

**CITY OF INKSTER, MICHIGAN**

**FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Inkster, Michigan

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 as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the of City of Inkster, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

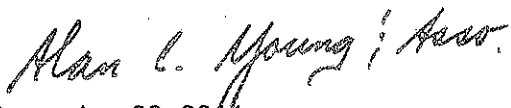
As more fully discussed in the management's discussion and analysis and Note 2 of the financial statements, the City has incurred expenditures in excess of revenues of \$4.2 million in the General fund. The General Fund is in a \$3.0 million deficit position as of June 30, 2011. The City has filed a deficit elimination plan that is currently being reviewed by the State. Additionally, the City's Water and Sewer Fund incurred an operating loss of \$3.4 million for the year ended June 30, 2011 and has unrestricted net assets of (\$3.3 million).

In accordance with Government Auditing Standards, we will also be issuing a report on our consideration of the City of Inkster, Michigan's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with government Auditing Standards and should be considered in assessing the results of our audit.

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

The management's discussion and analysis, budgetary comparison schedules and pension system schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

  
December 29, 2011

As management of the City of Inkster, we offer readers of the City of Inkster's financial statements this narrative overview and analysis of the financial activities of the City of Inkster for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- In an effort to reduce expenses, the City experienced the elimination of several positions that in some cases resulted in layoffs
- The General Fund – fund balance is a negative 18% of revenues and has a year end deficit of \$2,964,062.
- The General Fund expenditures came in over budget and revenues under budget.

### **THE GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The first set of financial statements is the government wide financial statements that include the statement of net assets and statement of activities on pages 12-14. These statements provide both long and short-term information about the City's overall financial status and are prepared on the full accrual basis of accounting.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City of Inkster's basic financial statements. The City of Inkster'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.

Table 1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The statement of net assets presents information on all of the City of Inkster assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Inkster is improving or deteriorating.

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

### GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Inkster that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through

**Table 1. Major Features of the City of Inkster's Government-wide and Fund Financial Statements**

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities	Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for City employees
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Revenues, Expenses and Changes in Fund Net Assets</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> <li>• Statement of Changes in Fiduciary Net Assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

user fees and charges (business-type activities). The governmental activities of the City of Inkster include general government, police, fire, public works, parks & recreation and community enrichment and development. The business-type activities of the City of Inkster include the water system and sewer system.

The government-wide financial statements include not only the City of Inkster itself (known as the primary government), but also a legally separate Downtown Development Authority, Economic Development Corporation, Brownfield Redevelopment Authority and the Beech Daly Tax Increment Finance Authority and Library for which the City of Inkster is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 12-14 of this report.

**Fund Financial Statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Inkster, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Inkster can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Inkster maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, major street fund, and the local street fund. Data from the other four governmental funds are combined into a single, aggregated presentation Non-Major Governmental Funds. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

**Governmental Funds** (Continued) – The City of Inkster adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15-16 of this report.

**Proprietary Funds** – The City of Inkster maintains two different types of proprietary funds enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Inkster uses enterprise funds to account for its Water and Sewer activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Inkster's funds. The City of Inkster uses internal service funds to account for its garage and information technology activities. The proprietary fund financial statements can be found on pages 18-20 of this report.

**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 of Inkster's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 21-22 of this report.

**Notes to the 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. The notes to the financial statements can be found on pages 25-48 of this report.

### REQUIRED SUPPLEMENTAL INFORMATION

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Inkster's progress in funding its obligation to provide pension benefits to its employees, as well as budgetary comparison schedules. Required supplementary information can be found on pages 50-55 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and fiduciary funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 57-60 of this report.

### Government-wide Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position (See Table 2). Total net assets of the City of Inkster are \$26.0 million a decrease of \$6.0 million from the prior year. The largest portion, \$37.7 million reflects its investment in capital assets (e.g., land, buildings, streets, sidewalks, machinery, and equipment); less depreciation and any related debt used to acquire those assets that is still outstanding. The City of Inkster uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Inkster's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

### REQUIRED SUPPLEMENTAL INFORMATION (CONTINUED)

#### Government-Wide Financial Analysis (Continued)

from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 2. City of Inkster's Net Assets  
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 5.3	\$ 8.2	\$ 5.8	\$ 6.8	\$ 11.1	\$ 15.0
Capital Assets	21.7	22.3	46.3	44.6	68.0	66.9
<b>Total Assets</b>	<u>27.0</u>	<u>30.5</u>	<u>52.1</u>	<u>51.4</u>	<u>79.1</u>	<u>81.9</u>
Current Liabilities	7.3	6.4	9.1	4.6	16.4	11.0
Long-term Liabilities Outstanding	17.2	18.5	19.6	19.1	36.8	37.6
<b>Total Liabilities</b>	<u>24.5</u>	<u>24.9</u>	<u>28.7</u>	<u>23.7</u>	<u>53.2</u>	<u>48.6</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	12.5	11.2	25.2	26.4	37.7	37.6
Restricted	1.9	3.0	1.5	0.1	3.4	3.1
Unrestricted (deficit)	(11.9)	(8.5)	(3.3)	1.2	(15.2)	(7.3)
<b>Total Net Assets</b>	<u>\$ 2.5</u>	<u>\$ 5.7</u>	<u>\$ 23.4</u>	<u>\$ 27.7</u>	<u>\$ 25.9</u>	<u>\$ 33.4</u>

The remaining portion of the City of Inkster's total net assets represents resources of which \$3.4 million are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, (\$15.2) million a deficit reflects the amount the City may need to provide or reduce in the future to meet the government's ongoing long term obligations to current and retired employees as well as our citizens and creditors.

Total net assets are divided into governmental and business-type activities. Governmental total net assets decreased by \$3.2 million with; a decrease of \$3.5 million in assets due mostly to taxes.

Business-type activities total net assets decreased by \$2.8 million but with an increase to capital assets of \$1.7 million partially offset by an increase in long term debt of \$0.5 million. The increase in capital assets went mostly to make major improvements to the water and sewer system.

Changes in Net Assets (Table 3) provide some insight into current year activities as compared to those of the prior year. Total revenues were down from last year with a \$1.2 million decrease in the governmental activities revenues and a \$0.3 million decrease in Business-type activities. Total expenses decreased by \$2.0 million, with a, with a 3.7 million decrease in governmental activities and a \$1.7 million increase in Business-type activities.

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

Table 3. City of Inkster's Changes in Net Assets  
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for services	\$ 5.0	\$ 5.7	\$ 6.5	\$ 7.2	\$ 11.5	\$ 12.9
Operating grants	5.4	4.8	-	-	5.4	4.8
<b>General Revenues</b>						
Property taxes	6.7	7.8	1.2	0.8	7.9	8.6
State shared revenues	3.7	3.7	-	-	3.7	3.7
Other	0.4	0.4	-	-	0.4	0.4
<b>Total Revenues</b>	<u>21.2</u>	<u>22.4</u>	<u>7.7</u>	<u>8.0</u>	<u>28.9</u>	<u>30.4</u>
<b>Expenses</b>						
General government	5.6	5.4	-	-	5.6	5.4
Public safety	11.4	12.6	-	-	11.4	12.6
Public works	5.9	7.5	-	-	5.9	7.5
Parks and Recreation	1.3	2.4	-	-	1.3	2.4
Interest on long term debt	0.2	0.2	-	-	0.2	0.2
Water & Sewer	-	-	10.5	8.8	10.5	8.8
<b>Total Expenses</b>	<u>24.4</u>	<u>28.1</u>	<u>10.5</u>	<u>8.8</u>	<u>34.9</u>	<u>36.9</u>
<b>Changes in Net Assets</b>	<u>(3.2)</u>	<u>(5.7)</u>	<u>(2.8)</u>	<u>(0.8)</u>	<u>(6.0)</u>	<u>(6.5)</u>
Net Assets - Beginning	5.7	11.4	26.3	27.1	32.0	38.5
<b>Net Assets - End</b>	<u>\$ 2.5</u>	<u>\$ 5.7</u>	<u>\$ 23.5</u>	<u>\$ 26.3</u>	<u>\$ 26.0</u>	<u>\$ 32.0</u>

### ANALYSIS OF FUND FINANCIAL STATEMENTS

The next section of the financial report is the fund financial statements. As noted earlier, the City of Inkster uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

### ANALYSIS OF FUND FINANCIAL STATEMENTS (Continued)

**Governmental Funds** (Continued) – As of the end of the 2011 fiscal year, the City of Inkster's governmental funds reported combined fund balances of (\$ 1.1 million) a decrease of \$5.2 from the prior year. Decreases in property taxes and increases in expenditures account for the \$5.2 decrease in fund balance.

The general fund is the chief operating fund of the City of Inkster. The \$2.9 million fund deficit in the general fund is a decrease of \$4.2 million from the prior year.

The remaining governmental funds have a fund balance of \$1.9 million. The largest fund balances among the other governmental funds are the Major and Local Streets. Other special revenue funds are maintained primarily to demonstrate accountability. Federal or local laws restrict the spending of the money in these funds.

**Proprietary Funds** – The City of Inkster's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Like the governmental funds, focus of the City of Inkster's proprietary funds is to provide information on near-term inflows, outflows, and balances of expendable resources but also providing insight into the long term financial requirements of the fund. Wherein the unreserved, undesignated portion of fund balance in the governmental funds may serve as a useful measure of a government's net resources, the unrestricted net assets provide the same measure in proprietary funds. The City has three proprietary funds; the Water and Sewer Fund, an enterprise fund, the Garage Fund and Information Technology Fund which are internal service funds.

Total net assets in the Water and Sewer Fund are \$23.5 million, a decrease of \$2.8 million from the previous year attributable to an operating loss. The unrestricted portion of net assets is \$(3.2 million) down \$2.0 million from the previous year.

Total net assets in the Garage Fund are \$1.0 million, an increase of \$0.6 million from the previous year. Total net assets in the Information Technology Fund are \$0.2 million, an increase of \$0.2 million from the prior year.

### BUDGETARY HIGHLIGHTS

**Original to Amended** – The general fund amended revenue budget (Table 4) of \$18.7 million was \$0.9 million more than the original budget. The variation was due to anticipated increased revenues from administrative and service charges. The amended budget expenditures were \$0.7 million more than the original budget due to a budget amendment for Community and Economic Development Expenditures.

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

### BUDGETARY HIGHLIGHTS (CONTINUED)

#### Original to Amended (Continued)

Table 4. City of Inkster's General Fund Budget to Actual  
(in Millions)

	FY08 Actual (Audited)	FY09 Actual (Audited)	FY10 Original Budget	FY10 Amended Budget	FY10 Actual (Audited)
<b>Revenues</b>					
Property taxes	\$ 7.8	\$ 8.1	\$ 8.0	\$ 8.0	\$ 6.7
Licenses and permits	0.3	0.3	0.3	0.3	0.3
Federal & State-shared revenue and grants	4.5	5.4	3.9	3.9	4.7
Charges for services	1.8	2.2	0.9	0.9	0.6
Interest	0.3	0.1	0.1	0.1	-
Administrative charges and other revenue	3.1	3.0	4.6	5.5	4.2
<b>Total Revenues</b>	<u>17.8</u>	<u>19.1</u>	<u>17.8</u>	<u>18.7</u>	<u>16.5</u>
<b>Expenditures and Transfers</b>					
General government	2.8	3.7	4.9	5.0	5.4
Public safety	7.4	7.9	10.3	10.3	10.9
Highways, streets, and public works	2.6	2.8	3.2	3.2	3.2
Community and Economic Development	0.2	0.3	0.3	0.8	0.7
Nondepartmental	4.3	2.6	-	-	-
Operating transfers (out)	0.5	0.5	0.3	0.3	0.5
<b>Total Expenditures and Transfers</b>	<u>\$ 17.8</u>	<u>\$ 17.8</u>	<u>\$ 19.0</u>	<u>\$ 19.6</u>	<u>\$ 20.7</u>

**Amended to Actual** – General fund actual revenues were \$2.2 million below the amended budget with property tax revenues \$1.3 million unfavorable due to large County Chargebacks on delinquent taxes. General fund expenditures were \$1.1 million above the final amended budget primarily due to additional spending on Public Safety.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** – As shown in the statement of net assets (see page 12) and detailed in Note 5, at the end of fiscal year 2010 the City (excluding component units) had \$67.1 million (net of depreciation) invested in capital assets an increase from the prior year of \$0.2 million. Over \$9.0 million was spent on the Combined Sewer Overflow (CSO) project with net reductions in capital assets (buildings, vehicles and equipment) resulting from depreciation.

