

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Inkster, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date November 5, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | | |
|---|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Inkster, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Inkster, Michigan

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Independent Auditor's 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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Inkster, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, 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.

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To the City Council
City of Inkster, Michigan

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

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2004 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. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As discussed in Note 14 to the financial statements, the City changed its method of recording interest and penalties on delinquent property taxes in 2004.

Plante & Moran, PLLC

November 5, 2004

City of Inkster, Michigan

Management's Discussion and Analysis

This section of the City of Inkster, Michigan's annual financial report presents our discussion and analysis of the City of Inkster, Michigan's financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the financial statements that follow this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

GENERAL FUND ENDS YEAR WITH AN INCREASE TO FUND BALANCE: As discussed further in the fund financial statement analysis section of this report, the General Fund finished the year ended June 30, 2004 with an increase in fund balance of \$158,528. This left the General Fund with a fund balance at June 30, 2004 of \$1,493,694.

INCREASE IN PROPERTY TAX REVENUES: Property taxes are the City's largest source of revenue to the General Fund. The City's taxable value for 2004 increased 1.30% from 2003's taxable value of \$276,408,505 to a 2004 taxable value of \$284,628,072.

DECREASE IN STATE-SHARED REVENUE: State-shared revenue, the second largest revenue source of the General Fund was again reduced by the State of Michigan from \$4,787,073 in FY03 to \$4,705,112 in FY04.

CONTINUED INCREASE EMPLOYEE BENEFIT COSTS: To offset the increasing cost of employee health insurance, pension contributions, and liability insurance, the City had to eliminate, through a retirement buyout package and layoffs, 15 positions for the 2004 fiscal year. With the elimination of these positions, reductions in capital purchases, and a reduction in the budgeted contributions to the pension plans, the City was able to cut approximately \$1.4 million from the General Fund budget for the 2004 fiscal year.

CARVER HOMES/ANNAPOLIS POINTE PROJECT BEGINS: During FY04, the Carver Homes project began. Activities related to the acquisition of properties within the Carver Homes area began and the property owners are currently being relocated. The City expects to begin construction on the infrastructure in the area in spring of 2005 with the new home construction to begin during the summer of 2005. Capital improvement bonds in the amount of \$2,000,000 were issued during the year to fund a portion of the project costs. The City has committed a portion of its current and future Community Development Block Grant allocations to repay the bonds over the next 10 years.

CSO PHASE II POSTPONED: During the 2004 fiscal year, the City was successful in its appeal to the Michigan Department of Environmental Quality for an extension on the time in which Phase II of the CSO elimination program will be completed. The City was granted an extension until 2013 to begin construction of the Phase II project and until 2015 for completion. In August 2003, Inkster voters overwhelmingly approved an additional tax levy to fund the Phase II project.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

Shortly after the election, the City was notified that our extension request had been approved and thus the issuance of bonds will not be necessary until 2013.

Using this Annual Financial Report

This annual financial report consists of a management's discussion and analysis (this section), the basic financial statements, and other required supplementary information. In the basic financial statements section are two sets of financial statements along with the notes to the financial statements. A discussion on each set of financial statements follows.

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 10-12. These statements provide both long- and short-term information about the City's overall financial status and are prepared on a full accrual basis.

The following tables present, in a condensed format, the government-wide net assets (see Table 1) and changes in net assets (see Table 2) of the City as of June 30, 2004 and are compared to the prior fiscal year.

The Government-wide Financial Statements

The following table shows, in a condensed format, the government-wide net assets of the City as of June 30, 2004 and is compared to the prior year:

TABLE 1

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current assets	\$ 8,656,848	\$ 8,634,721	\$ 6,277,470	\$ 7,134,230	\$ 14,934,318	\$ 15,768,951
Restricted assets	3,298,023	4,661,047	1,084,400	949,751	4,382,423	5,610,798
Capital assets	<u>15,080,396</u>	<u>13,436,443</u>	<u>29,702,843</u>	<u>30,503,885</u>	<u>44,783,239</u>	<u>43,940,328</u>
Total assets	27,035,267	26,732,211	37,064,713	38,587,866	64,099,980	65,320,077
Liabilities:						
Current liabilities	4,948,900	5,120,758	1,990,756	2,760,994	6,939,656	7,881,752
Long-term liabilities	<u>13,366,642</u>	<u>11,231,084</u>	<u>9,939,852</u>	<u>10,728,849</u>	<u>23,306,494</u>	<u>21,959,933</u>
Total liabilities	<u>18,315,542</u>	<u>16,351,842</u>	<u>11,930,608</u>	<u>13,489,843</u>	<u>30,246,150</u>	<u>29,841,685</u>
Net assets:						
Invested in capital assets -						
Net of related debt	9,145,068	10,563,382	20,118,750	20,014,503	29,263,818	30,577,885
Restricted	3,280,486	2,778,679	118,118	118,118	3,398,604	2,896,797
Unrestricted (deficit)	<u>(3,705,829)</u>	<u>(2,961,692)</u>	<u>4,897,237</u>	<u>4,965,402</u>	<u>1,191,408</u>	<u>2,003,710</u>
Total net assets	<u>\$ 8,719,725</u>	<u>\$ 10,380,369</u>	<u>\$ 25,134,105</u>	<u>\$ 25,098,023</u>	<u>\$ 33,853,830</u>	<u>\$ 35,478,392</u>

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

As shown in this table, the City of Inkster, Michigan's total net assets decreased slightly from a year ago. Net assets decreased from \$35,478,392 to \$33,853,830.

The following table shows the changes of the net assets during the years ended June 30, 2004 and June 30, 2003:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 3,317,160	\$ 2,864,316	\$ 6,357,665	\$ 6,364,741	\$ 9,674,825	\$ 9,229,057
Operating grants and contributions	3,615,860	2,443,194	-	-	3,615,860	2,443,194
Capital grants and contributions	-	-	-	34,611	-	34,611
General revenue:						
Property taxes	7,153,755	6,762,105	1,109,665	1,101,647	8,263,420	7,863,752
State-shared revenue	4,715,786	4,787,073	-	-	4,715,786	4,787,073
Unrestricted investment earnings	99,478	97,925	17,052	30,066	116,530	127,991
Franchise fees	331,202	189,135	-	-	331,202	189,135
Miscellaneous	152,221	155,796	-	-	152,221	155,796
Total revenue	19,385,462	17,299,544	7,484,382	7,531,065	26,869,844	24,830,609
Program Expenses						
General government	5,778,519	4,866,955	-	-	5,778,519	4,866,955
Public safety	7,740,363	9,500,940	-	-	7,740,363	9,500,940
Public works	6,973,671	4,073,906	-	-	6,973,671	4,073,906
Recreation and culture	547,486	949,183	-	-	547,486	949,183
Interest on long-term debt	227,706	118,278	-	-	227,706	118,278
Water and sewer	-	-	7,448,300	6,874,361	7,448,300	6,874,361
Total program expenses	21,267,745	19,509,262	7,448,300	6,874,361	28,716,045	26,383,623
Change in Net Assets	\$ (1,882,283)	\$ (2,209,718)	\$ 36,082	\$ 656,704	\$ (1,846,201)	\$ (1,553,014)

Governmental activities include the City's General Fund and Major and Local Streets Funds and other governmental funds. These funds account for all general government activities.

The City's total governmental revenues increased \$2,085,868 from \$17,299,594 to \$19,385,462. This amount represents a 12% increase and is due primarily to increases in grant revenues and charges for services.

Business-type activities are comprised of the Utility Fund. This fund accounts for the water and sewage disposal services provided to City of Inkster residents. Water is purchased from the City of Detroit Water System and sewage treatment and disposal is provided by the Wayne County Rouge Valley Sewage Disposal System.

