated	(3,572,221)	953,198	1,234,829	(1,384,194)
Fund balances (deficit), end of year	\$ (3,394,138)	\$ 1,377,856	\$ 1,384,143	\$ (632,139)

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, 2013

Net change in fund balances - total governmental funds	\$ 752,055
Amounts reported for <i>governmental activities</i> 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	277,232
Donated capital assets	44,632
Depreciation expense	(1,460,784)
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	561,523
Change in investment in joint venture	5,697
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	2,227,659
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	(64,207)
Change in the liability for estimated self-insurance claims	(788,112)
Change in net pension asset	487
Change in net other postemployment benefits obligation	(1,070,819)
Change in the accrual for compensated absences	351,355
Change in net position of governmental activities	<u>\$ 836,718</u>

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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 5,276,000	\$ 5,378,200	\$ 5,709,114	\$ 330,914
Licenses and permits	328,720	303,720	289,801	(13,919)
Intergovernmental	3,560,700	3,679,520	3,666,237	(13,283)
Charges for services	1,488,200	1,206,160	1,291,504	85,344
Fines and forfeitures	1,480,000	780,000	757,589	(22,411)
Investment earnings	2,000	2,000	379	(1,621)
Refunds and reimbursements	1,508,000	1,571,500	1,385,788	(185,712)
Other	32,000	32,000	33,935	1,935
Total revenues	13,675,620	12,953,100	13,134,347	181,247
Expenditures				
General government:				
City council	81,300	70,300	68,019	(2,281)
District court	1,047,500	883,250	871,520	(11,730)
City manager	215,500	200,325	185,085	(15,240)
City clerk	175,600	184,700	142,952	(41,748)
Information technology	159,150	270,575	200,058	(70,517)
Treasury	757,350	754,230	779,841	25,611
Buildings and grounds	169,620	140,520	137,170	(3,350)
City attorney	1,025,000	775,000	1,089,280	314,280
Personnel	943,300	1,016,720	978,114	(38,606)
Total general government	4,574,320	4,295,620	4,452,039	156,419
Public safety:				
Police administration	327,350	324,100	340,146	16,046
Police officer services	1,141,000	943,500	890,596	(52,904)
Police investigation	960,150	955,150	655,459	(299,691)
Police patrol	1,513,220	1,326,600	1,976,806	650,206
Juvenile accountability grants	35,000	35,000	23,735	(11,265)
Police auxiliary	5,000	5,000	7,290	2,290
Fire administration	1,715,800	1,689,270	1,495,129	(194,141)
Inspections	118,000	115,700	127,545	11,845
Code enforcement	68,600	63,400	61,888	(1,512)
Total public safety	5,884,120	5,457,720	5,578,594	120,874

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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Public works:				
Department of public works	\$ 739,180	\$ 844,380	\$ 917,326	\$ 72,946
Community and economic development:				
Planning	234,700	188,100	160,757	(27,343)
Economic development	163,500	163,500	155,762	(7,738)
Appropriation to Brownfield Redevelopment Authority	278,000	278,000	280,439	2,439
Total community and economic development	676,200	629,600	596,958	(32,642)
Other:				
Insurance and other	897,000	897,000	1,261,443	364,443
Debt service:				
Principal	232,800	160,237	160,237	-
Interest and fiscal charges	3,000	20,263	19,093	(1,170)
Total debt service	235,800	180,500	179,330	(1,170)
Total expenditures	13,006,620	12,304,820	12,985,690	680,870
Revenues over (under) expenditures	669,000	648,280	148,657	(499,623)
Other financing sources (uses)				
Proceeds from sale of capital assets	1,000	57,400	33,053	(24,347)
Transfers out	-	(23,400)	(3,627)	19,773
Total other financing sources (uses)	1,000	34,000	29,426	(4,574)
Net change in fund balance	670,000	682,280	178,083	(504,197)
Fund balance (deficit), beginning of year, as restated	(3,572,221)	(3,572,221)	(3,572,221)	-
Fund balance (deficit), end of year	\$ (2,902,221)	\$ (2,889,941)	\$ (3,394,138)	\$ (504,197)

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, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,472,600	\$ 1,472,600	\$ 1,499,737	\$ 27,137
Intergovernmental revenues	438,000	438,000	436,765	(1,235)
Total revenues	<u>1,910,600</u>	<u>1,910,600</u>	<u>1,936,502</u>	<u>25,902</u>
Expenditures				
Public works	768,940	768,940	195,039	(573,901)
Debt service:				
Principal	1,590,000	1,590,000	1,590,000	-
Interest and fiscal charges	225,000	225,000	224,666	(334)
Total expenditures	<u>2,583,940</u>	<u>2,583,940</u>	<u>2,009,705</u>	<u>(574,235)</u>
Revenues over (under) expenditures	(673,340)	(673,340)	(73,203)	600,137
Other financing sources				
Transfers in	510,000	510,000	497,861	(12,139)
Net change in fund balance	(163,340)	(163,340)	424,658	587,998
Fund balance, beginning of year	<u>953,198</u>	<u>953,198</u>	<u>953,198</u>	-
Fund balance, end of year	<u>\$ 789,858</u>	<u>\$ 789,858</u>	<u>\$ 1,377,856</u>	<u>\$ 587,998</u>

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

CITY OF INKSTER, MICHIGAN

Statement of Net Position

Proprietary Fund

June 30, 2013

	Business-type Activities
	Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,518,486
Accounts receivable, net	7,188,271
Due from other funds	302,691
Inventory	45,491
Deferred bond issuance costs	41,212
Total current assets	<u>10,096,151</u>
Noncurrent assets:	
Restricted cash and cash equivalents	1,109,127
Capital assets not being depreciated	357,645
Capital assets being depreciated, net	50,434,173
Total noncurrent assets	<u>51,900,945</u>
Total assets	<u>61,997,096</u>
Liabilities	
Current liabilities:	
Accounts payable	7,760,259
Accrued liabilities	130,282
Accrued interest payable	176,477
Due to other funds	325,473
Due to component unit	541,827
Long-term debt, current portion	2,375,739
Total current liabilities	<u>11,310,057</u>
Noncurrent liabilities:	
Long-term debt, net of current portion	22,621,717
Net other postemployment benefits obligation	688,076
Total noncurrent liabilities	<u>23,309,793</u>
Total liabilities	<u>34,619,850</u>
Net position	
Net investment in capital assets	25,836,694
Restricted for capital projects	1,109,127
Unrestricted	431,425
Total net position	<u>\$ 27,377,246</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, 2013

	Business-type Activities
	Water and Sewer
Operating revenues	
Charges for services	\$ 10,147,685
Other	185,011
	<hr/>
Total operating revenues	10,332,696
	<hr/>
Operating expenses	
Cost of water	1,479,018
Cost of sewage disposal	3,132,413
Wages and fringes	1,018,260
Operating supplies	141,240
Contractual services	900,610
Repairs and maintenance	754,296
Insurance, claims and other	527,146
Depreciation	1,138,026
	<hr/>
Total operating expenses	9,091,009
	<hr/>
Operating income (loss)	1,241,687
	<hr/>
Nonoperating revenues (expenses)	
Intergovernmental revenues (repayment)	(80,984)
Interest revenue	1,115
Interest expense	(816,627)
Property taxes	788,059
	<hr/>
Total nonoperating revenues (expenses)	(108,437)
	<hr/>
Change in net position	1,133,250
	<hr/>
Net position, beginning of year, as restated	26,243,996
	<hr/>
Net position, end of year	\$ 27,377,246
	<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, 2013

	Business-type Activities
	Water and Sewer
Cash flows from operating activities	
Receipts from customers and users	\$ 10,650,896
Payments to suppliers for goods and services	(7,383,358)
Payments to employees for services	(926,773)
	<u>2,340,765</u>
Net cash provided by operating activities	<u>2,340,765</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	1,766,715
Principal paid on debt	(2,217,488)
Interest paid on debt	(709,188)
Purchase of capital assets	(2,185,106)
	<u>(3,345,067)</u>
Net cash used by capital and related financing activities	<u>(3,345,067)</u>
Cash flows from noncapital and related financing activities	
Property taxes received	788,059
Grant funds repaid to the federal agency	(80,984)
	<u>707,075</u>
Net cash flows provided noncapital and and related financing activities	<u>707,075</u>
Cash flows from investing activities	
Interest received on investments	1,115
	<u>1,115</u>
Net change in cash and cash equivalents	(296,112)
Cash and cash equivalents, beginning of year, as restated	<u>3,923,725</u>
Cash and cash equivalents, end of year	<u>\$ 3,627,613</u>
Cash and cash equivalents as presented in the statement of net position	
Cash and cash equivalents	\$ 2,518,486
Restricted cash and cash equivalents	1,109,127
	<u>3,627,613</u>
Total cash and cash equivalents	<u>\$ 3,627,613</u>

continued...