**Debt Administration** – The debt related to the acquisition and construction of these assets at June 30, 2011 was \$29.6 million with \$4.0 million of this debt due to be paid within the next year. A detailed listing of all City debt can be found in Note 7.

# City of Inkster, Michigan

## Management's Discussion and Analysis (MD&A) (Continued) Year Ended June 30, 2011

### ECONOMIC FACTORS AND NEXT YEARS BUDGET

**Economic Factors** – The City of Inkster, as has the rest of the nation, felt the effect of the recession and significant reduction in property values. This reduction in values has had a significant negative effect on property tax revenues. The City is tied to the automobile industry particularly the Ford Motor Company and is pleased to see the reported increase in sales by the Ford Motor Company. Residents have easy access to Detroit Metropolitan Airport, downtown Detroit and the entire metropolitan region. Median household income per capita effective buying power is rated adequate by Standard & Poor's. The City's unemployment rate is above both the national and state average. The most recent 2010 census indicated the City lost approximately 16% or 4,746 residents bringing the population down to 25,369.

**Budget** – The FY 2012 budget projects declining state shared revenues and property tax revenue. As noted earlier, the City has a significant negative General Fund – fund balance. As a result, the City has submitted a City Council approved Deficit Elimination Plan to the Treasurer of the State of Michigan as required by law. The City is waiting for approval of said plan from the State. The nature of the Plan calls for a significant reduction in the work force with the elimination of approximately 35 positions or 25% of the work force. This workforce reduction has already occurred.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Inkster's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer/Controller City of Inkster, 26215 Trowbridge, Inkster Michigan 48141.

# City of Inkster, Michigan

## Statement of Net Assets (Deficit) June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets:</b>				
Cash and Investments (Note 3)	\$ 228,901	\$ -	\$ 228,901	\$ 6,799,036
Receivables - Net:				
Customers	-	5,001,942	5,001,942	-
Other	628,783	-	628,783	16,664
Due from Other Governmental Units	2,750,590	415,388	3,165,978	1,214,228
Deposits and Prepaids	56,830	-	56,830	-
Inventories	80,715	110,981	191,696	-
Deferred Bond Issuance Costs	-	205,582	205,582	-
Pension Asset	74,702	-	74,702	-
Internal Balances	1,492,161	(1,492,161)	-	-
Restricted Assets (Note 8)	-	1,546,326	1,546,326	-
Capital Assets - Net (Note 5)	21,716,110	46,334,670	68,050,780	4,018,063
<b>Total Assets</b>	<b>27,028,792</b>	<b>52,122,728</b>	<b>79,151,520</b>	<b>12,047,991</b>
<b>Liabilities:</b>				
Accounts Payable	2,470,178	5,444,748	7,914,926	273,860
Accrued and Other Liabilities	678,094	440,755	1,118,849	87,716
Due to Component Units	-	1,158,905	1,158,905	-
Investment in Joint Venture	1,247	-	1,247	-
Tax Anticipation Note (Note 14)	1,100,000	-	1,100,000	-
Debt - Due within One Year (Note 7)	2,249,365	2,035,000	4,284,365	450,000
Other Noncurrent Liabilities - Due Within One Year	833,743	-	833,743	-
Noncurrent Liabilities:				
Estimated Worker's Compensation and Other Claims	2,659,904	-	2,659,904	-
Accrued Employee Benefits	1,249,308	-	1,249,308	-
OPEB obligation (Note 13)	6,299,374	461,989	6,761,363	-
Debt - Due in More Than One Year (Note 7)	6,996,717	19,117,313	26,114,030	13,445,000
<b>Total Liabilities</b>	<b>24,537,930</b>	<b>28,658,710</b>	<b>53,196,640</b>	<b>14,256,576</b>
<b>Net Assets (Deficit):</b>				
Invested in Capital Assets - Net of Related Debt	12,469,650	25,182,357	37,652,007	-
Restricted:				
Local and Major Streets	1,896,117	-	1,896,117	-
Drug Forfeiture Law Enforcement	25,935	-	25,935	-
Capital Projects	-	-	-	1,141,200
Parks & Recreation	967	-	967	-
Restricted Assets	-	1,546,326	1,546,326	-
Unrestricted (Deficit)	(11,901,807)	(3,264,665)	(15,166,472)	(3,349,785)
<b>Total Net Assets (Deficit)</b>	<b>\$ 2,490,862</b>	<b>\$ 23,464,018</b>	<b>\$ 25,954,880</b>	<b>\$ (2,208,585)</b>

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

# City of Inkster, Michigan

## Statement of Activities Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,573,710	\$ 4,488,298	\$ 1,672,582	\$ -
Public Safety	11,350,082	436,176	-	-
Public Works	5,885,855	-	3,009,228	-
Recreation and Culture	1,315,875	33,930	679,663	-
Interest on Long-Term Debt	173,565	-	-	-
<b>Total Government Activities</b>	<u>24,299,087</u>	<u>4,958,404</u>	<u>5,361,473</u>	<u>-</u>
Business - Type Activities - Water and Sewer	10,545,247	6,532,842	-	-
<b>Total Primary Government</b>	<u>\$ 34,844,334</u>	<u>\$ 11,491,246</u>	<u>\$ 5,361,473</u>	<u>\$ -</u>
Component Units:				
Beech Daly Tax Increment Finance Authority	2,407,539	4,958	-	-
Brownfield Authority	267,961	-	-	-
Downtown Development Authority	173,269	-	-	-
Library	248,327	5,364	-	-
<b>Total Component Units</b>	<u>\$ 3,097,096</u>	<u>\$ 10,322</u>	<u>\$ -</u>	<u>\$ -</u>

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

# City of Inkster, Michigan

## Statement of Activities (Continued) Year Ended June 30, 2011

Functions/Programs	Net (Expense) Revenue and Charges in Net Assets			
	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental Activities:				
General Government	\$ 587,170	\$ -	\$ 587,170	\$ -
Public Safety	(10,913,906)	-	(10,913,906)	-
Public Works	(2,876,627)	-	(2,876,627)	-
Recreation and Culture	(602,282)	-	(602,282)	-
Interest on Long-Term Debt	(173,565)	-	(173,565)	-
<b>Total Government Activities</b>	<b>(13,979,210)</b>	<b>-</b>	<b>(13,979,210)</b>	<b>-</b>
Business - Type Activities - Water and Sewer	-	(4,012,405)	-	-
<b>Total Primary Government</b>	<b>\$ (13,979,210)</b>	<b>\$ (4,012,405)</b>	<b>\$ (13,979,210)</b>	<b>\$ -</b>
Component Units:				
Beech Daly Tax Increment Finance Authority	-	-	-	(2,402,581)
Brownfield Authority	-	-	-	(267,961)
Downtown Development Authority	-	-	-	(173,269)
Library	-	-	-	(242,963)
<b>Total Component Units</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,086,774)</b>
General Revenues:				
Property Taxes	\$ 6,686,889	\$ 1,214,302	\$ 7,901,191	\$ 1,781,951
State-Shared Revenues	3,736,962	-	3,736,962	-
Unrestricted Investment Earnings	22,850	2,801	25,651	60,712
Franchise Fees	344,538	-	344,538	-
Miscellaneous	264	-	264	102,749
Transfer From Primary Government	-	-	-	196,597
<b>Total General Revenues</b>	<b>10,791,503</b>	<b>1,217,103</b>	<b>12,008,606</b>	<b>2,142,009</b>
<b>Change in Net Assets</b>	<b>(3,187,707)</b>	<b>(2,795,302)</b>	<b>(5,983,009)</b>	<b>(944,765)</b>
<b>Net Assets (Deficit) - July 1, 2010 - as restated (Note 15)</b>	<b>5,679,569</b>	<b>26,259,320</b>	<b>31,938,889</b>	<b>(1,263,820)</b>
<b>Net Assets (Deficit) - June 30, 2011</b>	<b>\$ 2,490,862</b>	<b>\$ 23,464,018</b>	<b>\$ 25,954,880</b>	<b>\$ (2,208,585)</b>

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

# City of Inkster, Michigan

## Governmental Funds Balance Sheet June 30, 2011

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund		
<b>Assets</b>					
Cash And Investments	\$ (10,039)	\$ 238,889	\$ -	\$ 51	\$ 228,901
Receivables - Net:					
Other	599,957	9,885	-	18,941	628,783
Due From Other Funds	11,842	994,772	325,473	104,843	1,436,730
Due From Other Governments	2,145,161	173,310	347,576	84,543	2,750,590
Prepaid/Inventory	56,830	-	-	-	56,830
<b>Total Assets</b>	<b>\$ 2,803,551</b>	<b>\$ 1,416,856</b>	<b>\$ 673,049</b>	<b>\$ 208,378</b>	<b>\$ 5,101,834</b>
<b>Liabilities And Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 2,060,241	\$ 73,247	\$ 4,197	\$ 149,616	\$ 2,287,301
Accrued And Other Liabilities	527,124	36,153	70,306	20,168	653,751
Tax Anticipation Note	1,100,000	-	-	-	1,100,000
Due To Other Funds	1,761,784	-	-	11,642	1,773,426
Deferred Revenue	318,464	9,885	-	18,991	347,340
<b>Total Liabilities</b>	<b>5,767,613</b>	<b>119,285</b>	<b>74,503</b>	<b>200,417</b>	<b>6,161,818</b>
<b>Fund Balances (Deficit)</b>					
Nonspendable - Prepaids	56,830	-	-	-	56,830
Restricted:	-	-	-	-	-
Streets and Higways	-	1,297,571	598,546	-	1,896,117
Drug Law Enforcement	-	-	-	25,935	25,935
Parks and Recreation	-	-	-	967	967
Unassigned	(3,020,892)	-	-	(18,941)	(3,039,833)
<b>Total Fund Balances</b>	<b>(2,964,062)</b>	<b>1,297,571</b>	<b>598,546</b>	<b>7,961</b>	<b>(1,059,984)</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ 2,803,551</b>	<b>\$ 1,416,856</b>	<b>\$ 673,049</b>	<b>\$ 208,378</b>	<b>\$ 5,101,834</b>
Fund Balance - Total Governmental Funds					\$ (1,059,984)
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:					
Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds.					19,671,380
Amount due to Agency Fund reported in the funds					1,761,784
Deferred Revenue due to not meeting availability criteria reported only in funds.					347,340
General Employee pension plan asset not reported in the funds					74,702
Other Post-Employment benefit obligation not reported in the funds					(6,299,374)
Investment in Joint Venture not reported in the funds.					(1,247)
Long-Term Liabilities are not due and payable in the current period and are not reported in the funds.					(13,167,961)
Internal Service Funds are included as part of governmental activities.					1,164,222
Net Assets of Governmental Activities					<u>\$ 2,490,862</u>

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

# City of Inkster, Michigan

## Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance Year Ended June 30, 2011