Charges to the City by Detroit for water and Wayne County for sewage treatment and disposal along with the City's operational and maintenance costs are reviewed annually to set the water and sewer rates for the fiscal year. Due to increases in charges by Detroit and Wayne County of .5% for water and 9% for sewer that went into effect July 1, 2003, water rates had to be increased to Inkster customers by 6.15%.

During the year, the Utility Fund had an overall increase in net assets of \$36,082.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The second set of financial statements included in this report are the fund financial statements, which are found on pages 13-20. These statements present a short-term view and tell how city services were financed during the year as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City's funds are created to manage money earmarked for specific purposes as well as to show accountability for certain activity. The Fiduciary Funds statements provide information about activities for which the City of Inkster, Michigan acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The major funds for fiscal year ending June 30, 2004 include the General Fund, Major Streets Fund, and Local Streets Fund. The General Fund accounts for most of the City's governmental services including public safety, public works, recreation, library, and general government. The Major and Local Streets Funds account for funds required by statute for use on maintenance of major and local streets within the City.

General Fund Budgetary Highlights

Before beginning the discussion on the General Fund budget, review the following table. This table shows the prior year actual results, the original budget, the amended budget, the current year actual results, and the budget for the next year.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

	FY03 AUDITED ACTUAL	FY04 ORIGINAL BUDGET	FY04 AMENDED BUDGET	FY04 AUDITED ACTUAL
REVENUES:				
Property Taxes	\$ 6,619,040	\$ 6,925,000	\$ 6,800,000	\$ 7,017,046
Licenses/Permits	196,324	249,000	249,000	243,253
Federal Grants	26,368			350,307
State Revenues/Grants	4,903,802	4,816,400	4,943,400	4,916,437
Charges for Services	1,744,623	1,669,000	1,779,000	2,175,794
Interest Earnings	61,885	75,000	57,000	47,327
Admin Charges/Other	1,421,595	1,745,500	1,851,710	1,729,786
Bond Proceeds/Carver Homes		-	-	2,000,000
Transfer from Garage Fund	300,000	300,000	300,000	300,000
TOTAL REVENUES	\$ 15,273,637	\$ 15,779,900	\$ 15,980,110	\$ 18,779,950
EXPENDITURES:				
General Government	\$ 2,440,591	\$ 2,230,839	\$ 2,375,931	\$ 2,336,131
Public Safety	7,165,655	6,550,329	6,972,329	6,990,064
Public Works	2,670,925	2,532,203	2,651,073	2,704,037
Recreation/Library	753,686	706,136	704,086	588,883
Grant Expenditures		96,000	96,000	380,737
Brownfield bond Expense				1,981,686
Non-departmental (see below)	3,832,051	3,692,000	3,324,200	3,639,874
TOTAL EXPENDITURES	\$ 16,862,908	\$ 15,807,507	\$ 16,123,619	\$ 18,621,412
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,589,271)	\$ (27,607)	\$ (143,509)	\$ 158,538
NON-DEPARTMENTAL EXPENDITURES SUMMARY:				
Group Health Insurance	\$ 1,742,861	\$ 1,978,500	\$ 1,795,500	\$ 1,795,941
Liab. Insurance & Settlements	492,704	600,000	600,000	625,424
Workers Compensation	396,565	254,000	254,000	249,125
Uncollectible Taxes	11,506	400,000	16,572	70,155
Capital Improvements	350,768	-	191,627	235,453
Other	837,647	459,500	466,501	663,776
TOTAL NON-DEPARTMENTAL	\$ 3,832,051	\$ 3,692,000	\$ 3,324,200	\$ 3,639,874

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

As shown, during FY03 the actual General Fund revenues were \$15,273,637 and were \$1,589,271 short of expenditures of \$16,862,908.

The original FY04 budget projected revenues at \$15,779,900 and expenditures at \$15,807,507. The original budget projected a use of fund balance of \$27,607.

The FY04 budget was closely monitored throughout the year. Extensive reviews and budget amendments were performed after each quarter. During the quarterly budget reviews, it was determined that certain revenue line items would exceed the original projections. The budget was amended to increase the projected revenues by \$200,210 from \$15,779,900 to \$15,980,110. The increase in budgeted revenues was mainly for state grants, ambulance fees, and court collections for tickets and fines.

Also during these reviews, it became apparent that certain expenditures would be more than originally projected. The budget for expenditures was increased by \$316,112 from \$15,807,507 to \$16,123,619. After receipt of the FY2003 audit report, it became apparent that the budgeted amount for uncollectible taxes would not be needed. Thus, management decided to amend the budget to resume the funding of the pension plans to the rate recommended by the actuaries. Also, due to the settlement of union contracts that affected salaries for police and fire personnel, the budget had to be amended to increase salaries for the raises granted in arbitration.

The actual results for the year were \$302,047 more favorable than anticipated. Actual revenues (excluding the bond proceeds of \$2,000,000) for the year were \$779,840 more than anticipated (budget \$15,980,110 and actual \$16,779,950). Actual expenditures were \$516,107 more than anticipated (budget \$16,123,619 and actual \$16,639,726). Thus, instead of an anticipated use of fund balance of \$143,509 the City added to the General Fund balance \$158,538.

Capital Asset and Debt Administration

As shown in the statement of net assets (see page 10) and detailed in Note 5, at the end of fiscal year 2004, the City (excluding the component units) had \$44,783,239 (net of depreciation) invested in capital assets. These assets include land and buildings, police and fire vehicles and equipment, the City fleet, streets, sidewalks, playgrounds, water and sewer lines, CSO basin, etc. The debt related to the acquisition and construction of these assets at June 30, 2004 was \$19,336,375 with \$1,653,889 of this debt due to be paid within the next year. A detailed listing of all City debt can be found in Note 7.

During the year, the long-term debts of the City increased by approximately \$363,000. This was due primarily to the issuance of bonds for the Carver Homes project.

City of Inkster, Michigan

Management's Discussion and Analysis (Continued)

In November 2002, the residents of the City of Inkster, Michigan overwhelmingly voted for an additional tax levy for debt service on \$15,000,000 in bonds to be issued in three series over the next 10 years for financing local street improvements. The first series of bonds in the amount of \$5,000,000 were issued in March 2003. An assessment of the condition of all local streets within the City was used to prioritize the streets to be resurfaced. The improvement program began in April 2003. The second series of bonds in the amount of \$5,000,000 is expected to be issued in the fall of 2005. The local street improvements will continue over the next 10 years.

Economic Factors and Next Year's Budget

The FY05 General Fund budget projects revenues at \$15,658,350 and expenditures at \$15,676,568. The FY05 budgeted revenues project a continued decrease in state revenue sharing, a small increase in property taxes at the inflation rate, and a small increase in interest rates for the FY05 fiscal year.

The goal of the 2005 budget is to continue to keep expenditures in line with the City's limited resources without the use of fund balance.