CITY OF INKSTER, MICHIGAN

Statement of Cash Flows

Proprietary Fund
For the Year Ended June 30, 2013

	Business-type Activities
	Water and Sewer
Reconciliation of operating income to cash provided by operating activities	
Operating income	\$ 1,241,687
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,138,026
Changes in assets and liabilities:	
Accounts receivable	318,200
Inventory	40,220
Accounts payable	(284,012)
Accrued liabilities	(56,049)
Due to other funds	(204,843)
Compensated absences	1,371
Net other postemployment benefits obligation	146,165
	<u>2,340,765</u>
Net cash provided by operating activities	<u>\$ 2,340,765</u>

concluded.

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

CITY OF INKSTER, MICHIGAN

Statement of Net Position

Fiduciary Funds

June 30, 2013

	Pension Trust Funds	Agency Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 409,502
Money market funds	645,882	-
U.S. government agencies	1,460,902	-
Municipal bonds	5,430,582	-
Corporate bonds	5,344,744	-
International bonds	378,883	-
Common stock	12,234,606	-
Real estate securities	143,051	-
Guaranteed investment contract	10,768,488	-
Interest receivable	216,929	-
Contributions receivable	303,447	-
Other receivables	-	293,471
Due from broker	4,606	-
	<u>36,932,120</u>	<u>\$ 702,973</u>
Liabilities		
Due to broker	20,261	\$ -
Bonds and deposits payable	-	702,973
	<u>20,261</u>	<u>\$ 702,973</u>
Total liabilities	<u>20,261</u>	<u>\$ 702,973</u>
Net position restricted for pension benefits	<u>\$ 36,911,859</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, 2013

	Pension Trust Funds
Additions	
Contributions:	
Employer:	
Wage-based contributions	\$ 1,475,751
Property tax judgment levy	210,783
Plan members	339,880
Total contributions	<u>2,026,414</u>
Investment income:	
Interest and dividends	1,400,767
Net change in fair value of investments	1,713,884
Total investment income	<u>3,114,651</u>
Investment expense	<u>(98,006)</u>
Net investment income	<u>3,016,645</u>
Total additions	<u>5,043,059</u>
Deductions	
Benefit payments	3,184,257
Administrative expenses	207,696
Total deductions	<u>3,391,953</u>
Change in net position	1,651,106
Net position restricted for pension benefits:	
Beginning of year	<u>35,260,753</u>
End of year	<u>\$ 36,911,859</u>

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

CITY OF INKSTER, MICHIGAN

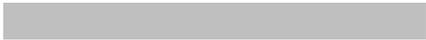
Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2013

	Beech Daly Tax Increment Finance Authority	Downtown Development Authority	Brownfield Redevelopment Authority
Assets			
Cash and cash equivalents	\$ 3,573,217	\$ 19,472	\$ -
Restricted cash and cash equivalents	-	-	-
Accounts receivable	4,660	-	-
Due from primary government	541,827	-	-
Prepays	-	-	-
Deferred bond issuance costs, net	341,770	-	-
Capital assets not being depreciated	3,488,073	277,068	-
Capital assets being depreciated, net	3,103,341	162,414	-
Total assets	11,052,888	458,954	-
Liabilities			
Accounts payable	379,928	1,720	169
Accrued liabilities	-	-	-
Accrued interest payable	105,616	-	38,878
Unearned revenue	-	-	-
Long-term debt:			
Due within one year	335,000	50,000	130,000
Due in more than one year	8,660,000	100,000	3,720,000
Net other postemployment benefits obligation	-	-	-
Total liabilities	9,480,544	151,720	3,889,047
Net position			
Net investment in capital assets	526,429	289,482	-
Restricted for housing assistance	-	-	-
Unrestricted (deficit)	1,045,915	17,752	(3,889,047)
Total net position	\$ 1,572,344	\$ 307,234	\$ (3,889,047)

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



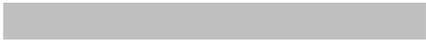
Housing Commission	Total
\$ 741,275	\$ 4,333,964
2,509,890	2,509,890
72,282	76,942
-	541,827
6,877	6,877
-	341,770
2,007,635	5,772,776
19,353,420	22,619,175
<u>24,691,379</u>	<u>36,203,221</u>
109,848	491,665
384,764	384,764
-	144,494
6,223	6,223
742,779	1,257,779
7,313,526	19,793,526
<u>259,620</u>	<u>259,620</u>
<u>8,816,760</u>	<u>22,338,071</u>
13,398,171	14,214,082
641,275	641,275
1,835,173	(990,207)
<u>\$ 15,874,619</u>	<u>\$ 13,865,150</u>

CITY OF INKSTER, MICHIGAN

Combining Statement of Activities Discretely Presented Component Units For the Year Ended June 30, 2013

	Beech Daly Tax Increment Finance Authority	Downtown Development Authority	Brownfield Redevelopment Authority
Expenses			
Community and economic development	\$ 1,028,506	\$ 11,870	\$ 236,486
Housing assistance	-	-	-
Total expenses	1,028,506	11,870	236,486
Program revenues			
Charges for services	-	-	-
Operating grants and contributions	242,009	-	280,439
Capital grants and contributions	54,489	-	-
Total program revenues	296,498	-	280,439
Net (expense) revenue	(732,008)	(11,870)	43,953
General revenues			
Property taxes	792,985	-	67,015
Unrestricted investment earnings	8,822	-	-
Other revenues	919	-	-
Total general revenues	802,726	-	67,015
Change in net position	70,718	(11,870)	110,968
Net position, beginning of year, as restated	1,501,626	319,104	(4,000,015)
Net position, end of year	\$ 1,572,344	\$ 307,234	\$ (3,889,047)

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



Housing Commission	Total
\$ -	\$ 1,276,862
11,101,939	11,101,939
<u>11,101,939</u>	<u>12,378,801</u>
1,186,964	1,186,964
8,370,647	8,893,095
604,667	659,156
<u>10,162,278</u>	<u>10,739,215</u>
<u>(939,661)</u>	<u>(1,639,586)</u>
-	860,000
1,311	10,133
22,617	23,536
<u>23,928</u>	<u>893,669</u>
(915,733)	(745,917)
<u>16,790,352</u>	<u>14,611,067</u>
<u>\$ 15,874,619</u>	<u>\$ 13,865,150</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, 2013 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, 2013. 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, 2013 amounted to \$2,126. 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 does not have a formal investment policy.

- 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 has no items that qualify for reporting as deferred inflows of resources.

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 1 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

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, 2013, 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
General fund			
General government:			
Treasury	\$ 754,230	\$ 779,841	\$ 25,611
City attorney	775,000	1,089,280	314,280
Public safety:			
Police administration	324,100	340,146	16,046
Police patrol	1,326,600	1,976,806	650,206
Police auxiliary	5,000	7,290	2,290
Inspections	115,700	127,545	11,845
Public works - department of public works	844,380	917,326	72,946
Community and economic development - appropriation to Brownfield Redevelopment Authority	278,000	280,439	2,439
Other - insurance and other	897,000	1,261,443	364,443
Nonmajor governmental funds			
Major streets fund - interest and fiscal charges	22,360	22,614	254
Community development block grant fund - community development	70,462	110,989	40,527

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

Deficit fund balance / net position

At June 30, 2013, 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
Governmental activities - total net position	\$ (50,791)
General fund - total fund balance	(3,394,138)
Rubbish collection fund - total fund balance	(148,386)
Community development block grant fund - total fund balance	(34)
Parks and recreation fund - total fund balance	(22,362)
Miscellaneous grants fund - total fund balance	(274,076)
Brownfield Redevelopment Authority - total net position	(3,889,047)

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.