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund		
<b>Revenue</b>					
Property Taxes	\$ 6,686,889	\$ -	\$ 1,478,995	\$ 568,265	\$ 8,734,149
Licenses and Permits	306,552	-	-	-	306,552
Federal Grants	689,984	-	-	363,888	1,053,872
State Revenues and Grants	3,968,250	1,074,152	456,081	-	5,498,483
Charges for Services	638,079	-	-	-	638,079
Interest	22,697	153	-	-	22,850
Administrative Charges and Other Revenue	4,200,950	67	197	380,328	4,581,542
<b>Total Revenue</b>	<u>16,513,401</u>	<u>1,074,372</u>	<u>1,935,273</u>	<u>1,312,481</u>	<u>20,835,527</u>
<b>Expenditures</b>					
Current:					
General Government	5,383,990	-	-	-	5,383,990
Public Safety	10,863,186	-	-	229,596	11,092,782
Highways, Streets, and Public Works	3,241,804	921,063	886,097	171,597	5,220,561
Community and Economic Development	716,194	-	-	330,277	1,046,471
Recreation and Culture	-	-	-	1,260,010	1,260,010
Debt Service	-	208,126	1,830,439	-	2,038,565
<b>Total Expenditures</b>	<u>20,205,174</u>	<u>1,129,189</u>	<u>2,716,536</u>	<u>1,991,480</u>	<u>26,042,379</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	<u>(3,691,773)</u>	<u>(54,817)</u>	<u>(781,263)</u>	<u>(678,999)</u>	<u>(5,206,852)</u>
<b>Other Financing Sources/(Expenses)</b>					
Operating Transfers In	-	155,903	537,075	309,355	1,002,333
Operating Transfers Out	(505,952)	(537,075)	-	-	(1,043,027)
<b>Total Other Financing Sources</b>	<u>(505,952)</u>	<u>(381,172)</u>	<u>537,075</u>	<u>309,355</u>	<u>(40,694)</u>
<b>Net Change in Fund Balances</b>	(4,197,725)	(435,989)	(244,188)	(369,644)	(5,247,546)
<b>Fund Balances - July 1, 2010 - as restated (Note 15)</b>	<u>1,233,663</u>	<u>1,733,560</u>	<u>842,734</u>	<u>377,605</u>	<u>4,187,562</u>
<b>Fund Balances - June 30, 2011</b>	<u>\$ (2,964,062)</u>	<u>\$ 1,297,571</u>	<u>\$ 598,546</u>	<u>\$ 7,961</u>	<u>\$ (1,059,984)</u>

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

# City of Inkster, Michigan

## Governmental Funds Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds Year Ended June 30, 2011

<b>Net Change In Fund Balances - Total Governmental Funds</b>	<b>\$ (5,247,546)</b>
Amounts Reported For Governmental Activities In The Statement of Activities Are Different Because:	
Governmental Funds Report Capital Outlays As Expenditures; In The Statement of Activities, These Costs Are Allocated Over Their Estimated Useful Lives As Depreciation:	
Capital Outlay	769,958
Depreciation Expenses	(1,562,425)
Repayment of Bond Principal Is An Expenditure In The Governmental Funds, But Not In The Statement of Activities (Where It Reduces Long-Term Debt)	1,865,000
Decrease In Estimated Long-Term General Liability Claims	97,978
Decrease In Long-Term Accrued Employee Sick And Vacation Pay	387,277
Decrease In pension obligation expense	132,755
Increase in other Post-Employment benefit obligation	(1,915,347)
Decrease in other Long-Term Obligations	1,184,610
Internal Service Funds Are Also Included As Governmental Activities	838,787
Decrease in Joint Venture Investment	(55,301)
Increase in Deferred Revenue	<u>316,547</u>
<b>Change In Net Assets Of Governmental Activities</b>	<b><u>\$ (3,187,707)</u></b>

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

# City of Inkster, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2011

	Enterprise - Water and Sewer Fund	Internal Service Funds	
		Garage Fund	Information Technology Fund
<b>Assets</b>			
Current Assets:			
Receivables - Net	\$ 5,001,942	\$ -	\$ -
Due from Other Governmental Units	415,388	-	-
Due from Other Funds	-	67,079	-
Inventories	110,981	80,715	-
Deferred Bond Issuance Costs	205,582	-	-
<b>Total Current Assets</b>	<b>5,733,893</b>	<b>147,794</b>	<b>-</b>
Non-Current Assets:			
Restricted Assets	1,546,326	-	-
Capital Assets	46,334,670	1,570,185	474,545
<b>Total Non-Current Assets</b>	<b>47,880,996</b>	<b>1,570,185</b>	<b>474,545</b>
<b>Total Assets</b>	<b>53,614,889</b>	<b>1,717,979</b>	<b>474,545</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	5,444,748	42,736	140,141
Accrued and Other Liabilities	440,755	24,343	-
Due to other funds	2,651,066	-	-
Current Portion of Long-Term Debt	2,035,000	275,326	44,039
<b>Total Current Liabilities</b>	<b>10,571,569</b>	<b>342,405</b>	<b>184,180</b>
Non-Current Liabilities - Long-Term Debt - Net of Current Portion	19,117,313	381,007	120,710
Non-Current Liabilities - OPEB Obligation	461,989	-	-
<b>Total Liabilities</b>	<b>30,150,871</b>	<b>723,412</b>	<b>304,890</b>
<b>Net Assets</b>			
Restricted - Assets on Deposit Wayne County	1,546,326	-	-
Investment in Capital Assets - Net of Related Debt	25,182,357	913,852	309,796
Unrestricted	(3,264,665)	80,715	(140,141)
<b>Total Net Assets</b>	<b>\$ 23,464,018</b>	<b>\$ 994,567</b>	<b>\$ 169,655</b>

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

# City of Inkster, Michigan

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

	Enterprise - Water and Sewer Fund	Internal Service Funds	
		Garage Fund	Information Technology Fund
<b>Operating Revenue</b>			
Water and Sewer User Charges	\$ 5,990,423	\$ -	\$ -
Other Charges for Services	542,419	2,163,590	513,609
<b>Total Operating Revenue</b>	<b>6,532,842</b>	<b>2,163,590</b>	<b>513,609</b>
<b>Operating Expenses</b>			
Cost of Water	1,379,904	-	-
Cost of Sewage Disposal	2,760,992	-	-
Wages and Fringes	1,104,982	196,629	1,092
Operating Supplies	117,815	422,379	16,796
Contractual Services	1,885,646	261,672	122,071
Repairs and Maintenance	452,453	45,013	-
Insurance, Claims, and Other	1,354,265	295,194	63,149
Depreciation	865,050	273,412	87,294
<b>Total Operating Expenses</b>	<b>9,921,107</b>	<b>1,494,299</b>	<b>290,402</b>
<b>Operating Income (Loss)</b>	<b>(3,388,265)</b>	<b>669,291</b>	<b>223,207</b>
<b>Non-Operating Revenue (Expense)</b>			
Investment Income	2,801	-	-
Interest Expense	(624,140)	(45,629)	(8,082)
Property Taxes	1,214,302	-	-
<b>Total Non-Operating Revenue (Expense)</b>	<b>592,963</b>	<b>(45,629)</b>	<b>(8,082)</b>
<b>Change in Net Assets</b>	<b>(2,795,302)</b>	<b>623,662</b>	<b>215,125</b>
<b>Net Assets - July 1, 2010 - As restated (Note 15)</b>	<b>26,259,320</b>	<b>370,905</b>	<b>(45,470)</b>
<b>Net Assets - June 30, 2011</b>	<b>\$ 23,464,018</b>	<b>\$ 994,567</b>	<b>\$ 169,655</b>

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

# City of Inkster, Michigan

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

	Enterprise Fund	Internal Service Funds	
	Water and Sewer Fund	Garage Fund	Information Technology Fund
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 9,232,293	\$ 2,163,590	\$ 513,609
Payments to Suppliers	(6,996,843)	(1,061,344)	(193,754)
Payments to Employees	(876,678)	(298,703)	(1,092)
Internal Activity - Payments from (to) Other Funds	2,651,066	(67,079)	-
<b>Net Cash Provided by Operating Activities</b>	<b>4,009,838</b>	<b>736,464</b>	<b>318,763</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of Capital Assets	(9,738,755)	(309,478)	(288,600)
Principal and Interest Paid on Capital Debt	(885,000)	(281,241)	(38,263)
Disposal of assets	7,160,998	-	-
New Bond Issue/Capital Leases	1,925,048	176,649	199,845
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,537,709)</b>	<b>(414,070)</b>	<b>(127,018)</b>
<b>Cash Flows from Investing Activities -</b>	<b>2,801</b>	<b>-</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,474,930</b>	<b>322,394</b>	<b>191,745</b>
<b>Cash and Cash Equivalents - July 1, 2010</b>	<b>(2,474,930)</b>	<b>(322,394)</b>	<b>(191,745)</b>
<b>Cash and Cash Equivalents - June 30, 2011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating Income (Loss)	\$ (2,864,660)	\$ 669,291	\$ 223,207
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Depreciation and Amortization	865,050	273,412	87,294
Other income (Expense)	66,557	(45,629)	(8,082)
Changes in Assets and Liabilities:			
Receivables	1,413,149	-	-
Inventories	31,539	5,862	-
Deferred Bond Issuance Costs	72,000	-	-
Accounts Payable and Accrued Liabilities	1,576,491	(99,393)	16,344
OPEB Obligation	195,383	-	-
Restricted Assets	3,263	-	-
Due from (to) Other Funds	2,651,066	(67,079)	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,009,838</b>	<b>\$ 736,464</b>	<b>\$ 318,763</b>

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

# City of Inkster, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2011

	Pension and Other Employee Benefit Trust Funds	Agency Fund - Escrow Fund	Agency Fund - Tax Collection Fund
<b>Assets</b>			
Investments:			
Corporate Bonds	\$ 8,662,694	\$ -	\$ -
U.S. Government Securities	291,660	-	-
U.S. Government Agency Securities	3,404,486	-	-
Common and Preferred Stock	13,036,426	-	-
Pension Guarantee Contract Pooled Fund	9,887,852	-	-
Bank Investment Pools	1,757,390	-	-
Receivables - Accrued Interest and Other	173,564	-	-
Due from Other Funds	-	419,543	1,468,132
	<b>Total Assets</b>	<b>\$ 419,543</b>	<b>\$ 1,468,132</b>
	<b>\$ 37,214,072</b>	<b>\$ 419,543</b>	<b>\$ 1,468,132</b>
<b>Liabilities</b>			
Bonds and Deposits	\$ -	\$ 419,543	\$ -
Due to Broker Account	232,267	-	-
Undistributed Receipts	-	-	1,468,132
	<b>Total Liabilities</b>	<b>\$ 419,543</b>	<b>\$ 1,468,132</b>
	<b>\$ 232,267</b>	<b>\$ 419,543</b>	<b>\$ 1,468,132</b>
<b>Net Assets - Held in Trust for Employee Pension Benefits</b>	<b>\$ 36,981,805</b>		

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

# City of Inkster, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2011

	<u>Pension and Other Employee Benefit Trust Funds</u>
<b>Additions</b>	
Investment Income:	
Interest and Dividends	\$ 1,198,783
Net Increase (decrease) in Fair Value of Investments	<u>3,653,593</u>
<b>Net Investment Income</b>	4,852,376
Contributions:	
Employer	784,687
Employee	<u>477,999</u>
<b>Total Contributions</b>	<u>1,262,686</u>
<b>Total Additions</b>	6,115,062
<b>Deductions</b>	
Benefit Payments	2,532,576
Refunds of Contributions	(21,660)
Administrative Expenses	<u>265,583</u>
<b>Total Deductions</b>	<u>2,776,499</u>
<b>Net Increase</b>	3,338,563
<b>Net Assets - Held in Trust for Pension and Other Employee Benefits</b>	
June 30, 2010	<u>33,643,242</u>
<b>June 30, 2011</b>	<u><u>\$ 36,981,805</u></u>

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

# City of Inkster, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2011

	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Library	Total
<b>Assets</b>					
Cash and investments	\$ 6,792,973	\$ 6,063	\$ -	\$ -	\$ 6,799,036
Accounts receivable	16,664	-	-	-	16,664
Due from Other Governments	-	-	-	181,220	181,220
Due from Other Funds	691,827	-	102,084	239,097	1,033,008
<b>Total Current Assets</b>	<b>7,501,464</b>	<b>6,063</b>	<b>102,084</b>	<b>420,317</b>	<b>8,029,928</b>
<b>Non-Current Assets:</b>					
Capital Assets -Net	3,558,281	-	459,782	-	4,018,063
<b>Total Non-Current Assets</b>	<b>3,558,281</b>	<b>-</b>	<b>459,782</b>	<b>-</b>	<b>4,018,063</b>
<b>Total Assets</b>	<b>11,059,745</b>	<b>6,063</b>	<b>561,866</b>	<b>420,317</b>	<b>12,047,991</b>
<b>Liabilities</b>					
Accounts payable	248,545	6,063	15,256	3,996	273,860
Other Liabilities	-	81,889	-	5,827	87,716
Due to Other Funds	-	-	-	-	-
Debt - Due within one year	335,000	90,000	25,000	-	450,000
Liabilities to be paid from restricted assets:					
Long-term debt	9,335,000	3,960,000	150,000	-	13,445,000
<b>Total Liabilities</b>	<b>9,918,545</b>	<b>4,137,952</b>	<b>190,256</b>	<b>9,823</b>	<b>14,256,576</b>
<b>Net Assets (Deficit)</b>					
Restricted for Capital Project	1,141,200	-	-	-	1,141,200
Unrestricted (Deficit)	-	(4,131,889)	371,610	410,494	(3,349,785)
<b>Total Net Assets (Deficit)</b>	<b>\$ 1,141,200</b>	<b>\$ (4,131,889)</b>	<b>\$ 371,610</b>	<b>\$ 410,494</b>	<b>\$ (2,208,585)</b>