As was done with the FY04 budget, the FY05 budget will be reviewed and amended as needed on a quarterly basis. As we are now near the end of the second quarter, the administration is preparing for the second quarter budget amendment recommendations to be presented to the City Council in late January.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Inkster, Michigan

Statement of Net Assets (Deficit) June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,337,008	\$ 2,260,545	\$ 6,597,553	\$ 309,338
Receivables - Net:				
Customers	-	3,522,830	3,522,830	-
Taxes receivables	856,907	-	856,907	-
Long-term receivable from TIFA (Note 4)	1,407,047	-	1,407,047	-
Other	224,242	-	224,242	-
Internal balances (Note 6)	85,963	(85,963)	-	-
Due from component units	49,897	-	49,897	-
Due from other governmental units	1,681,935	83,157	1,765,092	-
Due from primary government	-	-	-	7,160
Inventories	13,849	188,994	202,843	-
Deferred bond issuance costs	-	307,907	307,907	-
Restricted assets (Note 8)	3,298,023	1,084,400	4,382,423	1,733,033
Capital assets - Net (Note 5)	15,080,396	29,702,843	44,783,239	-
Total assets	27,035,267	37,064,713	64,099,980	2,049,531
Liabilities				
Accounts payable	1,665,905	1,024,203	2,690,108	15,289
Liabilities to be paid from restricted assets:				
Accounts payable	565,469	-	565,469	48,061
Due to primary government	-	-	-	57,057
Accrued and other liabilities	456,713	237,912	694,625	-
Deferred revenue (Note 4)	69,990	-	69,990	-
Debt - Due within one year (Note 7)	925,248	728,641	1,653,889	201,250
Other noncurrent liabilities - Due within one year	1,265,575	-	1,265,575	-
Noncurrent liabilities:				
Joint venture deficit (Note 11)	770,385	-	770,385	-
Estimated workers' compensation and other claims	3,179,058	-	3,179,058	-
Accrued retired police and fire employee benefits	107,575	-	107,575	-
Accrued employee benefits	887,990	-	887,990	-
Estimated property tax chargebacks	679,000	-	679,000	-
Debt - Due in more than one year (Note 7)	7,742,634	9,939,852	17,682,486	2,900,797
Total liabilities	18,315,542	11,930,608	30,246,150	3,222,454
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	9,145,068	20,118,750	29,263,818	-
Restricted:				
Local and major streets	3,121,841	-	3,121,841	-
Drug forfeiture	109,406	-	109,406	-
Debt service	2,520	-	2,520	-
Capital projects	46,719	-	46,719	-
Environmental Protection Agency (Note 8)	-	118,118	118,118	-
Brownfield Authority Project	-	-	-	1,627,915
Unrestricted (deficit)	(3,705,829)	4,897,237	1,191,408	(2,800,838)
Total net assets (deficit)	\$ 8,719,725	\$ 25,134,105	\$ 33,853,830	\$ (1,172,923)

City of Inkster, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,778,519	\$ 2,661,425	\$ 307,136	\$ -
Public safety	7,740,363	620,056	808,376	-
Public works	6,973,671	-	2,500,348	-
Recreation and culture	547,486	35,679	-	-
Interest on long-term debt	227,706	-	-	-
Total governmental activities	21,267,745	3,317,160	3,615,860	-
Business-type activities - Water and sewer	7,448,300	6,357,665	-	-
Total primary government	\$ 28,716,045	\$ 9,674,825	\$ 3,615,860	\$ -
Component units:				
Beech Daly Tax Increment Finance Authority	\$ 214,169	\$ -	\$ -	\$ -
Brownfield Authority	401,705	-	-	2,073,665
Downtown Development Authority	199,584	-	-	-
Total component units	\$ 815,458	\$ -	\$ -	\$ 2,073,665
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				

Change in Net Assets

Net Assets (Deficit) - July 1, 2003 (As restated - Note 14)

Net Assets (Deficit) - June 30, 2004

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,809,958)	\$ -	\$ (2,809,958)	\$ -
(6,311,931)	-	(6,311,931)	-
(4,473,323)	-	(4,473,323)	-
(511,807)	-	(511,807)	-
(227,706)	-	(227,706)	-
(14,334,725)	-	(14,334,725)	-
-	(1,090,635)	(1,090,635)	-
(14,334,725)	(1,090,635)	(15,425,360)	-
-	-	-	(214,169)
-	-	-	1,671,960
-	-	-	(199,584)
-	-	-	1,258,207
7,153,755	1,109,665	8,263,420	548,284
4,715,786	-	4,715,786	-
99,478	17,052	116,530	10,704
331,202	-	331,202	-
152,221	-	152,221	-
12,452,442	1,126,717	13,579,159	558,988
(1,882,283)	36,082	(1,846,201)	1,817,195
10,602,008	25,098,023	35,700,031	(2,990,118)
\$ 8,719,725	\$ 25,134,105	\$ 33,853,830	\$ (1,172,923)

City of Inkster, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 480,687	\$ 2,790,955	\$ (24,602)	\$ 469,042	\$ 3,716,082
Receivables - Net:					
Taxes receivables	856,907	-	-	-	856,907
Long-term receivable from TIFA	-	1,407,047	-	-	1,407,047
Other	128,879	-	-	42,128	171,007
Restricted assets (Note 8)	-	-	3,298,023	-	3,298,023
Due from other funds	712,478	19,680	59,945	106,769	898,872
Due from component unit	49,897	-	-	-	49,897
Due from other governments	1,253,001	204,622	86,854	131,744	1,676,221
Inventories	3,659	-	-	-	3,659
Total assets	\$ 3,485,508	\$ 4,422,304	\$ 3,420,220	\$ 749,683	\$ 12,077,715
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 1,528,229	\$ 10,190	\$ 5,423	\$ 62,614	\$ 1,606,456
Liabilities to be paid from restricted assets	-	-	565,469	-	565,469
Accrued and other liabilities	327,256	-	-	-	327,256
Due to other funds	136,329	-	-	458,434	594,763
Deferred revenue	-	1,407,047	-	69,990	1,477,037
Total liabilities	1,991,814	1,417,237	570,892	591,038	4,570,981
Fund Balances					
Reserved:					
Unspent bond proceeds in the					
Local Streets Fund	-	-	2,732,554	-	2,732,554
Inventories	3,659	-	-	-	3,659
Unreserved, reported in General Fund -					
Designated for property tax chargebacks	679,000	-	-	-	679,000
Unreserved, undesignated, reported in:					
General Fund	811,035	-	-	-	811,035
Special Revenue Funds	-	3,005,067	116,774	109,406	3,231,247
Debt Service Fund	-	-	-	2,520	2,520
Capital Projects Funds	-	-	-	46,719	46,719
Total fund balances	1,493,694	3,005,067	2,849,328	158,645	7,506,734
Total liabilities and fund balances	\$ 3,485,508	\$ 4,422,304	\$ 3,420,220	\$ 749,683	

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	14,290,515
Accounts receivable from the Tax Increment Finance Authority will be collected over several years and are not available to pay for current year expenditures	1,407,047
General employee pension plan liability not paid in the current period and not reported in the funds	(113,846)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(15,424,583)
Internal Service Funds are included as part of governmental activities	1,053,858
Net assets of governmental activities	\$ 8,719,725

City of Inkster, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Major Streets Fund	Local Streets Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 7,017,046	\$ -	\$ 597,217	\$ 136,709	\$ 7,750,972
Licenses and permits	243,253	-	-	-	243,253
Federal grants	350,307	-	66,106	589,139	1,005,552
State revenues and grants	4,916,437	1,229,188	511,050	20,513	6,677,188
Charges for services	2,175,794	249,300	-	-	2,425,094
Interest	47,327	18,393	25,632	4,448	95,800
Administrative charges and other revenue	1,729,786	-	-	159,696	1,889,482
Total revenue	16,479,950	1,496,881	1,200,005	910,505	20,087,341
Expenditures					
Current:					
General government	2,336,131	-	-	-	2,336,131
Public safety	6,990,064	-	-	242,738	7,232,802
Highways, streets, and public works	2,704,037	584,656	2,548,536	-	5,837,229
Brownfield expense	1,981,686	-	-	-	1,981,686
Grant expenditures	380,737	-	-	610,578	991,315
Recreation and culture	588,883	-	-	-	588,883
Nondepartmental	3,639,874	-	-	29,589	3,669,463
Debt service	-	279,833	603,893	134,254	1,017,980
Total expenditures	18,621,412	864,489	3,152,429	1,017,159	23,655,489
Excess of Revenue Over (Under) Expenditures	(2,141,462)	632,392	(1,952,424)	(106,654)	(3,568,148)
Other Financing Sources					
Transfer in	300,000	-	-	-	300,000
Proceeds from issuance of bonds	2,000,000	-	-	-	2,000,000
Total other financing sources	2,300,000	-	-	-	2,300,000
Net Change in Fund Balances	158,538	632,392	(1,952,424)	(106,654)	(1,268,148)
Fund Balances - July 1, 2003 (As restated - Note 14)	1,335,156	2,372,675	4,801,752	265,299	8,774,882
Fund Balances - June 30, 2004	\$ 1,493,694	\$ 3,005,067	\$ 2,849,328	\$ 158,645	\$ 7,506,734