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, 2013, is as follows:

Cumulative surplus (shortfall), beginning of year, as restated	\$ (533,039)
Building permit revenue	242,851
Related expenses:	
Building inspector	<u>(127,546)</u>
Cumulative surplus (shortfall), end of year	<u><u>\$ (417,734)</u></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, 2013:

	Primary Government	Fiduciary Funds	Component Units	Totals
Cash and cash equivalents	\$ 6,298,169	\$ 409,502	\$ 4,333,964	\$ 11,041,635
Restricted cash and cash equivalents	1,109,127	-	2,509,890	3,619,017
Investments	-	36,407,138	-	36,407,138
Total	\$ 7,407,296	\$ 36,816,640	\$ 6,843,854	\$ 51,067,790

Deposits and investments

Demand deposits (checking/savings accounts)	\$ 13,545,070
Deposits held with others	1,109,127
Investments - pension trust funds	36,407,138
Investments - other	3,405
Cash on hand	3,050

Total \$ 51,067,790

Custodial Credit Risk - Deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of June 30, 2013, \$11,946,218 of the City's total bank balance of \$12,908,218 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, 2013:

	Pension Trust Funds	Other Investments	Total
Money market funds	\$ 645,882	\$ 3,405	\$ 649,287
U.S. government agencies	1,460,902	-	1,460,902
Municipal bonds	5,430,582	-	5,430,582
Corporate bonds	5,344,744	-	5,344,744
International bonds	378,883	-	378,883
Common stock	12,234,606	-	12,234,606
Real estate securities	143,051	-	143,051
Guaranteed investment contract	10,768,488	-	10,768,488
Total investments	\$ 36,407,138	\$ 3,405	\$ 36,410,543

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	\$ 762,025	\$ 3,405	\$ 765,430
S&P AA	4,934,671	-	4,934,671
S&P A	2,562,005	-	2,562,005
S&P BBB	3,297,474	-	3,297,474
S&P B	25,308	-	25,308
Not subject to credit risk	12,377,657	-	12,377,657
Unrated	12,447,998	-	12,447,998
Total investments	\$ 36,407,138	\$ 3,405	\$ 36,410,543

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	\$ 23,792,028	\$ 3,405	\$ 23,795,433
Due within one year	1,005,090	-	1,005,090
Due in 1-5 years	4,802,141	-	4,802,141
Due in 6-10 years	5,014,836	-	5,014,836
Due in 11-15 years	1,793,043	-	1,793,043
Total investments	\$ 36,407,138	\$ 3,405	\$ 36,410,543

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	<u>\$ 378,883</u>

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.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

4. RECEIVABLES AND PAYABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
Accounts receivable	\$ 1,144,978	\$ 8,188,271	\$ -	\$ 66,678
Allowance for uncollectible amounts	(151,000)	(1,000,000)	-	-
Contributions receivable	-	-	303,447	-
Interest receivable	-	-	216,929	-
Due from other governments	840,844	-	293,471	10,264
Due from broker	-	-	4,606	-
Total receivables	\$ 1,834,822	\$ 7,188,271	\$ 818,453	\$ 76,942

In governmental funds, deferred revenue of \$823,652 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	\$ 3,234,893	\$ 7,760,259	\$ -	\$ 491,665
Due to other governments	1,066,137	-	-	-
Accrued and other liabilities	1,192,018	130,282	-	384,764
Estimated claims liability	3,731,099	-	-	-
Accrued interest on long-term debt	64,207	176,477	-	144,494
Due to broker	-	-	20,261	-
Bonds and deposits payable	-	-	702,973	-
Total payables	\$ 9,288,354	\$ 8,067,018	\$ 723,234	\$ 1,020,923

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

5. CAPITAL ASSETS

Primary government

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 307,195	\$ -	\$ -	\$ -	\$ 307,195
Construction in progress	514,254	266,186	-	(455,105)	325,335
	<u>821,449</u>	<u>266,186</u>	<u>-</u>	<u>(455,105)</u>	<u>632,530</u>
Capital assets, being depreciated:					
Land improvements	588,289	-	-	-	588,289
Infrastructure	24,705,022	55,678	-	455,105	25,215,805
Buildings/improvements	7,429,053	-	-	-	7,429,053
Vehicles	6,639,654	-	(572,735)	-	6,066,919
Machinery and equipment	5,387,698	-	-	-	5,387,698
	<u>44,749,716</u>	<u>55,678</u>	<u>(572,735)</u>	<u>455,105</u>	<u>44,687,764</u>
Less accumulated depreciation for:					
Land improvements	(138,989)	(19,665)	-	-	(158,654)
Infrastructure	(8,303,927)	(848,500)	-	-	(9,152,427)
Buildings/improvements	(5,781,738)	(107,244)	-	-	(5,888,982)
Vehicles	(5,310,594)	(283,987)	572,735	-	(5,021,846)
Machinery and equipment	(4,366,631)	(201,388)	-	-	(4,568,019)
	<u>(23,901,879)</u>	<u>(1,460,784)</u>	<u>572,735</u>	<u>-</u>	<u>(24,789,928)</u>
Total capital assets being depreciated, net	<u>20,847,837</u>	<u>(1,405,106)</u>	<u>-</u>	<u>455,105</u>	<u>19,897,836</u>
Governmental activities capital assets, net	<u>\$ 21,669,286</u>	<u>\$ (1,138,920)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,530,366</u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 2,745	\$ -	\$ -	\$ -	\$ 2,745
Construction in progress	18,735,555	-	-	(18,380,655)	354,900
	<u>18,738,300</u>	<u>-</u>	<u>-</u>	<u>(18,380,655)</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	45,038,309	2,185,106	-	18,380,655	65,604,070
	<u>45,173,839</u>	<u>2,185,106</u>	<u>-</u>	<u>18,380,655</u>	<u>65,739,600</u>
Less accumulated depreciation for:					
Buildings/improvements	(66,444)	-	-	-	(66,444)
Furniture and equipment	(31,230)	(4,206)	-	-	(35,436)
Water and sewer distribution systems	(14,069,727)	(1,133,820)	-	-	(15,203,547)
	<u>(14,167,401)</u>	<u>(1,138,026)</u>	<u>-</u>	<u>-</u>	<u>(15,305,427)</u>
Total capital assets being depreciated, net	<u>31,006,438</u>	<u>1,047,080</u>	<u>-</u>	<u>18,380,655</u>	<u>50,434,173</u>
Business-type activities capital assets, net	<u>\$ 49,744,738</u>	<u>\$ 1,047,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,791,818</u>

At June 30, 2013, the City had outstanding construction commitments in governmental activities and business-type activities of \$170,594 and \$60,900, respectively.

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

Depreciation of governmental activities by function	
General government	\$ 399,127
Public safety	120,078
Public works	854,866
Culture and recreation	86,713
	<u>1,460,784</u>
Total governmental activities	<u>\$ 1,460,784</u>
Depreciation of business-type activities by function	
Water and sewer	<u>\$ 1,138,026</u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

Discretely presented component units

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Beech Daly Tax Increment Financing Authority					
Capital assets, not being depreciated -					
Construction in progress	\$ 361,354	\$ 3,126,719	\$ -	\$ -	\$ 3,488,073
Capital assets, being depreciated -					
Buildings/improvements	2,025,340	-	-	-	2,025,340
Infrastructure	3,130,000	-	-	-	3,130,000
Furniture and equipment	173,763	-	-	-	173,763
	<u>5,329,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,329,103</u>
Less accumulated depreciation for:					
Buildings/improvements	(413,493)	(67,511)	-	-	(481,004)
Infrastructure	(1,503,833)	(154,167)	-	-	(1,658,000)
Furniture and equipment	(80,966)	(5,792)	-	-	(86,758)
	<u>(1,998,292)</u>	<u>(227,470)</u>	<u>-</u>	<u>-</u>	<u>(2,225,762)</u>
Total capital assets being depreciated, net	<u>3,330,811</u>	<u>(227,470)</u>	<u>-</u>	<u>-</u>	<u>3,103,341</u>
TIFA capital assets, net	<u>\$ 3,692,165</u>	<u>\$ 2,899,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,591,414</u>
Downtown Development Authority					
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	(30,450)	(10,150)	-	-	(40,600)
Total capital assets being depreciated, net	<u>172,564</u>	<u>(10,150)</u>	<u>-</u>	<u>-</u>	<u>162,414</u>
DDA capital assets, net	<u>\$ 449,632</u>	<u>\$ (10,150)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439,482</u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Housing Commission					
Capital assets not being depreciated -					
Land	\$ 1,891,187	\$ -	\$ -	\$ -	\$ 1,891,187
Construction in progress	-	116,448	-	-	116,448
	<u>1,891,187</u>	<u>116,448</u>	<u>-</u>	<u>-</u>	<u>2,007,635</u>
Capital assets, being depreciated:					
Buildings	21,810,280	-	-	-	21,810,280
Leasehold improvements	26,867,531	890,609	(253,120)	-	27,505,020
Furniture and equipment	939,066	90,416	-	-	1,029,482
	<u>49,616,877</u>	<u>981,025</u>	<u>(253,120)</u>	<u>-</u>	<u>50,344,782</u>
Less accumulated depreciation	<u>(29,277,668)</u>	<u>(1,966,814)</u>	<u>253,120</u>	<u>-</u>	<u>(30,991,362)</u>
	<u>20,339,209</u>	<u>(985,789)</u>	<u>-</u>	<u>-</u>	<u>19,353,420</u>
Housing Commission capital assets, net	<u>\$ 22,230,396</u>	<u>\$ (869,341)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,361,055</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	\$ -	\$ 51,158	\$ -	\$ 51,158
Local streets	-	-	325,473	325,473
Nonmajor governmental funds	991,271	-	-	991,271
Water and sewer	302,691	-	-	302,691
Totals	<u>\$ 1,293,962</u>	<u>\$ 51,158</u>	<u>\$ 325,473</u>	<u>\$ 1,670,593</u>

Due from Primary Government	Due to Component
	Water and Sewer

Tax increment finance authority component unit	<u>\$ 541,827</u>
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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 \$293,471 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, 2013, interfund transfers are summarized as follows:

Transfers In	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Totals
Local streets	\$ -	\$ 497,861	\$ 497,861
Nonmajor governmental funds	3,627	-	3,627
Totals	\$ 3,627	\$ 497,861	\$ 501,488

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, 2013 is summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable	\$ 6,495,000	\$ -	\$ (2,005,000)	\$ 4,490,000	\$ 1,485,000
Emergency loan	3,000,000	-	-	3,000,000	-
Installment purchase agreements	395,108	-	(222,659)	172,449	76,043
Total installment debt	9,890,108	-	(2,227,659)	7,662,449	1,561,043
Compensated absences	950,078	-	(351,355)	598,723	183,120
Total governmental activities	\$ 10,840,186	\$ -	\$ (2,579,014)	\$ 8,261,172	\$ 1,744,163
Business-type activities					
Bonds payable	\$ 22,706,589	\$ 1,766,715	\$ (1,960,000)	\$ 22,513,304	\$ 2,025,000
Installment purchase agreements	2,719,678	-	(257,488)	2,462,190	364,150
Total installment debt	25,426,267	1,766,715	(2,217,488)	24,975,494	2,389,150
Net premiums/discounts on bonds	(51,161)	-	30,791	(20,370)	(20,370)
Compensated absences	40,961	1,371	-	42,332	6,959
Total business-type activities	\$ 25,416,067	\$ 1,768,086	\$ (2,186,697)	\$ 24,997,456	\$ 2,375,739

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Component units					
Bonds payable	\$ 13,445,000	\$ -	\$ (450,000)	\$ 12,845,000	\$ 465,000
Land contract	150,000	-	-	150,000	50,000
Loans payable	4,503,614	-	(176,349)	4,327,265	185,833
Installment purchase agreements	4,159,696	-	(524,077)	3,635,619	547,605
Total installment debt	22,258,310	-	(1,150,426)	20,957,884	1,248,438
Compensated absences	95,452	12,788	(14,819)	93,421	9,341
Total component units	<u>\$ 22,353,762</u>	<u>\$ 12,788</u>	<u>\$ (1,165,245)</u>	<u>\$ 21,051,305</u>	<u>\$ 1,257,779</u>

Governmental activities - bonds payable

2002 Michigan Transportation Fund Refunding Bonds; \$1,780,000 at issuance; payable in annual installments of \$30,000 to \$200,000; interest payable semi-annually at 1.80 to 4.625 percent through August 2014	\$ 395,000
2006 General Obligation Bonds for street improvements; \$5,000,000 at issuance; payable in annual installments of \$435,000 to \$580,000; interest payable semi-annually at 4.00 to 4.25 percent through March 2016	1,670,000
2007 General Obligation Bonds; \$5,000,000 at issuance; payable in annual installments of \$435,000 to 580,000; interest payable semi-annually at 4.10 percent through March 2017	2,185,000
2003 Capital Improvement Bonds (Carver Homes); \$1,455,000 at issuance; payable in annual installments of \$180,000 to \$240,000; interest payable semi-annually at 3.30 to 5.13 percent through October 2013	<u>240,000</u>
Total governmental activities bonds payable	<u>\$ 4,490,000</u>

Business-type activities - bonds payable

1999B Sewage Disposal System Revenue Bonds; \$2,730,000 at issuance; due in annual installments of \$25,000 to \$285,000; interest payable semi-annually at 3.05 to 4.80 percent through November 2015	\$ 815,000
1999A Sewage Disposal System Revenue Bonds; \$6,390,000 at issuance; due in annual installments of \$55,000 to \$640,000; interest payable semi-annually at 3.05 to 4.80 percent through November 2015	1,830,000
1994 State Revolving Loan Fund; \$2,590,000 at issuance; due in annual installments of \$105,000 to \$155,000; interest payable semi-annually at 2.0 percent through April 2016	455,000
2010 Clean Water Revolving Fund Bonds; \$643,525 at issuance; due in annual installments of \$25,000 to \$38,525 plus interest at 2.50 percent, semi-annually through April 1, 2030	563,525

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 \$825,000 to \$1,330,000; interest payable semi-annually at 2.5 percent through October 2030; not yet drawn in full	\$ 16,409,779
2007 General Obligation Unlimited Tax Bonds; \$3,200,000 at issuance; due in annual installments of \$115,000 to \$240,000; interest payable semi-annually at 4.00 to 5.25 percent through March 2026	<u>2,440,000</u>
Total business-type activities bonds payable	<u><u>\$ 22,513,304</u></u>

Component units - bonds payable

2002 Tax Increment Finance Authority Bonds; \$1,375,000 at issuance; due in annual installments of \$95,000 to \$115,000; semi-annually at 3.70 to 5.00 percent through November 2019	\$ 710,000
2006 Tax Increment Finance Authority Bonds; \$1,270,000 at issuance; due in annual installments of \$45,000 to \$100,000; interest payable semi-annually at 4.60 to 5.00 percent through November 2025	970,000
2006 Brownfield Redevelopment Authority Tax Increment Bonds; \$4,155,000 at issuance; due in annual installments of \$15,000 to \$525,000; interest payable semi-annually at 6.00 to 6.20 percent through November 2025	3,850,000
2010 Tax Increment Finance Authority General Obligation Bonds; \$7,660,000 at issuance; due in annual installments of \$170,000 to \$590,000; interest payable semi-annually at 4.00 to 8.125 percent through May 2035	<u>7,315,000</u>
Total component units bonds payable	<u><u>\$ 12,845,000</u></u>

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 annual installments of \$25,000 and is 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
Governmental activities				
2009 Ford vehicle lease	10/07/2013	5.15%	\$ 86,585	\$ 18,163
2009 Chevy vehicle lease	12/30/2015	5.50%	160,545	72,244
2010 AT&T equipment lease	09/01/2015	6.12%	169,013	82,042
Total governmental activities			<u>\$ 416,143</u>	<u>\$ 172,449</u>
Business-type activities				
2009 equipment lease	12/30/2013	5.15%	\$ 86,991	\$ 18,248
2012 water meter lease	09/26/2019	3.00%	2,613,068	2,443,942
Total business-type activities			<u>\$ 2,700,059</u>	<u>\$ 2,462,190</u>
Component units				
2007 energy efficiency upgrades	03/31/2020	4.40%	\$ 6,324,830	\$ 3,635,619

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
2014	\$ 1,561,043	\$ 192,426	\$ 2,389,150	\$ 705,547	\$ 1,248,438	\$ 1,232,078
2015	1,351,342	128,892	2,461,357	621,515	1,284,042	1,216,889
2016	1,170,064	75,680	2,542,127	535,294	1,352,267	1,146,308
2017	580,000	26,780	1,508,224	468,885	1,423,450	1,063,943
2018	-	3,000	1,549,656	426,416	1,497,750	983,316
2019-2023	600,000	14,700	6,916,677	1,513,635	7,091,937	4,544,580
2024-2028	1,500,000	9,000	6,725,000	564,463	3,410,000	2,064,716
2029-2033	900,000	1,800	883,303	12,923	2,490,000	1,092,956
2034-2035	-	-	-	-	1,160,000	142,188
Total	<u>\$ 7,662,449</u>	<u>\$ 452,278</u>	<u>\$ 24,975,494</u>	<u>\$ 4,848,678</u>	<u>\$ 20,957,884</u>	<u>\$ 13,486,974</u>

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.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

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.

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, 2011	\$ 270,968	\$ 2,972,817	\$ 3,243,785
Claims incurred and changes in estimates	425,179	2,464,596	2,889,775
Claim payments	(164,334)	(3,026,239)	(3,190,573)
Estimated liability, June 30, 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

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	\$ 31,685	\$ -	\$ -	\$ 31,685
Prepays	20,344	-	-	20,344
	<u>52,029</u>	<u>-</u>	<u>-</u>	<u>52,029</u>
Restricted:				
Major and local streets	-	1,377,856	1,589,756	2,967,612
Drug law enforcement	-	-	239,245	239,245
	<u>-</u>	<u>1,377,856</u>	<u>1,829,001</u>	<u>3,206,857</u>
Unassigned (deficit)	(3,446,167)	-	(444,858)	(3,891,025)
Total fund balances - governmental funds	<u>\$ (3,394,138)</u>	<u>\$ 1,377,856</u>	<u>\$ 1,384,143</u>	<u>\$ (632,139)</u>