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

Component Units  
Statement of Activities  
Year Ended June 30, 2011

	Program Revenues			Net (Expenses), Revenue and Changes in Net Assets				Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Beech Daily Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Library	
Beech Daily Tax Increment Finance Authority	\$ 4,958	\$ -	\$ -	\$ (2,088,605)	\$ -	\$ -	\$ -	\$ (2,088,605)
Brownfield Tax Increment Finance Authority	-	-	-	-	(267,961)	-	-	(267,961)
Downtown Development Authority	-	-	-	-	-	(143,269)	-	(143,269)
Library	5,364	-	-	-	-	-	(217,963)	(217,963)
<b>Total Governmental Activities</b>	<b>\$ 10,322</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,088,605)</b>	<b>\$ (267,961)</b>	<b>\$ (143,269)</b>	<b>\$ (217,963)</b>	<b>\$ (2,717,798)</b>
Property taxes				\$ 933,856	\$ 86,875	\$ 119,243	\$ 642,177	\$ 1,781,951
Other Revenue				91,469	-	-	11,280	102,749
Interest				60,712	-	-	-	60,712
<b>Total General Revenues</b>				<b>1,086,037</b>	<b>86,875</b>	<b>119,243</b>	<b>653,457</b>	<b>1,945,412</b>
Change in Net Assets (Deficit)				(1,002,568)	(181,286)	(24,026)	435,494	(772,386)
Operating Transfers In/(out)				(313,976)	196,597	(30,000)	(25,000)	(172,379)
Net Assets (Deficit) - July 1, 2010				2,457,744	(4,147,200)	425,636	-	(1,263,820)
<b>Net Assets (Deficit) - July 1, 2011</b>				<b>\$ 1,141,200</b>	<b>\$ (4,131,889)</b>	<b>\$ 371,610</b>	<b>\$ 410,494</b>	<b>\$ (2,208,585)</b>

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

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Inkster, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

**Reporting Entity**

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate for the City (see discussion below for description).

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

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Beech Daly Tax Increment Finance Authority (TIFA) was created to correct and prevent deterioration in the TIFA district, encourage historical preservation, and to promote economic growth within the district. The TIFA's governing body, which consists of 13 individuals, is selected by the City Council.
- b. The Downtown Development Authority (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 Downtown Development Authority's governing body, which consists of nine individuals, is selected by the City Council.
- c. The Brownfield Redevelopment Authority was created to revert tax-reverted and condemned properties as well as other properties into new residential housing. The Brownfield Redevelopment Authority's governing body, which consists of not less than five individuals, is selected by the City Council.
- d. The Library Fund was established during the current fiscal year. On November 2, 2010 the special library millage was passed which established the Library as a City Library under Public Act 164 of 1877 section 10a. The City Council appointed a Library board November 2010. A new six member board was elected by the citizens of Inkster during the November 2011 election.

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed for these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund 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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.
- The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

- The Water and Sewer Fund is the City's only proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's Internal Service Funds are the Garage Fund, which is used to account for the City's vehicles and other machinery, and the Information Technology Fund which is used to account for computer support and other technology services.
- Special Revenue Funds account for the revenues and expenditures related to drug enforcement and traffic immobilization activities and Community Development Block Grant and other miscellaneous grant activity.
- Capital Projects Funds accounts for the development and improvement of capital facilities and sidewalks, other than those financed by the operations of the proprietary fund.

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.
- The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The proprietary fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services.

The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property Tax Revenue**

Property taxes are assessed on the taxable valuation of property as of the preceding December 31. The related property taxes are billed on July 1 and December 1 of the following year. Taxes are considered delinquent on March 1 and September 1 of the following year, at which time penalties and interest are assessed. The City's 2010 tax is levied and collectible on July 1 and December 1, 2010, and is recognized as revenue in

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property Tax Revenue (Continued)**

the year ended June 30, 2011 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2010 taxable valuation of the City totaled \$347,296,966 (a portion of which is abated and a portion of which is captured by the TIFA, Brownfield and DDA), on which taxes levied consisted of 17.2349 mills for operating purposes, 2.5851 mills for rubbish collection services, and 10.3255 mills for debt service. This resulted in approximately \$5.6 million for operations, approximately \$898,000 for rubbish collection services, and approximately \$3.5 million for debt service. These amounts are recognized in the General Fund, Enterprise Fund and Local Streets (Special Revenue) Fund financial statements as tax revenue. The Parks and Recreations fund had a tax millage of 1.9814 mills resulting in tax revenue of approximately \$688,000.

**Assets, Liabilities, and Net Assets or Equity**

**Cash Equivalents** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Investments** – Investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. See Note 3 for additional investment information.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown net of allowance for uncollectible amounts.

**Inventories** – Inventories are valued at cost, on a first-in first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** – The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of the City’s water and sewer system. The unspent bond proceeds in the Local Streets Fund are required to be set aside for local street construction. These amounts have been classified as restricted assets

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Road and Sidewalks	15 to 30 years
Water and Sewer Systems	40 to 100 years
Building and Building Improvements	40 to 50 years
Vehicles	3 to 10 years
Office Furnishings	7 to 10 years
Other Tools and Equipments	7 to 10 years

In conjunction with the Carver Homes project (see Note 5), the City and the Brownfield Redevelopment Authority have agreed to acquire, improve, and then sell to the developer certain property in the City. Consistent with the lower-of-cost or market valuation principle, the project expenditures incurred through June 30, 2010, which are reported by the Brownfield Redevelopment Authority, have been expensed since it anticipated that the future costs to acquire the property will exceed the future sales price to the developer.

**Compensated Absences (Vacation and Sick Leave)** – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

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

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted the United State of America requires management to make estimates and assumptions that affect reported amounts of 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.

**2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

Shortfall at July 1, 2010	\$(479,010)
Current year building permit revenue	270,739
Related expenses:	<u>(403,148)</u>
Cumulative shortfall at June 30, 2011	<u><u>\$(611,419)</u></u>

**Noncompliance with Legal or Contractual Provisions** – The City was not in compliance with legal provisions as follows:

- The City is in violation of the State Budget Act by exceeding budgeted appropriations as discussed in the required supplemental information section of this report.

**Fund Deficit** – The Brownfield Redevelopment Authority reported a negative balance of unrestricted net assets at June 30, 2011. See Note 5 for further discussion of the Brownfield Carver Homes Project.

The General Fund has a fund deficit of \$2,964,062 at June 30, 2011. The City has submitted a deficit elimination plan to the State. The City has made significant layoffs and is reviewing its contracts and general operations to see where possible reductions can be made. Additionally, the City has applied for a \$3,000,000 loan from the State. The deficit elimination plan and the loan application are currently being reviewed by the State.

The Grants Fund (Nonmajor Special Revenue Fund) has a fund deficit of \$18,941 at June 30, 2011. This is due to a timing difference creating deferred revenue of \$18,991.

**3) DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91 (Public Act of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

3) **DEPOSITS AND INVESTMENTS (Continued)**

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of local unit funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds. The City's deposits and investment policy are in accordance with statutory authority.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal policy for custodial credit risk. At year end, the City had \$6,164,979 of bank deposits (certificates of deposit, checking, and saving accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At the end of the year, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Average Maturity</u>
U.S. Government or Agency Treasury Notes and Bonds	\$3,404,486	6.40 years
Treasury Notes and Bonds	291,660	2.78 years
Corporate Bonds	8,662,695	3.92 years

**3) DEPOSITS AND INVESTMENTS (Continued)**

**Credit Risk**

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Investment Pools (Pension)	\$11,412,975	None	N/A
Corporate Bonds	173,948	AAA	S&P
	1,549,054	AA	S&P
	3,010,461	A	S&P
	3,867,874	BBB	S&P
	61,359	None	N/A
U.S. Agencies not explicitly guaranteed by the U.S. Government	2,756,644	AAA	S&P
	44,440	AA	S&P
	390,244	A	S&P
	504,819	None	N/A

**Component Units**

The cash and cash equivalents of the City component units consist of interests in the City's shared bank accounts totaling \$380,398 at June 30, 2011. The portion of these balances covered by federal depository insurance is not known since the accounts are shared with the City.

**4) RECEIVABLES AND RELATED DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Grants received prior to meeting all eligibility requirements	<u>\$ 347,340</u>

5) CAPITAL ASSETS

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

<b>Governmental Activities:</b>	<b>Balance June 30 2010</b>	<b>Additions 2010-11</b>	<b>Disposals 2010-11</b>	<b>Adjustments</b>	<b>Balance June 30, 2011</b>
Capital assets not being depreciated:					
Land	\$ 307,195	\$ -	\$ -	\$ -	\$ 307,195
Capital assets being depreciated:					
Land improvements	300,190	93,100	-	194,999	588,289
Roads and sidewalks	23,617,006	584,443	-	-	24,201,449
Buildings and improvements	7,590,327	18,600	-	(179,874)	7,429,053
Vehicles	6,330,175	309,479	-	-	6,639,654
Furniture and equipment	5,020,057	362,414	-	-	5,382,471
<b>Subtotal</b>	<b>42,857,755</b>	<b>1,368,036</b>	<b>-</b>	<b>15,125</b>	<b>44,240,916</b>
Accumulated depreciation:					
Land improvements	99,659	19,665	-	-	119,324
Roads and sidewalks	6,683,829	808,472	-	-	7,492,301
Buildings and improvements	5,348,846	476,129	-	-	5,824,975
Vehicles	4,887,620	283,987	-	-	5,171,607
Furniture and equipment	3,889,781	334,014	-	-	4,223,795
<b>Subtotal</b>	<b>20,909,735</b>	<b>1,922,266</b>	<b>-</b>	<b>-</b>	<b>22,832,001</b>
<b>Net capital assets being depreciated</b>	<b>21,948,020</b>	<b>(554,230)</b>	<b>-</b>	<b>-</b>	<b>21,408,915</b>
<b>Net capital assets</b>	<b>\$ 22,255,215</b>	<b>\$ (554,230)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,716,110</b>

<b>Business-Type Activities:</b>	<b>Balance July 1, 2010</b>	<b>Additions 2010-11</b>	<b>Deletions 2010-11</b>	<b>Balance June 30, 2011</b>
Capital assets not being depreciated:				
Land	\$ 2,745	\$ -	\$ -	\$ 2,745
Construction in progress	18,822,319	1,988,920	7,160,999	13,650,240
<b>Subtotal</b>	<b>18,825,064</b>	<b>1,988,920</b>	<b>7,160,999</b>	<b>13,652,985</b>
Capital assets being depreciated:				
Water and sewer dist. system	38,135,324	7,749,835	-	45,885,159
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
<b>Subtotal</b>	<b>38,228,792</b>	<b>7,749,835</b>	<b>-</b>	<b>45,978,627</b>
Accumulated depreciation:				
Water and sewer dist. system	12,338,424	865,050	-	13,203,474
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
<b>Subtotal</b>	<b>12,431,892</b>	<b>865,050</b>	<b>-</b>	<b>13,296,942</b>
<b>Net capital assets being depreciated</b>	<b>25,796,900</b>	<b>6,884,785</b>	<b>-</b>	<b>32,681,685</b>
<b>Net capital assets</b>	<b>\$ 44,621,964</b>	<b>\$ 8,873,705</b>	<b>\$ 7,160,999</b>	<b>\$ 46,334,670</b>