City of Inkster, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,268,148)

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	2,835,123
Depreciation expenses	(928,264)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	790,000
---	---------

Bond proceeds reported as long-term debt rather than other financing sources	(2,000,000)
--	-------------

Increase in estimated long-term general liability claims	(137,579)
--	-----------

Increase in joint venture deficit	(770,385)
-----------------------------------	-----------

Decrease in long-term accrued employee sick and vacation pay	23,451
--	--------

Decrease in property tax chargeback accrual	39,000
---	--------

Reimbursement from the TIFA for debt principal payments	(152,513)
---	-----------

Unfunded general employee pension obligation	(11,893)
--	----------

Internal Service Funds are also included as governmental activities	(301,075)
---	-----------

Change in Net Assets of Governmental Activities **\$ (1,882,283)**

City of Inkster, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,260,545	\$ 620,926
Receivables - Net	3,522,830	925
Due from other governmental units	83,157	5,714
Inventories	188,994	10,190
Deferred bond issuance costs	307,907	-
Total current assets	6,363,433	637,755
Noncurrent assets:		
Restricted assets	1,084,400	-
Capital assets	29,702,843	789,881
Total noncurrent assets	30,787,243	789,881
Total assets	37,150,676	1,427,636
Liabilities		
Current liabilities:		
Accounts payable	1,024,203	59,449
Accrued and other liabilities	213,672	15,611
Bonds and deposits	24,240	-
Due to other funds	85,963	165,836
Current portion of long-term debt	728,641	80,248
Total current liabilities	2,076,719	321,144
Noncurrent liabilities - Long-term debt - Net of current portion	9,939,852	52,634
Total liabilities	12,016,571	373,778
Net Assets		
Investment in capital assets - Net of related debt	20,118,750	656,999
Restricted	118,118	-
Unrestricted	4,897,237	396,859
Total net assets	<u>\$ 25,134,105</u>	<u>\$ 1,053,858</u>

City of Inkster, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
Operating Revenue		
Water and sewer user charges	\$ 5,339,216	\$ -
Federal grants	140,201	-
Other charges for services	878,248	1,133,240
	6,357,665	1,133,240
Total operating revenue		
Operating Expenses		
Cost of water	1,071,693	-
Cost of sewage disposal	2,111,017	-
Wages and fringes	481,697	255,626
Operating supplies	47,727	202,976
Equipment rental	375,000	-
Contractual services	955,483	206,519
Repairs and maintenance	437,672	126,086
Insurance, claims, and other	200,000	73,264
Depreciation	843,530	262,606
Bad debts	69,238	-
Nondepartmental	299,622	1,017
	6,892,679	1,128,094
Total operating expenses		
Operating Income (Loss)	(535,014)	5,146
Nonoperating Revenue (Expense)		
Investment income	17,052	3,678
Interest expense	(555,621)	(10,399)
Gain on sale of equipment	-	500
Property taxes	1,109,665	-
	571,096	(6,221)
Total nonoperating revenue (expense)		
Income (Loss) - Before operating transfer out	36,082	(1,075)
Operating Transfer Out	-	(300,000)
Change in Net Assets	36,082	(301,075)
Net Assets - July 1, 2003	25,098,023	1,354,933
Net Assets - June 30, 2004	\$ 25,134,105	\$ 1,053,858

City of Inkster, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 9,801,963	\$ -
Payments to suppliers	(6,080,465)	(572,360)
Payments to employees	(481,697)	(255,626)
Internal activity - Payments from (to) other funds	<u>(1,881,635)</u>	<u>1,189,313</u>
Net cash provided by operating activities	1,358,166	361,327
Cash Flows from Capital and Related Financing Activities		
Proceeds from property tax levy restricted for debt service	1,109,665	-
Purchase of capital assets	(177,137)	-
Principal and interest paid on capital debt	<u>(1,326,261)</u>	<u>(86,625)</u>
Net cash used in capital and related financing activities	(393,733)	(86,625)
Cash Flows for Noncapital and Related Financing Activities -		
Transfer to General Fund	-	(300,000)
Cash Flows from Investing Activities - Interest on investments	<u>17,052</u>	<u>3,678</u>
Net Increase (Decrease) in Cash and Cash Equivalents	981,485	(21,620)
Cash and Cash Equivalents - July 1, 2003	<u>1,279,060</u>	<u>642,546</u>
Cash and Cash Equivalents - June 30, 2004	<u>\$ 2,260,545</u>	<u>\$ 620,926</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ (535,014)	\$ 5,146
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Proceeds from sale of capital asset	-	500
Depreciation and amortization	843,530	262,606
Changes in assets and liabilities:		
Receivables	3,444,297	(925)
Due from other funds	(1,510,475)	-
Inventories	(47,051)	(1,017)
Deferred bond issuance costs	30,791	-
Accounts payable and accrued liabilities	(871,752)	38,944
Due to other funds	<u>3,840</u>	<u>56,073</u>
Net cash provided by operating activities	<u>\$ 1,358,166</u>	<u>\$ 361,327</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, the following noncash activities occurred

The Enterprise Fund is involved in the Rouge River National Wet Weather Demonstration Project. This activity was administered by Wayne County and is recorded in the restricted assets held at Wayne County as described in Note 8. Interest of \$8,610 was earned on monies held at the County.

The Enterprise Fund received \$82 in interest earnings as described in Note 8 on the monies held at the County for the North Huron Valley/Rouge Valley Sewer System improvements.

City of Inkster, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Agency Fund - Escrow Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 10,297	\$ 609,026
Investments:		
Corporate bonds	2,407,778	-
U.S. government securities	1,512,893	-
U.S. government agency securities	5,841,740	-
Common and preferred stock	7,790,051	-
Pension equity mutual funds	7,283,364	-
Pension guarantee contract pooled fund	7,035,626	-
Bank investment pools	305,441	-
Receivables - Accrued interest and other	239,010	-
	<u>32,426,200</u>	<u>\$ 609,026</u>
Liabilities		
Bonds and deposits	-	\$ 188,071
Due to other funds	-	52,310
Due to other governmental units	-	368,645
	<u>-</u>	<u>\$ 609,026</u>
Net Assets - Held in trust for employee pension benefits	<u>\$ 32,426,200</u>	

City of Inkster, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 827,573
Net increase in fair value of investments	<u>1,881,318</u>
Net investment income	2,708,891
Contributions:	
Employer	760,880
Employee	<u>411,456</u>
Total contributions	<u>1,172,336</u>
Total additions	3,881,227
Deductions	
Benefit payments	2,076,430
Refunds of contributions	27,532
Administrative expenses	<u>117,235</u>
Total deductions	<u>2,221,197</u>
Net Increase	1,660,030
Net Assets Held in Trust for Pension and Other Employee Benefits	
July 1, 2003	<u>30,766,170</u>
June 30, 2004	<u><u>\$ 32,426,200</u></u>