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	\$ 632,530	\$ 357,645	\$ 5,772,776
Capital assets being depreciated, net	19,897,836	50,434,173	22,619,175
	<u>20,530,366</u>	<u>50,791,818</u>	<u>28,391,951</u>
Related debt:			
Total installment debt	7,662,449	24,975,494	20,957,884
Unexpended bond proceeds	-	-	(2,930,015)
Less non-capital related debt	(3,000,000)	-	(3,850,000)
Bond premiums and discounts, net	-	(20,370)	-
	<u>4,662,449</u>	<u>24,955,124</u>	<u>14,177,869</u>
Net investment in capital assets	<u>\$ 15,867,917</u>	<u>\$ 25,836,694</u>	<u>\$ 14,214,082</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	\$ -	\$ 645,882	\$ 645,882
U.S. government agencies	-	1,460,902	1,460,902
Municipal bonds	-	5,430,582	5,430,582
Corporate bonds	-	5,344,744	5,344,744
International bonds	-	378,883	378,883
Common stock	-	12,234,606	12,234,606
Real estate securities	-	143,051	143,051
Guaranteed investment contract	10,768,488	-	10,768,488
Total investments	<u>10,768,488</u>	<u>25,638,650</u>	<u>36,407,138</u>
Interest receivable	-	216,929	216,929
Contributions receivable	20,101	283,346	303,447
Due from broker	-	4,606	4,606
Total assets	<u>10,788,589</u>	<u>26,143,531</u>	<u>36,932,120</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
Liabilities			
Due to broker	\$ -	\$ 20,261	\$ 20,261
Net position restricted for pension benefits	\$ 10,788,589	\$ 26,123,270	\$ 36,911,859
	Change in Plan Net Position		
	General Employees' Retirement System	Policemen and Firemen Retirement System	Total Pension Trust Funds
Additions			
Contributions:			
Employer:			
Wage-based contributions	\$ 1,076,026	\$ 399,725	\$ 1,475,751
Property tax judgment levy	-	210,783	210,783
Plan members	63,683	276,197	339,880
Total contributions	1,139,709	886,705	2,026,414
Investment income:			
Interest and dividends	478,880	921,887	1,400,767
Net change in fair value of investments	(33,359)	1,747,243	1,713,884
Total investment income	445,521	2,669,130	3,114,651
Investment expense	-	(98,006)	(98,006)
Net investment income	445,521	2,571,124	3,016,645
Total additions	1,585,230	3,457,829	5,043,059
Deductions			
Benefit payments	941,222	2,243,035	3,184,257
Administrative expenses	55,717	151,979	207,696
Total deductions	996,939	2,395,014	3,391,953
Change in net position	588,291	1,062,815	1,651,106
Net position, beginning of year	10,200,298	25,060,455	35,260,753
Net position, end of year	\$ 10,788,589	\$ 26,123,270	\$ 36,911,859

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

12. RETIREMENT PLANS

General Employees' Retirement System

Plan Description. 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.

Method Used to Value Investments. The City's assets invested in the general account of the insurance company are stated at contract value. Other plan investments are reported at fair value.

As of July 1, 2012, the date of the most recent actuarial valuation, plan membership data was as follows:

Retirees and beneficiaries receiving benefits	55
Terminated employees entitled to but not yet receiving benefits	11
Vested active members	36
Vested inactive members	<u>1</u>
Total membership	<u><u>103</u></u>

Funding Policy. The City is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2013 was 22.5 percent of annual covered payroll. City employees are required to contribute at a rate of 5.0 percent of covered wages (excluding the dispatch union which contributes at a rate of 3.0 percent). The contribution requirements of the Plan are established and may be amended by the City Council, subject to collective bargaining agreements.

Annual Pension Cost. For the year ended June 30, 2013, the City's required contribution was \$262,163, equal to the actual contribution. The required contribution was determined as part of the July 1, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 7.0 percent; (b) projected salary increase of 2.0 percent per year; and (c) estimated expenses of 3.0 percent of benefits payable over future years. The City's unfunded actuarial accrued liability is being amortized on a closed basis. The remaining amortization period at July 1, 2012, the date of the latest actuarial valuation, was 21 years.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

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

Annual required contribution	\$ 262,163
Interest on net pension obligation	(5,302)
Adjustment to annual required contribution	<u>4,815</u>
Net pension cost (expense)	261,676
Contributions made	<u>(262,163)</u>
Increase in net pension obligation	(487)
Net pension obligation (asset), beginning of year	<u>(74,702)</u>
Net pension obligation (asset), end of year	<u><u>\$ (75,189)</u></u>

The City's annual pension cost, the percentage contributed to the Plan, and the net pension obligation for 2013 and the two previous fiscal years was as follows:

Three-Year Trend Information			
Years Ended June 30,	Annual Pension Cost	Percentage Contributed	Net Pension (Asset) Obligation
2011	\$ 435,330	68%	\$ (74,702)
2012	373,383	100%	(74,702)
2013	261,676	100%	(75,189)

Funded Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date, the plan was 83 percent funded. The actuarial accrued liability for benefits was \$12,462,796, and the actuarial value of assets was \$10,286,468, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,176,328. The covered payroll (annual payroll of active employees covered by the plan) was \$1,501,498, and the ratio of the UAAL to the covered payroll was 145 percent.

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 liability for benefits.

Policemen and Firemen Retirement System

Plan Description. 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.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

Method Used to Value Investments. Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the City, with the assistance of a valuation service.

As of July 1, 2012, the date of the most recent actuarial valuation, plan membership data was as follows:

Retirees and beneficiaries receiving benefits	69
Vested active members	47
Vested inactive members	<u>1</u>
 Total membership	 <u><u>117</u></u>

Funding Policy. The City is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2013 was 14.47 percent of annual covered payroll. Plan participants are required to contribute at a rate of 12.0 percent of covered wages (6.53 percent for police officers). The contribution requirements of the Plan are established and may be amended by the City Council, subject to collective bargaining agreements.

Annual Pension Cost. For the year ended June 30, 2013, the City's required contribution was \$399,725. The required contribution was determined as part of the July 1, 2012 actuarial valuation using the level percentage of payroll actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.0% per year; and (c) additional salary increases attributable to seniority/merit of up to 3.0% per year. The City's unfunded actuarial accrued liability is being amortized on a closed basis. The remaining amortization period at July 1, 2012, the date of the latest actuarial valuation, was 22 years.

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

Annual required contribution	\$ 399,725
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
 Net pension cost (expense)	 399,725
Contributions made	<u>(399,725)</u>
 Increase in net pension obligation	 -
Net pension obligation (asset), beginning of year	<u>-</u>
 Net pension obligation, end of year	 <u><u>\$ -</u></u>

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

The City's annual pension cost, the percentage contributed to the Plan, and the net pension obligation for 2013 and the two previous fiscal years was as follows:

Three-Year Trend Information			
Years Ended June 30,	Annual Pension Cost	Percentage Contributed	Net Pension (Asset) Obligation
2011	\$ 345,961	100%	\$ -
2012	393,224	100%	-
2013	399,725	100%	-

Funded Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date, the plan was 85 percent funded. The actuarial accrued liability for benefits was \$31,735,670, and the actuarial value of assets was \$26,803,179, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,932,491. The covered payroll (annual payroll of active employees covered by the plan) was \$3,116,746, and the ratio of the UAAL to the covered payroll was 158 percent.

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 liability for benefits.

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, 2013.

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, 2012 was \$105,013.

13. OTHER POSTEMPLOYMENT BENEFITS

Primary Government

Plan Description. The City of Inkster administers a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described above, the Plan provides health insurance and prescription coverage benefits to certain retirees, which are funded on the pay-as-you-go basis. In accordance with City policy, eligible retirees and beneficiaries receive lifetime benefits. As of June 30, 2012, the date of the last plan valuation, the Plan covered 161 members (91 active plan members, and 70 receiving benefits).

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

Funding policy. The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2013, the City contributed \$747,276 to the Plan. Certain retirees are required to reimburse the City for a percentage of applicable premium rates. For the year ended June 30, 2013, retirees receiving benefits contributed \$240,332 or approximately 24 percent of total premiums.

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 City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. 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	\$ 2,123,394
Interest on net OPEB obligation	351,245
Adjustment to annual required contribution	<u>(510,379)</u>
Net OPEB cost (expense)	1,964,260
Contributions made	<u>(747,276)</u>
Increase in net OPEB obligation	1,216,984
Net OPEB obligation, beginning of year	<u>8,264,599</u>
Net OPEB obligation, end of year	<u><u>\$ 9,481,583</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 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
2011	\$ 3,113,115	32.7%	\$ 6,761,363
2012	2,068,408	27.3%	8,264,599
2013	1,964,260	38.0%	9,481,583

Funded Status and Funding Progress. As of June 30, 2012, the actuarial accrued liability for benefits was \$27,341,036, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was \$4,377,092 and the ratio of the UAAL to the covered payroll was 624.6 percent.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

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 July 1, 2012 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 of 10.0 percent initially, reduced by decrements to an ultimate rate of 4.5 percent. 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 July 1, 2012 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, 2011, the actuarial accrued liability for benefits was \$1,585,324, all of which was unfunded. The annual required contribution for the year ended December 31, 2012 was \$230,487.

14. CONTINGENCIES

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. An estimate of the liability for litigation and claims payable, net of applicable insurance coverage has been recorded to the extent that loss is probable and amount can be reasonably estimated. Certain claims settled after year-end will be repaid with a property tax judgment levy. The claims expense will be recognized in the year the related property taxes are due and collectible.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

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.