**5) CAPITAL ASSETS (Continued)**

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

**Governmental Activities**

General government	\$ 80,490
Public safety	575,117
Public works	814,838
Culture and recreation	91,979
Internal service funds depreciation charged to various functions based on their usage of the assets	359,841
<b>Total governmental activities</b>	<b><u>\$ 1,922,266</u></b>

**Business-type activities - Water and sewer**

**\$ 865,050**

<b>Component Unit Activities:</b>	<b>Balance July 1, 2010</b>	<b>Additions 2010-11</b>	<b>Deletions 2010-11</b>	<b>Balance June 30, 2011</b>
Capital assets not being depreciated:				
Land	\$ 277,068	\$ -	\$ -	\$ 277,068
Capital assets being depreciated:				
Land Improvements	203,015	-	-	203,015
Buildings	2,025,340	-	-	2,025,340
Infrastructure	2,990,000	140,000	-	3,130,000
Office Equipment and Furniture	173,763	-	-	173,763
<b>Subtotal</b>	<b>5,392,118</b>	<b>140,000</b>	<b>-</b>	<b>5,532,118</b>
Accumulated depreciation:				
Land Improvements	10,151	10,151	-	20,302
Buildings	278,470	67,511	-	345,981
Infrastructure	1,195,500	154,166	-	1,349,666
Office Equipment and Furniture	69,382	5,792	-	75,174
<b>Subtotal</b>	<b>1,553,503</b>	<b>237,620</b>	<b>-</b>	<b>1,791,123</b>
<b>Net capital assets being depreciated</b>	<b><u>3,838,615</u></b>	<b><u>(97,620)</u></b>	<b><u>-</u></b>	<b><u>3,740,995</u></b>
<b>Net capital assets</b>	<b><u>\$ 4,115,683</u></b>	<b><u>\$ (97,620)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,018,063</u></b>

**Construction Commitments** –The City of Inkster, Michigan, in conjunction with the City of Inkster Brownfield Redevelopment Authority, entered into an agreement with a development company and its affiliate to redevelop the Carver Homes area of the City. Under the agreement, the City was to acquire, improve, and then sell the project real estate to the developer. The City issued bonds for \$2,000,000 during the fiscal year 2003/04 and transferred the proceeds to the Brownfield Redevelopment Authority to be used for preliminary engineering and administrative costs as well as property acquisition and demolition expenditures.

5) **CAPITAL ASSETS (Continued)**

**Construction Commitments – (Continued)**

Phase 1A required that the developer build seventeen (17) homes on Annapolis Avenue. The developer paid for the infrastructure for the seventeen (17) homes. In exchange, the City was to sell the land where the seventeen (17) homes will be located for one dollar (\$1.00). Phase 1B required that the developer build ninety-one (91) more homes in the development area. This work began in the fiscal year 2006/07.

From the proceeds the City was to reimburse the developer for infrastructure costs on the first seventeen (17) homes built and pay for the cost of the infrastructure for the remaining ninety-one (91) homes. Once the debt was sold for the entire project and the developer was reimbursed for infrastructure costs in Phase 1A, the developer was to pay \$2,000 per lot to the City for all lots developed in the development area. The bond issue was closed on November 8, 2006. It was intended that debt service costs from the \$4,155,000 debt issue was to be paid from tax captures from the City Brownfield development area, however the project has not proceeded as planned and the tax captures are currently insufficient to meet the debt service costs. Additionally, the developer has gone out of business and is unable to satisfy their guarantee on the debt service costs.

**Commitment** – During the year ended June 30, 1992, the City negotiated an agreement with the Michigan Department of Natural Resources to ensure compliance with the Clean Water Act. This agreement requires the construction of retention basins and/or the construction of separate sanitary and storm sewer lines to be completed to two phases. Phase one of the project was substantially complete at June 30, 2003 and phase two Western Out Falls design work was started in 2006. The construction for Western Out Falls and design and construction for Eastern Out Falls is expected to be completed by 2013. The estimated cost of phase two is not anticipated to exceed \$54,000,000.

5) **INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

<u>Fund Due to</u>	<u>Fund Due from</u>	<u>Amount</u>
General	CDBG	\$ 11,642
Agency	General	\$ 293,652
Local Street	Water and Sewer	\$ 325,473
Major Street	Water and Sewer	\$ 994,772
TIFA (Component Unit)	Water and Sewer	\$ 691,827
DDA (Component Unit)	Water and Sewer	\$ 102,084
Drug Law Enforcement	Water and Sewer	\$ 104,843
Library (Component Unit)	Water and Sewer	\$ 239,097
Garage	Water and Sewer	\$ 67,079
Agency	Water and Sewer	\$ 125,891
Current Tax Collection	General	\$ 1,468,132

6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

TRANSFERS

<u>From</u>	<u>To</u>	<u>Amount</u>
TIFA (Component Unit)	General	\$ 94,780
General	Parks/Recreation	\$ 265,288
General	Brownfield Redevelopment	\$ 196,597
General	Capital Project	\$ 44,067
TIFA (Component Unit)	Major Street	\$ 155,903
Major Street	Local Street	\$ 537,075

7) LONG-TERM DEBT

The following is a summary of the primary government debt of the City outstanding as of June 30, 2011:

	Interest Rate Ranges	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds (for road and other construction):						
Act 175 Motor Vehicle Bond, 2001 Series						
Refunding bonds						
Amount of Issues - \$1,780,000	2.00% -					
Maturing through 8/2014	4.625%	\$ 930,000	\$ -	\$ (170,000)	\$ 760,000	\$ 180,000
General Obligation, Unlimited Tax 2003 Series						
Local road bonds						
Amount of Issues - \$5,000,000	2.5% -					
Maturing through 3/2013	3.625%	1,655,000	-	(530,000)	1,125,000	550,000
2003 Capital improvement Bonds						
Amount of Issues - \$2,000,000	2.5% -					
Maturing through 11/2013	5.125%	890,000	-	(205,000)	685,000	215,000
Unlimited Tax General Obligation						
Local street bonds, series 2006						
Amount of issue - \$5,000,000	4.0% -					
Maturing through 3/1/2016	4.250%	3,170,000	-	(485,000)	2,685,000	500,000
Local Road Bonds, Series 2007 B						
Amount of issue- \$5,000,000						
Maturing through 3/1/2017	4.110%	3,645,000	-	(475,000)	3,170,000	485,000
<b>Total Bond Obligations</b>		<b>10,290,000</b>	<b>-</b>	<b>(1,865,000)</b>	<b>8,425,000</b>	<b>1,930,000</b>
<b>Other long-term obligations</b>						
2 Ford Rangers & 1 Ford 150						
Amount of Issue - \$53,110						
Maturing through 1/2011	5.60%	11,184	-	(11,184)	-	-
2 Ford F-250 Pick Ups						
Amount of Issue- \$44416						
Maturing through 10/2011	5.60%	18,210	-	(8,857)	9,353	9,353
4 Ford Crown Vic Police Cars						
Amount of Issus- \$81848						
Maturing through 10/2010	4.75%	27,263	-	(27,263)	-	-
2008 Sterling Vector						
Amount of Issue- \$340,037						
Maturing through 10/2012	4.50%	203,759	-	(64,953)	138,806	67,876
2009 GMC Plow						
Amount of Issue- \$ 109,405						
Maturing through 12/2012	4.50%	65,568	-	(20,898)	44,660	21,839
4 Ford Fusions						
Amount of Issue-\$86,585						
Maturing through 10/2013	5.15%	67,487	-	(15,623)	51,864	16,427
9 Chevy Impalas / 2 Tahoes						
Amount of issue-\$542,167						
Maturing through 8/2012	6.70%	175,438	-	(54,624)	120,814	58,393
Caterpilla Backhoe / Loader						
Amount of Issue - \$86,991						
Maturing through 12/2013	5.15%	67,803	-	(15,696)	52,107	16,427
2010 Dodge Charger Hemi						
Amount of Issue - \$22,044						
Maturing through 12/2011	4.80%	14,363	-	(7,020)	7,343	7,343
Chevy 2009 C-4500						
Amount of Issue - \$160,545						
Maturing through 12/2015	5.50%	133,768	-	(19,420)	114,348	20,488
4 Dodge Charger - Police Cars						
Amount of Issue - \$111,113						
Maturing through 8/2012	4.70%	-	111,113	(38,751)	72,362	35,350
4 Dodge Charger - Police Cars						
Amount of Issue - \$65,536						
Maturing through 10/2012	4.65%	-	65,536	(20,860)	44,676	21,830
AT&T Equipment - 001						
Amount of Issue - \$30,832						
Maturing through 11/2012	6.59%	-	30,832	(12,167)	18,665	12,994
AT&T Equipment - 002						
Amount of Issue - \$169,013						
Maturing through 9/2015	6.12%	-	169,013	(22,929)	146,084	31,045
<b>Total Other Long-Term Obligations</b>		<b>784,833</b>	<b>376,494</b>	<b>(340,245)</b>	<b>821,082</b>	<b>319,365</b>
<b>Total Governmental Activities</b>		<b>\$ 11,074,833</b>	<b>\$ 376,494</b>	<b>\$ (2,205,245)</b>	<b>\$ 9,246,082</b>	<b>\$ 2,249,365</b>

7) LONG-TERM DEBT (Continued)

	Interest Rate Ranges	Balance July 1, 2010	Additions	Reductions	Adjustments	Balance June 30, 2011	Due Within One Year
<b>Business-type Activities</b>							
Wayne County Contracts (for construction of system improvements):							
Wayne County Sewage Disposal System, 1999							
CSO Basin Series B Refunding Bonds							
Amount of Issue - \$2,730,000	3.75% -						
Maturing through 11/2015	4.80%	1,525,000	-	(230,000)	-	1,295,000	235,000
Wayne County Sewage Disposal System, 1999							
CSO Basin Series C Refunding Bonds							
Amount of Issue - \$6,390,000	3.75% -						
Maturing through 11/2015	4.80%	3,420,000	-	(505,000)	-	2,915,000	530,000
1994 State Revolving Fund Loan **							
Amount of Issue - \$2,590,000							
Maturing through 4/2016	2.00%	885,000	-	-	-	885,000	280,000
CSO Bonds							
Amount of Issue - \$3,200,000	4.0%-						
Maturing through 2026	5.25%	2,840,000	-	(125,000)	-	2,715,000	135,000
2008 SRF Bonds							
Amount of Issue - \$ 21,160,000							
Maturing through 10/2030	2.50%	11,442,265	1,911,670	-	(517,261)	12,836,674	825,000
2010 SRF Bonds (Est. Clean Water Bond)							
Amount of Issue - \$765,000							
Maturing through 4/2030	2.50%	-	13,378	(25,000)	517,261	505,639	30,000
<b>Total Business-type activities</b>		<b>\$ 20,112,265</b>	<b>\$ 1,925,048</b>	<b>\$ (885,000)</b>	<b>\$ -</b>	<b>\$ 21,152,313</b>	<b>\$ 2,035,000</b>

\*A portion of these bonds was defeased during the year ended June 30, 2003.

	Interest Rate Ranges	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
<b>Component Units</b>						
Beech Daly Tax Increment Finance Authority - Road Improvement						
2001 Series Bonds*						
Amount of Issue - \$1,655,000	2.00%					
Maturing through 11/2019	5.00%	\$ 1,045,000	\$ -	\$ (115,000)	\$ 930,000	\$ 110,000
Beech Daly Tax Increment Finance Authority - City Facilities Project						
Series 2006						
Amount of Issue - \$1,300,000	4.6% -					
Maturing through 11/1/2025	5.0%	1,130,000	-	(50,000)	1,080,000	55,000
Brownfield Redevelopment Authority-Tax Incremental Bonds-Series 2006						
Amount of Issue- \$ 4,155,000	6.2%-					
Maturing through 11/2025	6.125%	4,065,000	-	(15,000)	4,050,000	90,000
Downtown Development Authority Promissary Note						
Amount of Issue - \$225,000						
Maturing through 11/2018	0.000%	200,000	-	(25,000)	175,000	25,000
Tax Increment Finance Authority - Justice Center						
Amount of Issue - \$7,660,000	4.000%					
Maturing through 5/2035	8.125%	-	7,660,000	-	7,660,000	170,000
<b>Total Component Units</b>		<b>\$ 6,440,000</b>	<b>\$ 7,660,000</b>	<b>\$ (205,000)</b>	<b>\$ 13,895,000</b>	<b>\$ 450,000</b>

\*A portion of these bonds was defeased during the year ended June 30, 2003.