City of Inkster, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2004

	Beech Daly Tax				Total
	Economic Development Corporation	Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	
Assets					
Cash and investments	\$ 1,225	\$ 119,273	\$ -	\$ 188,840	\$ 309,338
Due from primary government	-	4,425	-	3,623	8,048
Restricted assets	-	-	1,733,033	-	1,733,033
Total assets	1,225	123,698	1,733,033	192,463	2,050,419
Liabilities					
Accounts payable	-	8,767	-	6,522	15,289
Due to primary government	-	888	-	-	888
Liabilities to be paid from restricted assets:					
Accounts payable	-	-	48,061	-	48,061
Due to primary government	-	-	57,057	-	57,057
Long-term debt	-	3,102,047	-	-	3,102,047
Total liabilities	-	3,111,702	105,118	6,522	3,223,342
Net Assets (Deficit)					
Restricted for Brownfield Project	-	-	1,627,915	-	1,627,915
Unrestricted (deficit)	1,225	(2,988,004)	-	185,941	(2,800,838)
Total net assets (deficit)	\$ 1,225	\$ (2,988,004)	\$ 1,627,915	\$ 185,941	\$ (1,172,923)

City of Inkster, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Beech Daly Tax Increment Finance Authority	214,169	-	-	-
Brownfield Tax Increment Finance Authority	401,705	-	-	2,073,665
Downtown Development Authority	<u>199,584</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 815,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,073,665</u>

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - July 1, 2003

Net Assets (Deficit) - June 30, 2004

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets				
Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
\$ -	\$ -	\$ -	\$ -	\$ -
-	(214,169)	-	-	(214,169)
-	-	1,671,960	-	1,671,960
-	-	-	(199,584)	(199,584)
-	(214,169)	1,671,960	(199,584)	1,258,207
-	457,097	-	91,187	548,284
<u>8</u>	<u>838</u>	<u>8,474</u>	<u>1,384</u>	<u>10,704</u>
<u>8</u>	<u>457,935</u>	<u>8,474</u>	<u>92,571</u>	<u>558,988</u>
8	243,766	1,680,434	(107,013)	1,817,195
<u>1,217</u>	<u>(3,231,770)</u>	<u>(52,519)</u>	<u>292,954</u>	<u>(2,990,118)</u>
<u>\$ 1,225</u>	<u>\$ (2,988,004)</u>	<u>\$ 1,627,915</u>	<u>\$ 185,941</u>	<u>\$ (1,172,923)</u>

Note I - 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 from 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 Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation's governing body, which consists of 11 individuals, is selected by the City Council.
- b. The Beech Daly Tax Increment Finance Authority 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.
- c. The Downtown Development Authority 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.

Note I - Summary of Significant Accounting Policies (Continued)

- d. 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.

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

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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. All other revenue items are considered to be available only when cash is received by the City.

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.

Note I - Summary of Significant Accounting Policies (Continued)

- 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 Fund is 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 only Internal Service Fund is the Garage Fund, which is used to account for the City's vehicles and other machinery.
- 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.
- The Debt Service Fund accounts for payments of principal, interest, and other related expenses in connection with building authority long-term debt. Resources of this fund are provided by a specific property tax levy.
- Capital Projects Funds account for the development and improvement of capital facilities and sidewalks, other than those financed by the operations of the proprietary fund.
- 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 2003 tax is levied and collectible on July 1 and December 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City totaled \$284,628,072 (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 18.7504 mills for operating purposes, 2.8125 mills for rubbish collection services, and 7.5381 mills for debt service. This resulted in approximately \$5.3 million for operating, approximately \$800,000 for rubbish collection services, and approximately \$2.1 million for debt service. These amounts are recognized in the General Fund, Enterprise Fund, Local Streets (Special Revenue) Fund, and Debt Service Fund financial statements as tax revenue.

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 as net of allowance for uncollectible amounts.

Allowance for Doubtful Accounts - All water and sewer and property tax receivables are shown net of allowances for doubtful accounts. The allowance for uncollectible water billings in the Utility Fund is \$554,000 at June 30, 2004. The allowance for uncollectible taxes in the General Fund is approximately \$346,000 at June 30, 2004.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

The unspent portion of the bond proceeds of the City's 2003 Capital Improvement Bonds, which had been received by the Brownfield Redevelopment Authority from the City, is required to be set aside for the acquisition and construction of certain improvements in the City. These amounts have been classified as restricted assets of the Brownfield Redevelopment Authority to be used in conjunction with the ongoing project.

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:

Roads and sidewalks	15 to 30 years
Water and sewer systems	50 to 75 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 10 years
Office furnishings	7 to 10 years
Other tools and equipment	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 preliminary project expenditures incurred through June 30, 2004, 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.

Note I - Summary of Significant Accounting Policies (Continued)

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.

Property Tax Chargebacks - The property tax chargebacks represent real property tax collected from the County Tax Revolving Fund that is estimated to be uncollectible when the related parcels are later sold in land sales. The balance at June 30, 2004 consists of those amounts estimated to be charged back to the City in the years after June 30, 2004.

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.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2003		\$	(113,821)
Current year building permit revenue			216,708
Related expenses:			
Direct costs	\$	201,132	
Estimated indirect costs		<u>19,164</u>	
Total construction code expenses			<u>220,296</u>
Cumulative shortfall at June 30, 2004		\$	<u>(117,409)</u>

Fund Deficit - The Beech Daly Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2004. However, the modified accrual unreserved fund balance of its General Fund is \$114,043. Therefore, this is not considered a fund deficit.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 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 City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 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.

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 4,337,008	\$ 2,260,545	\$ 619,323	\$ 7,216,876	\$ 309,338
Investments	-	-	32,176,893	32,176,893	-
Restricted assets	<u>3,298,023</u>	<u>-</u>	<u>-</u>	<u>3,298,023</u>	<u>1,733,033</u>
Total	<u>\$ 7,635,031</u>	<u>\$ 2,260,545</u>	<u>\$ 32,796,216</u>	<u>\$ 42,691,792</u>	<u>\$ 2,042,371</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts and savings accounts)	\$ 9,504,396	\$ 2,042,371
Investments in securities, mutual funds, and similar vehicles	33,185,946	-
Petty cash or cash on hand	<u>1,450</u>	<u>-</u>
Total	<u>\$ 42,691,792</u>	<u>\$ 2,042,371</u>

The bank balance of the City's deposits is \$10,592,244, of which \$134,798 is covered by federal depository insurance. Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Pension Category 2 assets:				
Corporate bonds	\$ -	\$ 2,407,778	\$ -	\$ 2,407,778
U.S. government securities	-	1,512,893	-	1,512,893
U.S. government agency securities	-	5,841,740	-	5,841,740
Common and preferred stock	-	7,790,051	-	7,790,051
Subtotal	<u>\$ -</u>	<u>\$ 17,552,462</u>	<u>\$ -</u>	17,552,462
Investments not subject to categorization:				
Pension equity mutual funds				7,283,364
Pension guarantee contract pooled fund				7,035,626
MBIA Michigan CLASS				1,009,053
Pension bank investment pool and pooled investment funds				<u>305,441</u>
Total primary government				<u>\$ 33,185,946</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools, guaranteed contract and investment pooled funds, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds and non-bank pooled funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Component Units

The cash and cash equivalents of the City's component units consist of interests in the City's shared bank accounts totaling \$2,042,371 at June 30, 2004. The portion of these balances covered by federal depository insurance is not known since the accounts are shared with the City.