15. RESTATEMENTS

The beginning equity balances for certain funds and opinion units were restated from the prior year audit to correct a variety of errors and account for changes in the components of the reporting entity. The City's internal service fund reported net position of \$174,108 as of June 30, 2012. This fund was closed during the year and is being accounted for as a restatement of beginning equity. As a result of this change, beginning fund balance of the general fund was decreased by \$53,707, beginning net position of the water and sewer fund was decreased by \$35,805, and beginning net position of governmental activities was increased by \$263,620.

The City identified that certain capital assets of governmental activities had been over-depreciated in the amount of \$377,929. This was corrected through a restatement of beginning net position. In addition, the City had two installment purchase agreements previously reported as long-term debt of governmental activities for which the related assets and debt repayment were being accounted for in the water and sewer enterprise fund. As a result of this correction, beginning net position of governmental activities was increased by \$106,610 and an offsetting restatement was made to beginning net position of the water and sewer enterprise fund.

Beginning fund balance of the drug law enforcement special revenue fund was increased by \$66,729 to account for a debt payment due in August 2012 that was inadvertently recorded in accounts payable as of June 30, 2012.

The City previously used a capital projects fund to account for the portion of police tickets earmarked for construction of the court/justice center building. Since the building itself, along with the debt being used to finance the project, are being accounted for in the TIFA component unit, the City determined that these earmarked fines should be reported there as well. This change resulted in a decrease in beginning fund balance of nonmajor governmental funds of \$145,854 and a corresponding increase in net position of the TIFA component unit.

The City performed a detailed reconciliation of amounts payable to Wayne County for purchased water and sewer during the year. This process identified invoices in the amount of \$766,410 that had been expensed and reported in accounts payable twice as of June 30, 2012. As a result of this correction, beginning net position of the water and sewer enterprise fund was increased by \$766,410.

The City of Inkster Public Library changed its organizational structure and is no longer deemed to be a component unit of the City of Inkster. Accordingly, beginning net position of component units was decreased by \$895,008. The Inkster Housing Commission was determined to represent a component unit of the City and is now being included in the City's reporting entity as a discretely-presented component unit. This resulted in an increase of beginning net position of component units of \$16,790,352.

CITY OF INKSTER, MICHIGAN

Notes to Financial Statements

The net effect of these restatements to beginning net position of governmental activities, the water and sewer enterprise fund/business-type activities, and discretely-presented component units was \$441,219, \$623,995, and \$16,041,198, respectively.

16. SUBSEQUENT EVENTS

Subsequent to year-end, the City settled legal claims in the amounts of \$150,000 and \$85,000, and \$157,500. The settlements will be financed with a judgment levy on the City's real property tax roll, as authorized by the City Council. In addition, the City has received an adverse ruling on a legal case regarding utility rates. The court order has not yet been received by the City. While the amount of exposure is not estimable, the effect of an unfavorable outcome could be material and impact the City's ability to comply with its Consent Agreement. The City intends to appeal the judge's ruling.

On August 1, 2013, the U.S. Department of Housing and Urban Development, Office of the Inspector General, issued a report on the Inkster Housing Commission's public housing and Section 8 programs. The report indicated that the Inkster Housing Commission did not comply with various HUD requirements and provisions of its administrative plan. The report recommended that the local HUD field office perform certain follow-up activities. However, any adverse ruling related to the findings is unknown at this time.

17. 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



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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)
07/01/2002	\$ 7,062,000	\$ 7,062,000	\$ -	100.0%	\$ 1,949,000	0.0%
07/01/2004	7,177,000	7,177,000	-	100.0%	1,884,000	0.0%
07/01/2006	7,991,000	7,991,000	-	100.0%	2,134,232	0.0%
07/01/2008	8,781,000	8,781,000	-	100.0%	2,016,001	0.0%
07/01/2010	9,382,303	11,342,060	1,959,757	82.7%	2,208,782	88.7%
07/01/2012	10,286,468	12,462,796	2,176,328	82.5%	1,501,498	144.9%

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%

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)
07/01/2007	\$28,519,000	\$27,116,000	\$ (1,403,000)	105.2%	\$ 4,473,940	-31.4%
07/01/2008	29,483,000	28,282,000	(1,201,000)	104.2%	4,672,419	-25.7%
07/01/2009	28,721,000	29,428,000	707,000	97.6%	4,736,464	14.9%
07/01/2010	28,714,000	31,363,000	2,649,000	91.6%	5,250,000	50.5%
07/01/2011	28,351,803	31,991,174	3,639,371	88.6%	4,690,039	77.6%
07/01/2012	26,803,179	31,735,670	4,932,491	84.5%	3,116,746	158.3%

Schedule of Employer Contributions

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

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%

Schedule of Employer Contributions

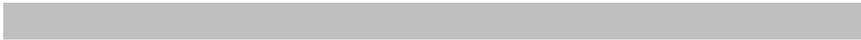
Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2011	\$ 3,192,885	31.9%
2012	2,191,025	25.8%
2013	2,123,394	35.2%

**COMBINING FUND FINANCIAL
STATEMENTS AND SCHEDULES**

CITY OF INKSTER, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue		
	Major Streets	Rubbish Collection	Community Development Block Grant
Assets			
Cash and cash equivalents	\$ 464,883	\$ 172,687	\$ 4,884
Accounts receivable	-	-	429
Due from other funds	991,271	-	-
Due from other governments	164,865	-	-
Total assets	\$ 1,621,019	\$ 172,687	\$ 5,313
Liabilities			
Accounts payable	\$ 29,766	\$ 321,073	\$ 52
Accrued liabilities	1,497	-	-
Due to other funds	-	-	540
Deferred revenue	-	-	-
Unearned revenue	-	-	4,755
Total liabilities	31,263	321,073	5,347
Fund balances (deficit)			
Restricted	1,589,756	-	-
Unassigned (deficit)	-	(148,386)	(34)
Total fund balances (deficit)	1,589,756	(148,386)	(34)
Total liabilities and fund balances	\$ 1,621,019	\$ 172,687	\$ 5,313

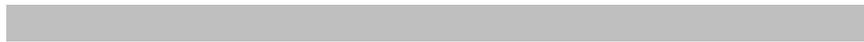


Special Revenue			
Drug Law Enforcement	Parks and Recreation	Miscellaneous Grants	Totals
\$ 244,498	\$ 63,093	\$ -	\$ 950,045
-	-	216,044	216,473
-	-	-	991,271
-	-	-	164,865
<u>\$ 244,498</u>	<u>\$ 63,093</u>	<u>\$ 216,044</u>	<u>\$ 2,322,654</u>
\$ 5,253	\$ 81,558	\$ 231,452	\$ 669,154
-	3,897	-	5,394
-	-	50,618	51,158
-	-	208,050	208,050
-	-	-	4,755
<u>5,253</u>	<u>85,455</u>	<u>490,120</u>	<u>938,511</u>
239,245	-	-	1,829,001
-	(22,362)	(274,076)	(444,858)
<u>239,245</u>	<u>(22,362)</u>	<u>(274,076)</u>	<u>1,384,143</u>
<u>\$ 244,498</u>	<u>\$ 63,093</u>	<u>\$ 216,044</u>	<u>\$ 2,322,654</u>

CITY OF INKSTER, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2013

	Special Revenue		
	Major Streets	Rubbish Collection	Community Development Block Grant
Revenues			
Property taxes	\$ -	\$ 634,863	\$ -
Intergovernmental	995,723	-	351,374
Charges for services	-	715,360	7,451
Investment earnings	2,453	-	-
Other	-	-	-
Total revenues	998,176	1,350,223	358,825
Expenditures			
Current:			
Public safety	-	-	-
Public works	222,384	1,194,732	-
Community development	-	-	110,989
Recreation and culture	-	-	-
Debt service:			
Principal	185,000	-	230,000
Interest and fiscal charges	22,614	-	18,050
Total expenditures	429,998	1,194,732	359,039
Revenues over (under) expenditures	568,178	155,491	(214)
Other financing sources (uses)			
Proceeds from sale of capital assets	-	-	-
Transfers in	-	-	-
Transfers out	(497,861)	-	-
Total other financing sources (uses)	(497,861)	-	-
Net change in fund balances	70,317	155,491	(214)
Fund balances (deficit), beginning of year, as restated	1,519,439	(303,877)	180
Fund balances (deficit), end of year	\$ 1,589,756	\$ (148,386)	\$ (34)