7) **LONG-TERM DEBT (Continued)**

Under certain circumstances, the issuance of future Enterprise fund bonds is restricted unless "net revenues" meets minimum bond requirements.

The City has pledged its full faith and credit for the bond obligation of the Beech Daly Tax Increment Finance Authority, a component unit.

The City anticipates that 75 percent of the debt service requirement for two of the Act 175 Motor Vehicle Highway bonds (with an outstanding balance of \$570,000 at June 30, 2011) will ultimately be provided by the Tax Increment Finance Authority (TIFA), a component unit

The TIFA's payment of the above described obligations is limited to the amount of TIFA revenue legally available and in excess of the amounts which are required to pay the debt service of the outstanding TIFA bonds, if any. Historically, annual TIFA revenue has, in varying amounts, exceeded the total annual debt service payments for the outstanding TIFA bonds.

Annual debt service requirements to maturity for the above governmental, business type, and component unit bonds and note obligations are as follows:

Year	Governmental Activities			Business-Type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 1,930,000	\$ 342,980	\$ 2,272,980	\$ 2,035,000	\$ 618,497	\$ 2,653,497	\$ 450,000	\$ 902,359	\$ 1,352,359
2013	2,005,000	264,200	2,269,200	1,965,000	556,300	2,521,300	475,000	881,934	1,356,934
2014	1,485,000	180,484	1,665,484	2,030,000	487,167	2,517,167	490,000	859,384	1,349,384
2015	1,290,000	121,338	1,411,338	2,110,000	414,327	2,524,327	510,000	834,909	1,344,909
2016	1,135,000	71,185	1,206,185	2,180,000	338,752	2,518,752	535,000	808,139	1,343,139
2017-2021	580,000	23,780	603,780	6,000,000	1,091,385	7,091,385	2,995,000	3,558,645	6,553,645
2022-2026	-	-	-	4,832,313	277,290	5,109,603	3,935,000	2,534,407	6,469,407
2027-2031	-	-	-	-	-	-	2,280,000	1,464,100	3,744,100
2032-2035	-	-	-	-	-	-	2,225,000	461,500	2,686,500
	<u>\$ 8,425,000</u>	<u>\$ 1,003,967</u>	<u>\$ 9,428,967</u>	<u>\$ 21,152,313</u>	<u>\$ 3,783,718</u>	<u>\$ 24,936,031</u>	<u>\$ 13,895,000</u>	<u>\$ 12,305,377</u>	<u>\$ 26,200,377</u>

**Defeased Debt** – In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$4,930,000 of bonds outstanding are considered defeased.

In prior years, the TIFA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$1,000,000 of bonds outstanding are considered defeased.

**8) RESTRICTED ASSETS**

**Business – Type Activities** – Restricted assets at June 30, 2011 consist of assets held at Wayne County restricted for the following purposes:

City's portion of Rouge River National Wet Weather Demonstration Basin construction	\$ 999,193
City' portion of North Huron Valley/Rouge Valley sewer System Combined Sewer Overflow Basin:	
Equipment replacement	<u>547,133</u>
Total restricted assets	<u>\$ 1,546,326</u>

**9) RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims except workers' compensation. In addition, the City retains risk for general liability claims, as a result of significant deductible levels. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City is uninsured for workers' compensation claims outside of certain limits. The City has purchased insurance for specific occurrences in excess of \$300,000 and occurring within the insurance policy periods.

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

	<u>2011</u>	<u>2010</u>
Estimated Liability - Beginning of Year	\$ 3,341,763	\$ 1,615,142
Estimated claims incurred, including changes in estimates - Net	254,053	2,131,621
Claim Payments	<u>(352,031)</u>	<u>(405,000)</u>
Estimated Liability - End of Year	<u>\$ 3,243,785</u>	<u>\$ 3,341,763</u>

10) **CONTINGENCIES**

**Litigation** - The City is a defendant in several lawsuits and asserted claims. While an estimate of the liability, net of available insurance coverage, related to these matters has been recorded, management and legal counsel believe the City's ultimate exposure with respect to these actions is not currently determinable. Hence, it is reasonably possible that the ultimate costs, if any, related to the resolution of these matters could differ materially from the amounts provided.

**Cost Settlements** - The City receives grants from the State of Michigan and various federal agencies to fund specific projects. Final determination of grant amounts is subject to audit by the responsible agencies. The City does not believe that disallowed costs will exceed amounts provided for disallowances by an amount material to the financial statements.

11) **JOINT VENTURES**

The City is a member of the Nankin Transit Commission, which provides transportation services to 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 approximately \$34,000 for its operations. The City has no material equity interest in the Nankin Transit Commission at June 30, 2011. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission can be obtained from the administrative offices at 37137 Marquette, Westland, Michigan 48185.

The City is also a member of the Central Wayne County Sanitation Authority (the "Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. The City has recorded an investment related to its share of the net asset position of the Authority at (\$1,247) in the government-wide statement of net assets.

The Authority has disposed of part of its assets and paid \$64,140 to the city as its share of the proceeds in July 2011.

Complete financial statements for the Authority can be obtained from the administrative offices at 3759 Commerce Court, Wayne, Michigan 48184.

12) **DEFINED BENEFIT PENSION PLAN**

**Plan Descriptions** - The City contributes to the Police and Fire Retirement System and to the General Employee Retirement System, which are administrators of single-employer public employees' retirement systems that generally cover all full-time police and fire employees and general employees of the City, respectively. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries.

12) **DEFINED BENEFIT PENSION PLAN (Continued)**

**Police and Fire Retirement System**

At July 1, 2009, the date of the most recent actuarial valuation, membership consisted of 57 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 78 current active employees. The plan does not issue a separate financial report.

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

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.53 percent of wages for police officers and 6.00 percent of wages for firefighters. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Cost** – For the year ended June 30, 2011, the City's annual pension cost of \$345,961 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at July 1, 2009 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined based on a five-year smoothed market. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 10 years.

The three-year trend information for the plan is as follows:

	<b>Fiscal Year Ended June 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Police and Fire Retirement System			
Annual pension cost (APC)	\$ 345,961	\$ 361,307	\$ 330,376
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

**12) DEFINED BENEFIT PENSION PLAN (Continued)**

**General Employee's Retirement System**

At July 1, 2010, the date of the most recent actuarial valuation, membership consisted of 48 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 59 current active employees. The plan does not issue a separate financial report

**Contributions** – Plan members' contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of wages except for members of the dispatchers union for whom the amount is 3 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Cost** – For the year ended June 30, 2011, the City's actuarially determined contribution for the plan was \$395,056. The City actually contributed and expensed \$438,726 for its current year contribution. The difference between the required and actual contribution has been used to offset the liability in the government-wide statement of net assets. The annual required contribution was determined as part of an actuarial valuation at July 1, 2010 using the aggregate actuarial cost method. Signification actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 2 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 2 percent. The actuarial value of assets was based on stated contract value for funds invested in the general accounts of an insurance company and market value for funds invested in insurance company separate accounts.

The three-year trend information for the plan is as follows:

	<b>Fiscal Year Ended June 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>General Employees' Retirement System:</b>			
Annual pension cost (APC)	\$ 395,056	\$ 345,988	\$ 345,988
Percentage of APC contributed	75%	100%	93%
Net pension obligation	\$ -	\$ -	\$ 25,790

**13) POST-EMPLOYMENT BENEFITS**

**Plan Description** – The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, the plan has 234 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are to be paid by the employer.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s collective bargaining units. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, they may be financed on a “pay-as-you-go” basis). The retirees contribute varying amounts, as negotiated by collective bargaining units.

**Funding Progress** – For the year ended June 30, 2011, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The valuation’s computed contribution and actual funding are summarized as follows:

Annual Required Contribution	\$ 3,192,885
Interest on Net OPEB Obligation (NOO) to end of year	198,280
NOO amortization adjustment to the ARC	<u>(278,050)</u>
Annual OPEB cost	3,113,115
Amounts Contributed - Payments on current premiums	<u>(1,017,166)</u>
Increase in Net OPEB Obligation	2,095,949
OPEB Obligation - Beginning of Year	4,665,414
OPEB Obligation - End of Year	<u><u>\$ 6,761,363</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation are as follows:

	<b>Fiscal Year Ended Jun 30</b>	
	<b>2011</b>	<b>2010</b>
Annual OPEB Costs	\$ 3,113,115	\$ 2,984,311
Percentage Contributed	32.0%	18.4%
Net OPEB Obligation	\$ 6,761,363	\$ 4,665,414

**13) POST-EMPLOYMENT BENEFITS (Continued)**

The plan has received an actuarial valuation, summarized as follows:

Valuation as of July 1,	2011	2010
Actuarial Value of Assets	\$ -	\$ -
Actuarial Accrued Liability (AAL)	31,461,943	29,503,126
Unfunded AAL (UAAL)	31,461,943	29,503,126
Funded Ratio	0.0%	0.0%

**Actuarial Methods and Assumptions** – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 7 years. The actuarial value of assets was determined using the reported market value of assets. The UAAL is amortized as a level dollar amount. The amortization period as of July 1, 2010 is 30 years.

**14) TAX ANTICIPATION**

On June 7, 2011, the city borrowed a total of \$1,100,000 in tax anticipation notes. The notes bear interest at a per annum rate of 1.90 percent, and matures September 15, 2011. At June 30, 2011, the City owed a balance of \$1,100,000 plus interest. Subsequent to the year end, the City repaid the \$1,100,000 tax anticipation notes plus interest due of \$5,806.

**15) FUND BALANCE RESTATEMENT**

During 2011, various items were noted and identified that related to prior year activity. In an effort to properly reflect beginning fund balances, June 30, 2010 fund balances have been restated to include these additionally identified items.

<u>Fund</u>	<u>Fund Balance June 30, 2010</u>	<u>Fund Balance June 30, 2010 as restated</u>
General	\$ 1,991,668	\$ 1,233,633
Major Streets	\$ 1,621,603	\$ 1,733,560
Local Streets	\$ 981,066	\$ 842,734
Parks	\$ 286,980	\$ 282,096
Grants	\$ (297)	\$ (52,552)
Water & Sewer	\$ 27,689,452	\$ 26,259,320
Information Technology	\$ 12,894	\$ (45,470)
Garage	\$ 346,997	\$ 370,905
Brownfield (Component Unit)	\$ (4,200,156)	\$ (4,147,200)
TIFA (Component Unit)	\$ 1,674,630	\$ 2,457,744

**REQUIRED SUPPLEMENTAL INFORMATION**

# City of Inkster, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property Taxes	\$7,990,801	\$ 7,990,801	\$ 6,686,889	\$(1,303,912)
Licenses and Permits	351,375	351,375	306,552	(44,823)
Federal Grants	-	-	689,984	689,984
State-Shared Revenues and Grants	3,884,475	3,910,659	3,968,250	57,591
Charges for Services	965,690	938,490	638,079	(300,411)
Interest	70,000	70,000	22,697	(47,303)
Administrative Charges and Other Revenue	4,584,671	5,479,671	4,200,950	(1,278,721)
Total Revenue	17,847,012	18,740,996	16,513,401	(2,227,595)
<b>Expenditures</b>				
General Government	4,854,165	4,946,571	5,383,990	(437,419)
Public Safety	10,309,060	10,349,060	10,863,186	(514,126)
Highways, Streets, and Public Works	3,228,904	3,229,086	3,241,804	(12,718)
Community and Economic Development	271,843	835,371	716,194	119,177
Total Expenditures	18,663,972	19,360,088	20,205,174	(845,086)
<b>Excess of Revenue Over (Under) Expenditures</b>	(816,960)	(619,092)	(3,691,773)	(3,072,681)
<b>Other Financing Sources (Uses)</b>				
Operating Transfer In (Out)	(288,730)	(288,730)	(505,952)	(217,222)
Total Other Financing Sources (Uses)	(288,730)	(288,730)	(505,952)	(217,222)
<b>Net Change in Fund Balance</b>	(1,105,690)	(907,822)	(4,197,725)	<u><u>\$(3,289,903)</u></u>
<b>Fund Balances - July 1, 2010</b>	1,233,663	1,233,663	1,233,663	
<b>Fund Balances - June 30, 2011</b>	<u><u>\$ 127,973</u></u>	<u><u>\$ 325,841</u></u>	<u><u>\$ (2,964,062)</u></u>	