Note 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>	<u>Unearned</u>
Receivable from component unit - TIFA*	\$ 1,407,047	\$ -
Grants received prior to meeting all eligibility requirements	<u>-</u>	<u>69,990</u>
Total	<u>\$ 1,407,047</u>	<u>\$ 69,990</u>

* The City issued bonds on behalf of the TIFA, which are discussed in detail in Note 7. The TIFA has committed to repay the 75 percent of the bonds' debt service, including past payments made by the City, which were in excess of the TIFA's ability to repay at that time. The City's Major Streets Fund has recorded this receivable at an amount equal to the 75 percent of the bonds' principal payments plus \$38,297 for the past payments made by the City. The interest portion of the bond payments will be recorded when received. The TIFA's current and future commitment to the repayment of these bonds is limited to its ability to capture sufficient revenue.

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated -				
Land	\$ 304,360	\$ 2,835	\$ -	\$ 307,195
Capital assets being depreciated:				
Land improvements	-	284,737	-	284,737
Roads and sidewalks	8,759,283	2,047,295	-	10,806,578
Buildings and improvements	7,308,821	2,002	-	7,310,823
Vehicles	4,228,739	145,000	193,188	4,180,551
Furniture and equipment	3,256,435	353,255	-	3,609,690
Subtotal	23,553,278	2,832,289	193,188	26,192,379
Accumulated depreciation:				
Land improvements	-	14,237	-	14,237
Roads and sidewalks	2,289,266	370,450	-	2,659,716
Buildings and improvements	3,668,075	198,136	-	3,866,211
Vehicles	3,176,250	291,607	193,188	3,274,669
Furniture and equipment	1,287,604	316,741	-	1,604,345
Subtotal	10,421,195	1,191,171	193,188	11,419,178
Net capital assets being depreciated	13,132,083	1,641,118	-	14,773,201
Net capital assets	<u>\$ 13,436,443</u>	<u>\$ 1,643,953</u>	<u>\$ -</u>	<u>\$ 15,080,396</u>

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 2,745	\$ -	\$ -	\$ 2,745
Construction in progress	5,864	126,478	5,864	126,478
Subtotal	8,609	126,478	5,864	129,223
Capital assets being depreciated:				
Water and sewer distribution systems	37,088,074	42,772	120,898	37,009,948
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
Subtotal	37,181,542	42,772	120,898	37,103,416
Accumulated depreciation:				
Water and sewer distribution systems	6,592,798	843,530	-	7,436,328
Buildings and building improvements	66,444	-	-	66,444
Office furnishings	4,348	-	-	4,348
Other tools and equipment	22,676	-	-	22,676
Subtotal	6,686,266	843,530	-	7,529,796
Net capital assets being depreciated	30,495,276	(800,758)	120,898	29,573,620
Net capital assets	<u>\$ 30,503,885</u>	<u>\$ (674,280)</u>	<u>\$ 126,762</u>	<u>\$ 29,702,843</u>

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

Governmental activities:	
General government	\$ 163,686
Public safety	240,753
Public works	43,384
Culture and recreation	115,624
Road infrastructure	365,118
Internal Service Fund depreciation charged to the various functions based on their usage of the asset	262,606
Total governmental activities	<u>\$ 1,191,171</u>
Business-type activities - Water and sewer	<u>\$ 843,530</u>

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active road construction projects at year end related to the 2003 local road bond issue. At year end, the City's construction commitments approximated \$881,000.

The City of Inkster, Michigan in conjunction with the City of Inkster Brownfield Redevelopment Authority, has 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 will acquire, improve, and then sell the project real estate to the developer. The City issued bonds for \$2,000,000 during the current year 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. The City has reprogrammed future grant funds to pay for the majority of the debt service costs of this issue. The City is also relying on current and future grant monies to fund the related relocation costs.

Once a final agreement to proceed with the project is reached by all parties, the City will also construct infrastructure improvements in the development, which will be paid for by the anticipated issuance of approximately \$4,600,000 of additional bonded debt. The developer and its affiliate have previously given the City assurances that they will make good any shortfall in future incremental tax captures related to the Carver Homes development should they be insufficient to repay the City's debt service costs related to infrastructure. The City has entered into commitments during the year for engineering and administrative services totaling approximately \$760,000 related to this project.

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 in two phases. Phase one of the project was substantially complete at June 30, 2003 and phase two is required to be started by 2013 and completed by December 2015. The estimated cost of phase two is \$30,000,000.

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due to	Fund Due from	Amount
General Fund	Nonmajor governmental funds	\$ 458,369
	Water and Sewer Fund	85,963
	Internal Service Fund	165,836
	Escrow Fund	<u>2,310</u>
	Total General Fund	712,478
Major Streets Fund	General Fund	19,680
Local Streets Fund	General Fund	59,945
Nonmajor governmental funds	General Fund	56,704
	Nonmajor governmental funds	65
	Escrow Fund	<u>50,000</u>
	Total nonmajor governmental funds	<u>106,769</u>
	Total	<u>\$ 898,872</u>

Interfund Transfer

During the current year, the Internal Service Fund transferred \$300,000 of discretionary funds to the General Fund to be used for the benefit of the community.

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The following is a summary of the primary government debt of the City outstanding as of June 30, 2004:

	Interest Rate Ranges	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental Activities						
General obligation bonds (for road and other construction):						
Act 175 Motor Vehicle Bonds, Series 1991						
Amount of issue - \$600,000	6.30% -					
Maturing through 11/2006	6.60%	\$ 245,000	\$ -	\$ (55,000)	\$ 190,000	\$ 60,000
Act 175 Motor Vehicle Bonds, Series 1994*						
Amount of issue - \$2,360,000	6.15% -					
Maturing through 8/2004	6.25%	205,000	-	(100,000)	105,000	105,000
Act 175 Motor Vehicle Bonds, 2001 Series						
Refunding bonds						
Amount of issue - \$1,780,000	2.00% -					
Maturing through 8/2014	4.625%	1,750,000	-	(30,000)	1,720,000	30,000
Building Authority, 1974 Series -						
Recreational complex						
Amount of issue - \$1,900,000						
Maturing through 4/2004	7.20%	125,000	-	(125,000)	-	-
General obligation, Unlimited Tax 2003 Series						
Local road bonds						
Amount of issue - \$5,000,000	2.50% -					
Maturing through 3/2013	3.625%	5,000,000	-	(480,000)	4,520,000	450,000
2003 Capital Improvement Bonds						
Amount of issue - \$2,000,000	2.50%-					
Maturing through 11/2013	5.125%	-	2,000,000	-	2,000,000	200,000
Total bond obligations		7,325,000	2,000,000	(790,000)	8,535,000	845,000
Other long-term obligations - Installment notes:						
Sweeper purchase						
Amount of issue - \$145,000						
Maturing through 6/2005	4.87%	59,382	-	(28,932)	30,450	30,450
Vector Truck purchase						
Amount of issue - \$249,580						
Maturing through 8/2005	4.98%	149,726	-	(47,294)	102,432	49,798
Total other long-term obligations		209,108	-	(76,226)	132,882	80,248
Total governmental activities		\$ 7,534,108	\$ 2,000,000	\$ (866,226)	\$ 8,667,882	\$ 925,248

* A portion of the 1994 bond issue was defeased by the 2001 series refunding bonds.