Special Revenue			
Drug Law Enforcement	Parks and Recreation	Miscellaneous Grants	Totals
\$ -	\$ 530,899	\$ -	\$ 1,165,762
123,158	53,474	144,201	1,667,930
-	37,828	-	760,639
-	-	-	2,453
-	2,050	-	2,050
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123,158	624,251	144,201	3,598,834
<hr/>	<hr/>	<hr/>	<hr/>
17,587	-	-	17,587
-	-	363,770	1,780,886
-	-	25,415	136,404
-	586,566	-	586,566
62,422	-	-	477,422
4,307	-	-	44,971
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84,316	586,566	389,185	3,043,836
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38,842	37,685	(244,984)	554,998
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88,550	-	-	88,550
-	1,000	2,627	3,627
-	-	-	(497,861)
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88,550	1,000	2,627	(405,684)
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127,392	38,685	(242,357)	149,314
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111,853	(61,047)	(31,719)	1,234,829
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\$ 239,245	\$ (22,362)	\$ (274,076)	\$ 1,384,143
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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, 2013

	Escrow Fund	Tax Collection Fund	District Court Trust	Total
Assets				
Cash and cash equivalents	\$ 165,378	\$ 132,171	\$ 111,953	\$ 409,502
Accounts receivable	293,471	-	-	293,471
Total assets	\$ 458,849	\$ 132,171	\$ 111,953	\$ 702,973
Liabilities				
Due to others	\$ 458,849	\$ 132,171	\$ 111,953	\$ 702,973

SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

November 27, 2013

Honorable Mayor and
Members of the City Council
City of Inkster
Inkster, Michigan

We have audited 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, Michigan* (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated November 27, 2013, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



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CITY OF INKSTER, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grant - 2009	14.218	WC	MSC-07-3709-HO	\$ 51,191
Community Development Block Grant - 2010	14.218	WC	MSC-07-3710-HO	88,371
Community Development Block Grant - 2011	14.218	WC	MSC-07-3711-HO	35,977
Community Development Block Grant - 2012	14.218	WC	MSC-07-3712-HO	175,326
Neighborhood Stabilization Program	14.218	MSHDA	08-NSP-DEMO-WC-03	<u>155,762</u>
Total U.S. Department of Housing and Urban Development				<u><u>506,627</u></u>
U.S. Department of Justice				
Justice Assistance Grant	16.804	WC	2009-SB-B9-1422	23,735
Federal Equitable Sharing Program	16.922	Direct	MI 8249000	<u>17,587</u>
Total U.S. Department of Justice				<u><u>41,322</u></u>
U.S. Environmental Protection Agency				
Hazard/Petroleum Site Assessment Project	66.818	Direct	BF-00E00892	<u>25,415</u>
Total Expenditures of Federal Awards				<u><u>\$ 573,364</u></u>

See notes to schedule of expenditures of federal awards.

CITY OF INKSTER, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Inkster, Michigan under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Inkster, Michigan, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

The reporting entity of the City of Inkster, Michigan is defined in Note I to the City's basic financial statements. The City's financial statements include the operations of the Inkster Housing Commission discretely-presented component unit which received federal awards that are not included in the Schedule for the year ended June 30, 2013, as this entity was separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
WC	County of Wayne, Michigan
MSHDA	Michigan State Housing Development Authority



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 27, 2013

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, 2013, 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 27, 2013. 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-FS-1, -2, -3, and -4 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-FS-5, -6, and -7 to be significant deficiencies.

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 or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-FS-3.

City of Inkster's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Rehmann Lohman LLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

November 27, 2013

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *City of Inkster* (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Inkster Housing Commission, which received \$8,975,314 in federal awards, and which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of the Inkster Housing Commission because it arranged for a separate audit in accordance with A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 300,000 </u>
Auditee qualified as low-risk auditee?	<u> </u> yes <u> X </u> no

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-1 - Audit Identified Adjustments and Prior Period Restatements

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed certain adjustments (which were approved and posted by management) to adjust the City's accounting records to the appropriate balances. These adjustments related to recording accounts payable and construction retainage payable, reducing grants receivable by the amount of local match, including payroll taxes on compensated absences payable, and recording estimates for payables not yet invoiced and receivables not yet received. A prior period adjustment was identified to account for long-term debt in the fund where the related assets are carried and the debt payments are made. In addition, material prior period adjustments were prepared and posted by management to correct accumulated depreciation in excess of cost on capital assets and to void certain amounts in accounts payable that were deemed to be duplicative or in error.

Cause. The condition appears to be primarily related to various oversights in maintaining financial records. Certain restatements to beginning equity were identified internally by the City's third-party accounting firm.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts that were material to the financial statements. In addition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be detected and corrected by management in a timely manner.

Recommendation. We expect that instances of audit-identified entries and the need for prior period restatements will be reduced in future years. Management has reviewed and approved all audit-identified adjustments and they have been posted to the City's financial accounting system. Accordingly, no further corrective action is deemed necessary at this time.

View of Responsible Officials. It is not uncommon for journal entries to be identified after audit field work has commenced. In total, 20 journal entries were identified and posted after the auditors arrived on site. Of the total, 7 journal entries were identified by the City mostly due to information not being available until after field work began. The City will continue to work with the accounts payable department to identify proper cutoff and identification procedures. Efforts will be made by the City to improve communication between the Treasurer's Department and those governed with grant compliance to ensure that grant activity is reported appropriately. The payroll tax journal entry recorded for compensated absences was less than \$4,000; however, the City will ensure that this is booked in the future. The material prior period adjustment related to accumulated depreciation on capital assets and invoice duplicates were identified and posted by the City prior to audit field work commencing. The City's management expects the number of audit-identified entries to decrease in the next year.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-2 - Maintenance of Capital Asset Records (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible to maintain detailed records on capital assets in accordance with generally accepted accounting principles (GAAP).

Condition. The City's capital asset records contain a variety of unsupported balances from previous years that appear to have been added over time to agree the detail records with the audited financial statements. Certain capital asset information is only available in summary format (total by year). This level of detail is insufficient for purposes of evaluating the remaining useful lives of the assets and accounting for disposals. In previous years, capital assets of governmental activities were depreciated in excess of total cost.

Cause. This condition is limited to data from previous years that was maintained by other individuals that are no longer employed by the City.

Effect. As a result of this condition, the City's capital asset records are incomplete and in some instances lack the level of detail necessary in order to identify the related item(s), evaluate the reasonableness of the remaining useful life, and appropriately account for sales and disposals. As described in 2013-FS-1, a prior period restatement was necessary in order to correct the over-depreciation of certain assets in previous years.

Recommendation. We recommend that the hire a third-party asset management company to perform a full inventory and valuation of the City's assets. If the City does not have the necessary resources for this service and a reasonable effort has been made to locate incomplete data, we recommend that any remaining unreconciled balances be written off.

View of Responsible Officials. While there are currently no funds budgeted to support an appraisal, the City anticipates exploring the expected costs associated with obtaining a fixed asset inventory and analysis by an independent third- party to be completed when recourses become available.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-3 - Internal Controls over Amounts Held for Others

Finding Type. Material Weakness in Internal Control over Financial Reporting / Noncompliance with Laws and Regulations.

Criteria. The City collects payments in lieu of taxes (PILOT) and current property taxes on behalf of other governmental taxing authorities. Amounts collected on behalf of others should be remitted to the appropriate parties in a timely manner or as required by State statute. For tax collections, State law requires that amounts collected on behalf of other governments be distributed within 10 days following the 1st and 15th of each month. In addition, the City uses agency funds to account for other assets held on behalf of outside parties, including other governments. The City is required to keep accurate subsidiary records of the amounts held in each liability account. These accounts should be analyzed and reconciled on a regular basis (e.g., monthly or quarterly).

Condition. The City's general fund has a liability of \$1,066,137 for payments in lieu of taxes collected in years 1994 to 2011 that have not yet been distributed to the intended taxing authority. At times during the year, collections of current taxes on behalf of other entities were distributed after the statutory deadline. In addition, the City does not have subsidiary ledgers available to support \$212,652 of escrowed fire insurance proceeds and \$159,905 of miscellaneous amounts held for others.

Cause. The condition as it relates to PILOT appears to be the result of incomplete historical records necessary to calculate the amount payable by entity, as well as insufficient cash flow. The instances in which taxes collected on behalf of other entities were distributed after the statutory deadline were the result of over-distributions earlier in the year. Until the collections could be reconciled to actual payments made, and TIF captures had been calculated, the City withheld a portion of the payment to these entities. Finally, the unreconciled agency fund liabilities appear to be the result of unavailable historical records, and insufficient personnel/availability to reconcile activity for many prior years.

Effect. As a result of this condition, the City is in violation of State law pertaining to the transmittal of payments of taxes and PILOT to other governmental units. The unreconciled fiduciary liabilities in the agency fund expose the City to an increased risk that misappropriations, whether through error or fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in agency funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds.

Recommendation. We recommend that management consider whether the additional personnel time necessary to reconcile these balances and remit payment to the intended parties is feasible under the existing budgetary constraints. The City should determine whether its existing policies for remittance of current property taxes to other governments can be modified to minimize delays in distribution.