# City of Inkster, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-Shared Revenues and Grants	\$ 1,550,000	\$ 1,550,000	\$ 1,074,219	\$ (475,781)
Interest	10,000	10,000	153	(9,847)
Administrative Charges and Other Revenue	-	-	67	67
Total Revenue	1,560,000	1,560,000	1,074,372	(485,561)
<b>Expenditures</b>				
Highways, Streets, and Public Works	1,655,724	1,683,494	921,063	762,431
Debt Service	207,871	207,871	208,126	(255)
Total Expenditures	1,863,595	1,891,365	1,129,189	762,176
<b>Excess of Revenue Over (Under) Expenditures</b>	(303,595)	(331,365)	(54,817)	276,548
<b>Other Financing Sources (Uses)</b>				
Operating Transfer In (Out)	155,903	155,903	(381,172)	537,075
<b>Net Change in Fund Balance</b>	(147,692)	(175,462)	(435,989)	<u>\$ 813,623</u>
<b>Fund Balances - July 1, 2010</b>	1,733,560	1,733,560	1,733,560	
<b>Fund Balances - June 30, 2011</b>	<u>\$ 1,585,868</u>	<u>\$ 1,558,098</u>	<u>\$ 1,297,571</u>	

# City of Inkster, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property Taxes	\$ 1,862,827	\$ 1,862,827	\$ 1,478,995	\$ (383,832)
State-shared Revenues and Grants	475,000	475,000	456,081	(18,919)
Interest	30,000	30,000	-	(30,000)
Administrative Charges and Other Revenue	-	-	197	197
Total Revenue	<u>2,367,827</u>	<u>2,367,827</u>	<u>1,935,273</u>	<u>(432,554)</u>
<b>Expenditures</b>				
Highways, Streets, and Public Works	1,101,036	1,101,036	886,097	214,939
Debt Service	1,830,439	1,830,439	1,830,439	-
Total Expenditures	<u>2,931,475</u>	<u>2,931,475</u>	<u>2,716,536</u>	<u>214,939</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(563,648)	(563,648)	(781,263)	(217,615)
<b>Other Financing Sources (Uses)</b>				
Operating Transfer In (Out)	(296,500)	(296,500)	537,075	(833,575)
<b>Net Change in Fund Balance</b>	(860,148)	(860,148)	(244,188)	<u>615,960</u>
<b>Fund Balances - July 1, 2010</b>	<u>842,734</u>	<u>842,734</u>	<u>842,734</u>	
<b>Fund Balances - June 30, 2011</b>	<u>\$ (17,414)</u>	<u>\$ (17,414)</u>	<u>\$ 598,546</u>	

# City of Inkster, Michigan

## Required Supplemental Information Pension System Schedules of Funding Progress Year Ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Over/ (Under)-Funded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
<b><u>General Employees' Retirement System</u></b>						
7/1/02	7,062,000	7,062,000	-	100.0	1,949,000	0.0
7/1/03*						
7/1/04	7,177,000	7,177,000	-	100.0	1,884,000	0.0
7/1/05*						
7/1/06	7,991,000	7,991,000	-	100.0	2,134,232	0.0
7/1/07*						
7/1/08	8,781,000	8,781,000	-	68.0	2,016,001	0.0
7/1/09*						
7/1/10	12,112,000	14,071,000	(1,959,000)	86.1	2,208,782	88.0
7/1/11*						
<b><u>Police and Fire Retirement System</u></b>						
7/1/00	26,426,000	22,448,000	3,978,000	117.7	3,805,000	104.5
7/1/01	27,862,000	24,224,000	3,638,000	115.0	4,447,000	81.8
7/1/02	28,489,000	24,758,000	3,731,000	115.0	4,235,000	88.1
7/1/03	28,125,000	25,884,000	2,241,000	108.7	3,842,000	58.3
7/1/04	27,624,000	26,981,000	643,000	100.2	4,687,000	13.7
7/1/05	27,465,000	25,168,000	2,297,000	109.1	4,639,000	49.5
7/1/06	27,460,000	26,195,000	1,265,000	104.8	4,539,000	27.8
7/1/07	28,519,000	27,116,000	1,403,000	105.2	4,473,940	31.3
7/1/08	29,483,000	28,282,000	1,201,000	104.2	4,672,419	25.7
7/1/09	28,721,000	29,428,000	(707,000)	97.6	4,736,464	(14.9)

\* A valuation was not done for the years indicated.

# City of Inkster, Michigan

## Schedule of Employer Contributions Year Ended June 30, 2011

The schedule of funding progress is as follows:

### General Employees' Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
2001	7/1/00	\$ 201,310	100.0
2002	7/1/00	213,736	100.0
2003	7/1/02	327,206	69.0
2004	7/1/02	320,779	96.0
2005	7/1/04	454,487	87.2
2006	7/1/04	454,487	100.0
2007	7/1/06	329,381	100.0
2008	7/1/06	329,381	98.1
2009	7/1/08	345,988	93.0
2010	7/1/08	345,988	95.9
2011	7/1/10	395,056	87.6

### Police and Fire Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
2000	7/1/98	242,903	100.0
2001	7/1/99	290,625	100.0
2002	7/1/00	353,356	100.0
2003	7/1/01	464,781	100.0
2004	7/1/02	451,695	100.0
2005	7/1/03	485,107	100.0
2006	7/1/04	121,130	100.0
2007	7/1/05	185,035	100.0
2008	7/1/06	320,265	100.0
2009	7/1/07	314,347	100.0
2010	7/1/08	361,307	100.0
2011	7/1/09	345,961	100.0

\* The City's policy is to calculate a percentage of payroll, at which it will make its employer plan contributions such that the resultant contribution amount is within the range of the alternatives presented in the actuarial valuations. The contribution amounts presented represent the actual contributions recorded by the City in the respective fiscal years.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2009, the latest actuarial valuation date, follows:

### General Employees' Retirement System

Actuarial Cost Method	Projected Unit Credit
Amortization Method	N/A
Amortization Period (perpetual)	N/A
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return*	7.0%
Projected Salary Increases*	2%
* Includes Inflation at	2%
Cost of Living Adjustments	None

### Police and Fire Retirement System

Actuarial Cost Method	Individual entry age
Amortization Method	Level percent of payroll, open
Remaining Amortization Period	10 years open or 25 years closed
Asset Valuation Method	Five-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return**	8.00%
Projected Salary Increases**	7% to 4% age graded
** Includes Inflation at	4%
Cost of Living Adjustments	None

**Budgetary Information** – The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the department level. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2011 has not been calculated. During the current year, the budget, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Financing proceeds related to debt issuance have been included in the “revenue” category rather than as “other financing sources.”

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

	<u>Budget</u>	<u>Actual</u>
General Government - General Fund	\$ 4,946,571	\$ 5,383,990
Public Safety - General Fund	10,349,060	10,863,186
Highways, Streets, and Public Works - General Fund	3,229,086	3,241,804
Debt Service - Major Street	207,871	208,126

## **OTHER SUPPLEMENTAL INFORMATION**

**City of Inkster, Michigan**

**Other Supplemental Information  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2011**

	Non-Major Special Revenue Funds			Non-Major Capital Projects Fund		Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement	Parks & Recreation	Capital Projects		
<b>Assets</b>						
Cash And Investments	\$ 50	\$ 1	\$ -	\$ -	\$ -	\$ 51
Accounts Receivables	18,941	-	-	-	-	18,941
Due from Other Governments	-	-	84,543	-	-	84,543
Due from Other Funds	-	104,843	-	-	-	104,843
<b>Total Assets</b>	<b>\$ 18,991</b>	<b>\$ 104,844</b>	<b>\$ 84,543</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 208,378</b>
<b>Liabilities And Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 7,299	\$ 78,909	\$ 63,408	-	-	\$ 149,616
Accrued and Other Liabilities	-	-	20,168	-	-	20,168
Due to Other Funds	11,642	-	-	-	-	11,642
Deferred Revenue	18,991	-	-	-	-	18,991
<b>Total Liabilities</b>	<b>37,932</b>	<b>78,909</b>	<b>83,576</b>	<b>-</b>	<b>-</b>	<b>200,417</b>
<b>Fund Balances - (Deficit)</b>						
Restricted	-	25,935	967	-	-	26,902
Unassigned	(18,941)	-	-	-	-	(18,941)
<b>Total Fund Balances (Deficit)</b>	<b>(18,941)</b>	<b>25,935</b>	<b>967</b>	<b>-</b>	<b>-</b>	<b>7,961</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ 18,991</b>	<b>\$ 104,844</b>	<b>\$ 84,543</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 208,378</b>

**City of Inkster, Michigan**

**Other Supplemental Information  
Combining Statement of Revenue,  
Expenditures and Changes in  
Fund Balances  
Non-Major Governmental Funds  
Year Ended June 30, 2011**

	Non-Major Special Revenue Funds			Non-Major Capital Projects Fund	Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement	Parks & Recreation	Capital Projects	
<b>Revenue</b>					
Property Taxes	\$ -	\$ -	\$ 568,265	\$ -	\$ 568,265
Federal Grants	363,888	-	-	-	363,888
Other		164,125	145,328	70,875	380,328
<b>Total Revenue</b>	<u>363,888</u>	<u>164,125</u>	<u>713,593</u>	<u>70,875</u>	<u>1,312,481</u>
<b>Expenditures</b>					
Public Safety	-	229,596	-	-	229,596
Community and Economic Development	330,277	-	-	-	330,277
Highways, Streets, and Public Works	-	-	-	171,597	171,597
Recreation and Culture	-	-	1,260,010	-	1,260,010
<b>Total Expenditures</b>	<u>330,277</u>	<u>229,596</u>	<u>1,260,010</u>	<u>171,597</u>	<u>1,991,480</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	<u>33,611</u>	<u>(65,471)</u>	<u>(546,417)</u>	<u>(100,722)</u>	<u>(678,999)</u>
<b>Other Financing Sources/Expenses</b>					
Operating Transfers In	-	-	265,288	44,067	309,355
Operating Transfers (Out)	-	-	-	-	-
<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>265,288</u>	<u>44,067</u>	<u>309,355</u>
Net Change in Fund Balance	33,611	(65,471)	(281,129)	(56,655)	(369,644)
<b>Fund Balances - July 1, 2010 - as restated</b>	<u>(52,552)</u>	<u>91,406</u>	<u>282,096</u>	<u>56,655</u>	<u>377,605</u>
<b>Fund Balances - June 30, 2011</b>	<u>\$ (18,941)</u>	<u>\$ 25,935</u>	<u>\$ 967</u>	<u>\$ -</u>	<u>\$ 7,961</u>

**Other Supplemental Information  
Combining Statements of  
Net Assets Fiduciary Funds  
June 30, 2011**

	<u>Pension Trust Funds</u>		
	<u>General Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>	<u>Total</u>
<b>Assets</b>			
Investments:			
Corporate bonds	\$ -	\$ 8,662,694	\$ 8,662,694
U.S. Government Securities	-	291,660	291,660
U.S. Government Agency Securities	-	3,404,486	3,404,486
Common and Preferred Stock	-	13,036,426	13,036,426
Pension Guarantee Contract Pooled Fund	9,887,852	-	9,887,852
Bank Investment Pools and Pooled Investment Fund	50,974	1,706,416	1,757,390
Receivables	90,793	82,771	173,564
Total Assets	<u>\$ 10,029,619</u>	<u>\$ 27,184,453</u>	<u>\$ 37,214,072</u>
<b>Liabilities</b>			
Due to Broker Account	-	232,267	232,267
Total Liabilities	<u>\$ -</u>	<u>\$ 232,267</u>	<u>\$ 232,267</u>
<b>Net Assets - Held in Trust for Employee Pension Benefits</b>	<u>\$ 10,029,619</u>	<u>\$ 26,952,186</u>	<u>\$ 36,981,805</u>

# City of Inkster, Michigan

## Other Supplemental Information Combining Statements of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2011

	General Employees' Retirement System	Police and Fire Retirement System	Total
<b>Additions</b>			
Investment Income:			
Interest and Dividends	\$ 471,920	\$ 726,863	\$ 1,198,783
Net Increase (decrease) in Fair Value of Investments	359,123	3,294,470	3,653,593
Net Investment Income (Loss)	831,043	4,021,333	4,852,376
Contributions:			
Employer	438,726	345,961	784,687
Employee	123,135	354,864	477,999
Total Additions	1,392,904	4,722,158	6,115,062
<b>Deductions</b>			
Benefit Payments	601,172	1,931,404	2,532,576
Refunds of Contributions	-	(21,660)	(21,660)
Administrative Expenses	58,560	207,023	265,583
Total Deductions	659,732	2,116,767	2,776,499
<b>Net Increase (Decrease)</b>	733,172	2,605,391	3,338,563
<b>Net Assets - Held in Trust for Pension Benefits</b>			
Beginning of Year	9,296,447	24,346,795	33,643,242
End of Year	\$ 10,029,619	\$ 26,952,186	\$ 36,981,805



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To the City Council  
City of Inkster, Michigan

In planning and performing our audit of 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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, 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 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 identified as #1 - #11 in Exhibit A in the City's internal control to be material weaknesses.