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Business-type Activities						
Wayne County Contracts (for construction of system improvements):						
Wayne County Sewage Disposal System, 1994 North Huron Valley System	5.60% -					
Amount of issue - \$556,516						
Maturing through 5/2009 - Net of \$17,174 of deferred charges at June 30, 2003	6.00%	\$ 267,435	\$ -	\$ (36,849)	\$ 230,586	\$ 43,641
Wayne County Sewage Disposal System, 1994 CSO Basin Series B*						
Amount of issue - \$3,500,000						
Maturing through 5/2004	5.55%	150,000	-	(150,000)	-	-
Wayne County Sewage Disposal System, 1994 CSO Basin Series C*						
Amount of issue - \$7,875,000	6.20% -					
Maturing through 11/2004	7.00%	665,000	-	(305,000)	360,000	360,000
Wayne County Sewage Disposal System, 1999 CSO Basin Series B Refunding Bonds						
Amount of issue - \$2,730,000	3.75% -					
Maturing through 11/2015 - Net of \$123,627 of deferred charges at June 30, 2004	4.80%	2,434,010	-	(12,637)	2,421,373	25,000
Wayne County Sewage Disposal System, 1999 CSO Basin Series C Refunding Bonds						
Amount of issue - \$6,390,000	3.75% -					
Maturing through 11/2015 - Net of \$288,466 of deferred charges at June 30, 2004	4.80%	5,687,688	-	(36,154)	5,651,534	65,000
1994 State Revolving Fund Loan						
Amount of issue - \$2,590,000						
Maturing through 4/2016	2.00%	1,800,000	-	(125,000)	1,675,000	125,000
Utility System Revenue Bonds (for system improvements) - 2003 Revenue Refunding Bonds						
Amount of issue - \$435,000	2.00% -					
Maturing through 8/2006	2.30%	435,000	-	(105,000)	330,000	110,000
Total business-type activities		\$ 11,439,133	\$ -	\$ (770,640)	\$ 10,668,493	\$ 728,641

* A portion of these bonds was defeased during the year ended June 30, 1999.

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

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Component Units	Interest	Balance	Interest		Balance	Due Within
	Rate Ranges	July 1, 2003	Additions	Reductions	June 30, 2004	One Year
Component Units						
Beech Daly Increment Finance Authority - Road Improvement						
1994 Series Bonds*						
Amount of issue - \$1,760,000	6.20% -					
Maturing through 11/2004	7.00%	\$ 135,000	\$ -	\$ (60,000)	\$ 75,000	\$ 75,000
2001 Series Refunding Bond						
Amount of issue - \$1,655,000	2.00% -					
Maturing through 11/2019	5.00%	1,645,000	-	(25,000)	1,620,000	25,000
Due to the City of Inkster**						
75% of City of Inkster 1994 Series Act 175						
Motor Vehicle Highway Bonds						
Original amount of obligation - \$1,770,000 (75% of \$2,360,000)	6.15% -					
Maturing through 8/2004	6.25%	153,750	-	(75,000)	78,750	78,750
75% of City of Inkster 2001 Series Act 175						
Motor Vehicle Highway Refunding Bonds						
Original amount of obligation - \$1,335,000 (75% of \$1,780,000)	2.00% -					
Maturing through 8/2014	4.625%	1,312,500	-	(22,500)	1,290,000	22,500
Reimbursement obligation - Historical portion - Payable when funds are available						
	-	93,310	-	(55,013)	38,297	-
Total component units		\$ 3,339,560	\$ -	\$ (237,513)	\$ 3,102,047	\$ 201,250

* A portion of the 1994 bonds was defeased by the 2001 series refunding bonds.

** Payable to the City only from the TIFA revenue legally available and in excess of the amounts that are required to pay the debt service of the TIFA bonds

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 requirements for two of the Act 175 Motor Vehicle Highway bonds (with an outstanding balance of \$1,368,750 at June 30, 2004) will ultimately be provided by the Tax Increment Finance Authority (TIFA), a component unit. It is also anticipated that the TIFA will eventually repay the City \$38,297, representing the net unreimbursed installment payments made by the City through June 30, 2004 related to these obligations.

Note 7 - Long-term Debt (Continued)

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:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 925,249	\$ 296,909	\$ 1,222,158	\$ 683,997	\$ 443,862	\$ 1,127,859	\$ 171,250	\$ 126,283	\$ 297,533
2006	892,633	266,964	1,159,597	876,981	406,820	1,283,801	223,750	117,488	341,238
2007	855,000	239,234	1,094,234	899,965	373,187	1,273,152	223,750	110,379	334,129
2008	815,000	213,906	1,028,906	831,085	338,987	1,170,072	236,250	102,474	338,724
2009	840,000	187,458	1,027,458	862,513	304,084	1,166,597	224,547	93,975	318,522
2010 - 2014	4,140,000	444,214	4,584,214	4,398,952	965,367	5,364,319	1,267,500	319,602	1,587,102
2015 - 2019	200,000	4,625	204,625	2,115,000	96,801	2,211,801	660,000	89,194	749,194
2020	-	-	-	-	-	-	95,000	2,375	97,375
Total	\$ 8,667,882	\$ 1,653,310	\$ 10,321,192	\$ 10,668,493	\$ 2,929,108	\$ 13,597,601	\$ 3,102,047	\$ 961,770	\$ 4,063,817

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, 2004, \$9,920,000 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, 2004, \$1,455,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Governmental Activities - The \$3,298,023 of restricted assets at June 30, 2004 are unspent cash proceeds from the 2003 General Obligation Bonds restricted for local road construction.

Note 8 - Restricted Assets (Continued)

Business-type Activities - Restricted assets at June 30, 2004 consist of assets held at Wayne County restricted for the following purposes:

City's portion of Rouge River National Wet Weather Demonstration Basin construction	\$ 941,939
City's portion of North Huron Valley/Rouge Valley Sewer System Combined Sewer Overflow Basin:	
Construction	20,231
Equipment replacement	<u>122,230</u>
 Total restricted assets	 <u>\$ 1,084,400</u>

The above assets result from the issuance of debt; therefore, net assets have not been restricted. Net assets of \$118,118 have been restricted, however, pursuant to an Environmental Protection Agency (EPA) requirement for certain required construction not related to the matters listed above. No specific assets have been restricted to this EPA-mandated reserve.

Component Unit - The \$1,733,033 of restricted assets at June 30, 2004 are unspent cash proceeds of the 2003 Capital Improvement Bonds that were received by the Brownfield Redevelopment Authority from the City. The monies are restricted for engineering, administrative, and acquisition costs related to the Carver Homes project.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims except 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.

City of Inkster, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Risk Management (Continued)

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:

	2004	2003
Estimated liability - Beginning of year	\$ 3,363,851	\$ 3,363,851
Estimated claims incurred, including changes in estimates - Net	1,098,302	579,037
Claim payments	<u>(683,095)</u>	<u>(579,037)</u>
Estimated liability - End of year	<u>\$ 3,779,058</u>	<u>\$ 3,363,851</u>

Note 10 - Contingencies

The City is a defendant in several lawsuits and asserted claims, including one class action lawsuit. 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.

Note 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 \$34,000 for its operations. The City has no material equity interest in the Nankin Transit Commission at June 30, 2004. 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.

Note 11 - Joint Ventures (Continued)

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 contributed approximately \$957,000 for sanitation costs passed through the Authority. During the current year, the Authority ceased operations and the partnership under contract to operate the facility is in the process of declaring bankruptcy. The City recorded a long-term liability related to the negative net asset position of the Authority of \$770,385 in the government-wide statement of net assets. The Authority is in the processes of selling certain equipment and property, demolishing certain structures, and closing a landfill. The anticipated future costs and revenues related to this activity contain significant estimates. The City believes, based on recent discussions with the Authority, that the ultimate net cost of eliminating the Authority's negative net asset position may well be significantly less than the amount that is currently recorded.

Complete financial statements for the Authority can be obtained from the administrative offices at 4901 South Inkster Road, Dearborn Heights, Michigan 48125.

Note 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.