View of Responsible Officials. The outstanding PILOT liability stems from activity dating back from 1994 - 2011. PILOT collections received in fiscal years since then have been distributed in full to the appropriate taxing authorities. Given the City's financial condition, the funds are not currently available to distribute the outstanding liability. As part of the deficit elimination plan, the City will ensure that the appropriate taxing units are paid the proper portion of the PILOT liability as resources to pay become available.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-3 - Internal Controls over Amounts Held for Others (Concluded)

View of Responsible Officials (Concluded). The City's administration is completely aware of the State Law and statutory tax collection deadlines. During the fiscal year, the tax distribution process changed hands internally. Once the detail calculations were completed by a different individual, it was observed that several taxing authorities had been distributed more than their appropriate share of tax collections. To avoid further instances of over- distribution to any taxing authority, the City performed the task of reconciling every distribution that had already been made during the tax year. Until the reconciliation of all previously made tax distributions and all tax incremental revenue captures was complete, the City did not make distributions to taxing units that were not clearly obligated to be made. As a result of the reconciliation, it was determined that distributions were still owed to at least two taxing authorities. The amount not previously distributed to each of these authorities was less than 3 percent of each authority's total collections distributed by the City. These reconciled distributions were all made prior to the end of the fiscal year. Without the reconciliation, the City determined that several taxing authorities would have been cumulatively over-distributed to for the fiscal year. This over- distribution to others would have had a negative impact on the City's finances if the funds were not able to be collected by the applicable taxing authorities. The City's policies for remittance of current property tax collections are the same as required by State statute.

The City will look into developing proper policies and controls related to any new assets to be held within the General Agency Fund on behalf of outside parties. The City will also begin reconciling outstanding liabilities within the General Agency Fund that exist as of today as records are available.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-4 - Internal Controls over Pension Disbursements

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for ensuring that benefit payments made to qualified retirees are calculated accurately in accordance with the provisions of City ordinances and union/bargaining unit agreements. Complete documentation to support pension distributions should be readily available, especially since benefits calculations can be complex and involve a variety of factors, such as: age, years of service at retirement, final average pay, and for some bargaining units, annual cost-of-living increases.

Condition. We selected a sample of 20 retirees receiving benefits (10 from the General Employees' Retirement System and 10 from the Policemen and Firemen Retirement System). The City's internal records did not contain information to support any of the 10 general retirees and 4 of the police and fire retirees. Sufficient information was subsequently provided by benefit plan administrators for 9 of the general retirees and all 4 of the police and fire retirees. The information had been provided to the benefit plan administrators by the City in the past. One retiree selected for testing could not be substantiated.

Cause. This condition appears to be the result of personnel turnover at the City and limited resources available to maintain complete and accurate retiree files.

Effect. As a result of this condition, the City could not support pension distributions for one retiree and its internal records did not have sufficient documentation to support several others.

Recommendation. We recommend that the City implement a process for compiling and maintaining retiree pension files. The files should contain, at a minimum: evidence that the retiree is eligible to receive distributions, supporting calculations and pay history reports to substantiate the amount of distributions, details of any cost of living adjustments, and information on beneficiaries.

View of Responsible Officials. The City will look to implement a process for maintaining pension files containing the appropriate information for all new retirees.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-5 - Internal Controls over Payroll Disbursements

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining internal controls in order to safeguard the assets of the City. A key element of internal controls is the segregation of incompatible duties within the accounting function.

Condition. We noted certain deficiencies in the process for accumulating data for payment of employees and documenting the approval for these types of transactions. Employees in the police department do not complete timesheets. An individual inputs the detail of hours worked by employee for each pay period into the timesheet module of the accounting software based on scheduled hours for the related period. In addition, during the year under audit, the payroll register was not subject to independent review and approval prior to the disbursement of checks.

Cause. The condition related to timekeeping in the police department has been identified by management as a control deficiency. Corrective action has not taken place at this time because the department operates at a decentralized location and has historically been permitted to design certain process controls independently.

Effect. As a result of this condition, the City was exposed to the risk that payroll disbursements could be made amounts in excess of what was actually earned.

Recommendation. We recommend that the City develop an entity-wide process for accumulating payroll data. Employee timesheets should evidence review and approval by a supervisor or other individual with firsthand knowledge of the hours worked. Finally, the payroll register, including employee name, department number or name, hours worked, and pay rate, should be reviewed and approved by an individual independent of payroll processing. In order to document this control, the first or last page of the payroll register should be signed and dated by the reviewer and retained as evidence of the control.

View of Responsible Officials. The City will work with all departments to implement effective timecard procedures which would then tie to the timesheets included in the accounting software. Currently, the City has an appropriate individual reviewing and approving the payroll registers prior to completion. A formal policy will also be implemented requiring the same level of review and authorization.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-6 - Internal Controls over Miscellaneous Accounts Receivable

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for accumulating complete and accurate data on services provided in order to bill users and recognize revenue in the accounting records. Billed charges should be adequately supported by documentation indicating the date of service, type of service, individual/property billed, and total charge. When a significant amount of delinquent balances exist, an allowance for uncollectibles should be considered.

Condition. The City invoices individuals and businesses for miscellaneous services performed by the general fund, primarily related to weed-cutting at abandoned or neglected properties. In our sample of 14 billed receivables, two could not be supported by service logs or records. Two additional items related to services provided to the City of Inkster itself and Wayne County and were never intended to be billed and collected. It was subsequently determined that the receivables ledger contained over \$38,000 in services provided to the City itself, Wayne County, and the State of Michigan, none of which were actually billed or expected to be paid. This amount, which is significant but not material to the financial statements, was subsequently written off. The City did not initially record any allowance for these receivables, which totaled over \$770,000, most of which was delinquent at year-end.

Cause. The City has not historically recorded a receivable for miscellaneous receivables in the financial statements. This condition appears to be caused by an oversight in eliminating charges for internal services. An allowance for uncollectibles was not initially considered necessary since the entire receivable balance is offset by deferred revenue in the fund financial statements. However, these amounts are recognized as revenue in the government-wide statement of activities and, accordingly, should be reduced to the amount that is expected to actually be collected.

Effect. As a result of this condition, the City could not provide supporting documentation that it had provided services for certain billed receivables.

Recommendation. We recommend that management review the process for recording miscellaneous receivables in the general fund and determine the appropriate level of documentation to be retained for services performed. Management has already prepared an estimate of the allowance for uncollectibles, which is included in the accompanying financial statements. We recommend that this allowance be reviewed for reasonableness annually as part of the external financial reporting process.

View of Responsible Officials. The City will work with the appropriate departments to develop a policy requiring the maintenance of appropriate records and source documentation for all miscellaneous receivables.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-7 - Internal Controls over Utility Billing

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for accumulating complete and accurate data on services provided in order to bill users and recognize revenue in the accounting records. Billed charges should be adequately supported by documentation indicating the date of service, type of service, individual/property billed, and total charge.

Condition. We noted certain exceptions in the design of internal controls for water and sewer billing. A single individual is responsible for importing meter read data into the billing system, reviewing abnormal usage reports and making necessary adjustments, generating the billing data and providing it electronically to a third-party for preparation of invoices, and posting the adjustment to the general ledger.

Cause. The condition appears to be caused primarily due to limited available resources and personnel reductions.

Effect. As a result of this condition, the City was exposed to the risk that errors could occur in the utility billing process and not be detected and corrected internally.

Recommendation. We recommend that an individual independent of the utility billing process review the original meter read data and any manual adjustments, the billing register, and the abnormal usage report for reasonableness. The report should be signed and dated as evidence of the review and retained. In addition, the billing documentation should be compared to the general ledger posting for accuracy.

View of Responsible Officials. Due to the downsizing of the organization, the City has limitations of who is available to review all water and sewer transactions. The City will analyze current staffing levels and look to have a second level review of utility billings.

CITY OF INKSTER, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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CITY OF INKSTER, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2013

2012-1 - Use of Purchase Order System

Instances were noted in which purchase orders were not generated until after the purchase of goods or services, minimizing the internal control benefits associated with a purchase order system. Additional instances were noted in the current year, but the matter was not deemed to meet the threshold for reporting in the single audit report. Accordingly, this item has been reported in our letter of comments and recommendations.

2012-2 - Maintenance of Capital Asset Schedules

The City did not have complete, detailed records for its capital assets. Corrective action was not sufficient. Item has been repeated as 2013-FS-2.

2012-3 - Internal Controls over Payroll Disbursements

The individual responsible for inputting the hours worked by employee also had the ability to modify pay rates. Corrective action was deemed sufficient; however, a finding was reported for unrelated payroll internal control deficiencies as item 2013-FS-5.

2012-4 - Grant Reporting Requirements

CFDA# 14.218 - Community Development Block Grant

The City did not submit all required program income and financial reports to the pass-through grantor agency. We noted that the City has not yet begun submitting financial reports for this grant; however, we reviewed correspondence from the pass-through grantor agency indicating that completion of such reports is not being enforced until the pass-through agency can provide suitable training to grant recipients. Accordingly, this is not deemed to represent noncompliance and this finding has not been repeated.



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