This communication is intended solely for the information and use of management and the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Alan C. Young & Assoc.*

December 29, 2011

**1) EXPENDITURES IN EXCESS OF BUDGET**

For the fiscal year ended June 30, 2011 the City incurred expenditures in excess of budget in a myriad of expenditure line items. The incurrence of expenditures in excess of budget at the department level is a violation of Michigan law. It appears that throughout the year a formal process of reviewing expenditures and comparing them to the budget was not being followed. Without such a process and the corresponding checks and balances, it becomes nearly impossible to have reliable knowledge and information of the City's financial position.

We recommend that appropriate internal financial reports be provided to City Council on a regular basis. These reports should contain a comparison of actual revenues and expenditures to budgeted levels, and should also contain a comparison to prior year revenues and expenditures to budgeted levels, and should also contain a comparison to prior year revenues and expenditures through the same period of time. The availability of such reports, and the ability to analyze them on a timely basis, is one of the essential requirements for maintaining fiscal accountability.

**2) BANK RECONCILIATIONS**

During the year, bank reconciliations were performed on a timely basis, but were incomplete as they often included unreconciled differences approaching \$10,000. Not fully investigating and properly resolving reconciling items increases the potential for errors or unauthorized transactions to exist and not be detected, or not be detected timely.

We recommend that the City place a high priority on the preparation of timely and accurate bank reconciliations. The accounts should be completely reconciled and all variances should be identified and investigated. The preparation of timely and accurate bank reconciliations is the cornerstone of any effective system of internal controls.

**3) GENERAL LEDGER REVIEW AND RECONCILIATION**

Subsequent to year-end, numerous and significant adjustments were made to a large number of accounts within the City's general ledger. Accordingly, throughout the year it would have been difficult to impossible for any users of the City's internal financial information to recognize and understand the nature of the City's 2011 fiscal challenges given the absence of any formal financial review process (described in item #1). Combined with the lack of formal review and numerous errors in account balances, the City's fiscal situation remained, generally unknown until near the end of the fiscal year and too late to implement corrective actions to rectify the situation.

We recommend that general ledger accounts be reconciled on a monthly basis. The general ledger should then be reviewed by someone independent of the person who performed the reconciliation. It will be critical for the City to have reliable internal financial information in order to track their progress against their deficit elimination plan.

**4) PURCHASE ORDERS**

During our procedures we noted the City did not properly utilize their purchase order system. In general, a purchase order should be generated prior to ordering goods or services in order to ensure the propriety of the purchase before it is made. However, we noted several instances where the purchase order was not created until after the purchase of goods/services was made. This process defeats and minimizes the internal control benefits associated with a properly functioning purchase order system.

We recommend that the City follow its prescribed procedures and requirements regarding the use of purchase orders. Purchase orders should be created prior to the purchase of goods/services rather than after the fact.

**5) WATER AND SEWER REVENUES**

During our procedures, we noted that a portion of the city's revenue for water & sewer penalties was recorded as water/sewer revenue rather than as penalties as it should have been. Although this was strictly a classification issue and had no affect on total revenue, the misclassification could affect internal analyses of the fund's performance.

We recommend the City perform regular reviews and reconciliations of account balances in order to identify mispostings or misclassifications on a timely basis.

**6) FIXED ASSETS**

During our analysis of fixed assets, we noted that the City does not maintain a complete, detailed fixed asset listing/registry. Assets are shown by total amounts per year, and there is a lack of detail maintained relative to individual assets.

We recommend that the City improve their record keeping for fixed assets. Specific detail should be maintained for every fixed asset documenting at minimum: cost, date of purchase and depreciable life. Maintaining accurate and complete data for each fixed asset will greatly improve the informational value of internally generated financial data.

**7) SEGREGATION OF DUTIES**

As part of our analysis of the City's payroll process, we noted that the payroll clerk enters employee time into the system, and also has the ability to change or modify pay rates. There is no specific compensating controls to mitigate this control weakness.

We recommend that no one individual have the ability to enter employee time into the payroll system and also have the ability to modify employee pay rates. These duties should be full segregated, or a compensating control established, in order to reduce the opportunity/likelihood of improper payroll data being entered into the payroll system.

**8) VEHICLE PURCHASES**

During our procedures, we noted an instance where the purchase price for vehicles exceeded the amount authorized through City Council resolution. No evidence was provided authorizing the higher amount. Although the variance was only approximately \$11,000 (\$100,000 authorized vs. \$111,000 expended), the amount authorized by City Council should not be superseded out of expediency.

We recommend that no purchases in excess of City Council resolution be made other than cases of nominal overages, which should be quantified and documented in the city's procurement policy. This will ensure purchases and purchase amounts are in line with City Council authorizations and expectations.

**9) PHYSICAL INVENTORY OF SUPPLIES**

During our examination of the City's supplies (used for the maintenance of the vehicle and equipment fleet) account balances, we noted a physical inventory was not conducted until nearly five (5) months after the year end date and no supporting documentation was provided that detailed the increases or decreases to supply inventory from the balance sheet date to the date of the physical inventory. Generally accepted accounting principles generally require that a physical inventory be conducted at the year end date or a date near the year end date to ensure the inventory account balances recorded in the financial records agree with the actual inventory on hand. Because a physical inventory was not conducted at or near the year end date, it increases the risk that differences between the actual inventory of on-hand could exist and the financial records not be properly adjusted causing the inventory account balances to be misstated.

We recommend the City adopt a policy that require a physical inventory of supplies each year at or near the year end date, to ensure the supplies inventory account balances in the financial records agree with the actual supplies on-hand at the year end date.

**10) ACCESS TO DAILY RECEIPTS ELECTRONIC RECORDS**

During our testing of the City's daily receipts we found an instance where the daily receipts total did not agree with the amount deposited in the bank for the same date. After inquiry and investigation, we found that a cashier clerk in the Treasurer's Office had adjusted the applicable daily cash receipts records 24 days later and added a receipt in the amount of \$175.36, which was the exact amount of the difference in the amount deposited in the bank. Though this amount was not significant, allowing cashier clerks to have access to modify or adjust previous day's receipts increase the risk of fraud, theft and misappropriation of receipts and it not be detected, or not be detected timely.

We recommend the City assess the access rights of cashier clerks to daily receipt electronic records and disallow any access to daily receipts after they have been tallied, independently verified and deposited. Minimizing cashier access to only the period of time necessary will significantly increase internal controls of this important area – receipts.

**11) LONG-TERM DEBT PAYMENT**

During our examination of the city's Long-Term Debt, we noted it did not make a required debt principal payment in the amount of \$140,000 on its portion of debt related to a CSO project. Because the debt was actually issued by Wayne County, the county paid the bond holders when the payment was due and they invoiced the City. The City is disputing the need for the payment and believes the County could use money the City has in an escrow account held by the County to pay the debt. By law the escrow money can only be used for repairs and maintenance on these drains. Not making required debt payments when due could bring about lengthy and costly litigation for the City. It also could signal that the City is not able to pay its obligations when due and cause the State of Michigan to view this action negatively.

We recommend the City take appropriate action to resolve this matter and reconsider making the debt payment that is now past-due.



# *Alan C. Young & Associates, P.C.*

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December 29, 2011

To the City Council of  
City of Inkster, Michigan  
Inkster, Michigan

In planning and performing our audit of the financial statements of the City of Inkster (the City) as of and for the year ended June 30, 2011, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Exhibit A, which accompanies this letter, summarizes our comments and suggestions regarding those matters. This letter does not affect our report on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Alan C. Young & Associates, P.C.  
Certified Public Accountants & Consultants

**1. PERSONNEL FILES**

During our procedures we noted numerous instances where the personnel action forms, used to document an employee's pay rate, could not be found in the personnel file. Accordingly, the personnel files did not always contain current pay rate documentation.

We recommend that employee personnel files be updated, as necessary, to include all personnel action forms affecting pay rates as well as other personnel activity.

**2. OUTSTANDING CHECKS**

During our procedures relative to bank reconciliations, we noted the City had a number of outstanding checks that had been issued over a year ago.

We recommend that the City investigate all checks outstanding over a pre-determined period of time. The check can then be voided and re-issued, reclassified or submitted to the state, as necessary.

**3. FIXED ASSET DISPOSAL**

During our audit, we noted that the City has no current documented policy regarding disposal of fixed assets. There is no policy being followed regarding the process for disposing of fixed assets or for recording the related transaction in the City's general ledger.

We recommend the City update their policy on disposal of fixed assets and it include how to record such transactions in the general ledger. This will help ensure there is a defined, and consistent process for the sale/disposal and recording of fixed asset disposals.

**4. IMPAIRMENT TESTING**

During our audit, we noted that the City currently has no process in place to analyze fixed assets for possible impairment as required under generally accepted accounting principles. Although there are no assets we specifically identified as being impaired, the City should analyze fixed assets on an annual basis to determine if any impairment write-downs are necessary.

We recommend that the City develop a formal process for analyzing fixed assets on an annual basis for possible impairments. This will ensure the propriety of fixed asset valuation and also identify any impairment issues on a timely basis.

**5. FIXED ASSET INVENTORY**

During our procedures, we noted the City does not perform an annual or periodic fixed asset inventory and has not done so in some time. Not performing fixed asset inventories reduces the City's control over fixed assets and increases the risk of fixed assets being recorded that are no longer being utilized. It also increases the risk that fixed assets could be stolen or otherwise misappropriated and not be detected, or not detected timely.

We recommend that the City periodically conduct a physical inventory of all City assets on a City-wide basis. This process would ideally be correlated with an effort to improve the City's process for recording fixed assets. This would help ensure the propriety of the City's fixed asset information.

**6. TIMELY CASH RECEIPTS**

During our observation of the City's cash receipt processes, we noted numerous instances where daily receipts, (including cash) were not deposited on a timely basis, in some instances up to five days after the receipt date. The lack of timely deposit of receipts increases the risk of loss or misuse of funds.

We recommend that the City implement a specific and consistent policy for the deposit of cash receipts. Given the financial challenges facing the City, any and all receipts should be deposited on a timely basis to assist with limited cash flow. Additionally, the City should strive to avoid the recurrence of a situation that occurred several years ago where receipts were not deposited on a timely basis and one day's receipts ultimately turned up missing.

**7. WATER AND SEWER FUND**

During the year ended June 30, 2011, the City's water and sewer fund incurred an operating loss in excess of \$3.3 million. This is a devastating outcome that seriously limits the City's ability to properly maintain and operate the systems.

We recommend that the City undertake a significant study on the water and sewer system to determine ways to contain expenses, determine appropriate rates and plan for the long term success of the system.

**8. COMMINGLING OF FUNDS**

At June 30, 2011, the City had significant interfund payable balances to the City's Agency Funds.

Although the City is experiencing significant cash flow issues, we recommend, given the nature of these funds, that the City avoid utilizing Agency Funds to finance City activities.