Police and Fire Retirement System

At July 1, 2003, the date of the most recent actuarial valuation, membership consisted of 55 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 79 current active employees. The plan does not issue a separate financial report.

Note 12 - Defined Benefit Pension Plan (Continued)

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 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 6 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, 2004, the City's annual pension cost of \$451,695 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, 2002 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.25 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5 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 30 years.

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

	Fiscal Year Ended December 31		
	2004	2003	2002
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 451,695	\$ 464,781	\$ 353,356
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

General Employees' Retirement System

At July 1, 2002, 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 55 current active employees. The plan does not issue a separate financial report.

Note 12 - Defined Benefit Pension Plan (Continued)

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. 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, 2004, the City's actuarially determined contribution for the plan was \$320,779. The City actually contributed and expensed \$309,185 for its current year contribution. The difference between the required and actual contribution of \$11,594 has been recorded as a net pension obligation in the government-wide statement of net assets. The annual required contribution was determined as part of an actuarial valuation at July 1, 2002 using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 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 3 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:

	Fiscal Year Ended December 31		
	2004	2003	2002
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 320,779	\$ 327,206	\$ 213,736
Percentage of APC contributed	96%	69%	100%
Net pension obligation	\$ 11,594	\$ 102,252	\$ -

Note 13 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Fifty-five retirees were eligible at June 30, 2004. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 50 percent contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due and totaled approximately \$331,000 during the year.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Change in Accounting Policy

During the year ended June 30, 2004, the City changed its method of recording interest and penalties related to delinquent property taxes. Previously, the City recorded revenue related to interest and penalties on delinquent property taxes in the period collected. As of June 30, 2003, the City has changed its policy to record this revenue in the year the related tax was levied. The beginning fund balance in the City's General Fund has been restated as follows:

Fund balance - June 30, 2003 (as originally reported)	\$ 1,113,517
Effect of change in accounting policy	<u>221,639</u>
Fund balance - June 30, 2003 (as restated)	<u>\$ 1,335,156</u>

Required Supplemental Information

City of Inkster, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,925,000	\$ 6,800,000	\$ 7,017,046	\$ 217,046
Licenses and permits	249,000	249,000	243,253	(5,747)
Federal grants	-	-	350,307	350,307
State-shared revenues and grants	4,816,400	4,943,400	4,916,437	(26,963)
Charges for services	1,669,000	1,779,000	2,175,794	396,794
Interest	75,000	57,000	47,327	(9,673)
Administrative charges and other revenue	1,745,500	1,851,710	1,729,786	(121,924)
Proceeds from issuance of bonds	-	-	2,000,000	2,000,000
Transfer from other funds	300,000	300,000	300,000	-
Total revenue	15,779,900	15,980,110	18,779,950	2,799,840
Expenditures				
General government	2,230,839	2,375,931	2,336,131	39,800
Public safety	6,550,329	6,972,329	6,990,064	(17,735)
Highways, streets, and public works	2,532,203	2,651,073	2,704,037	(52,964)
Grant expenditures	96,000	96,000	380,737	(284,737)
Brownfield expense	-	-	1,981,686	(1,981,686)
Cultural and recreation	706,136	704,086	588,883	115,203
Nondepartmental	3,692,000	3,324,200	3,639,874	(315,674)
Total expenditures	15,807,507	16,123,619	18,621,412	(2,497,793)
Excess of Revenue Over (Under) Expenditures	(27,607)	(143,509)	158,538	\$ 302,047
Fund Balances - July 1, 2003	1,335,156	1,335,156	1,335,156	
Fund Balances - June 30, 2004	\$ 1,307,549	\$ 1,191,647	\$ 1,493,694	

City of Inkster, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenues and grants	\$ 1,125,000	\$ 1,125,000	\$ 1,229,188	\$ 104,188
Charges for services	249,300	249,300	249,300	-
Interest	10,000	10,000	18,393	8,393
Total revenue	1,384,300	1,384,300	1,496,881	112,581
Expenditures				
Highways, streets, and public works	1,930,379	1,658,279	584,656	1,073,623
Debt service	279,662	279,662	279,833	(171)
Transfer to other fund	-	275,000	-	275,000
Total expenditures	2,210,041	2,212,941	864,489	1,348,452
Excess of Revenue Over (Under) Expenditures	(825,741)	(828,641)	632,392	<u>\$ 1,461,033</u>
Fund Balance - July 1, 2003	2,372,675	2,372,675	2,372,675	
Fund Balance - June 30, 2004	\$ 1,546,934	\$ 1,544,034	\$ 3,005,067	

City of Inkster, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	-	\$ 607,520	\$ 597,217	\$ (10,303)
State-shared revenues and grants	470,000	470,000	577,156	107,156
Interest	4,000	4,000	25,632	21,632
Transfer from other funds	275,000	275,000	-	(275,000)
Total revenue	749,000	1,356,520	1,200,005	(156,515)
Expenditures				
Highways, streets, and public works	2,619,659	3,241,379	2,548,536	692,843
Debt service	607,520	607,520	603,893	3,627
Total expenditures	3,227,179	3,848,899	3,152,429	696,470
Excess of Expenditures Over Revenue	(2,478,179)	(2,492,379)	(1,952,424)	<u>\$ 539,955</u>
Fund Balance - July 1, 2003	4,801,752	4,801,752	4,801,752	
Fund Balance - June 30, 2004	\$ 2,323,573	\$ 2,309,373	\$ 2,849,328	

City of Inkster, Michigan

Required Supplemental Information Pension Systems Schedules of Funding Progress June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
7/1/99*						
7/1/00	\$ 7,393,000	\$ 7,393,000	\$ -	100.0	\$ 1,838,000	-
7/1/01*						
7/1/02	7,062,000	7,062,000	-	100.0	1,949,000	-
7/1/03*						
7/1/04	7,177,000	7,177,000***	-	100.0	1,884,000	-
<u>Police and Fire Retirement System</u>						
7/1/99	24,559,000	20,047,000	4,512,000	122.5	3,456,000	130.6
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**						

* A valuation was not done for the years indicated.

** Valuation not yet received.

At July 1, 2004, the valuation disclosed the present value of vested benefits as approximating \$8,530,000. In prior valuations, the present value of vested benefits approximated the actuarial value of assets at the corresponding date.

City of Inkster, Michigan

Required Supplemental Information Pension Systems Schedules of Employer Contributions June 30, 2004

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
1999	7/1/98	\$ 144,726	100.0
2000	7/1/98	106,710	100.0
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

Police and Fire Retirement System

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1999	7/1/97	\$ 175,642	100.0
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

* 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, 2004, the latest actuarial valuation date, follows:

General Employees' Retirement System

Actuarial cost method	Aggregate
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*	3%
*Includes inflation at	3%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	30 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.25%
Projected salary increases**	5%
**Includes inflation at	5%
Cost of living adjustments	None

City of Inkster, Michigan

Note to Required Supplemental Information June 30, 2004

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, 2004 has not been calculated. During the current year, 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:

	Amended Budget	Actual
Public safety	\$ 6,972,329	\$ 6,990,064
Highways, streets, and public works	2,651,073	2,704,037
Grant expenditures	96,000	380,737
Brownfield Project	-	1,981,686
Nondepartmental	3,324,200	3,639,874

The variance from budget for the grant expenditures and the Brownfield Project expenses were offset by additional unbudgeted grant revenues and bond proceeds, respectively.

Other Supplemental Information

City of Inkster, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Nonmajor Special Revenue Funds		Nonmajor Debt Service Fund - Building Authority	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
	Grants	Drug Law Enforcement		Capital Improvements	Sidewalk Revolving	
Assets						
Cash and investments	\$ 282,081	\$ 125,026	\$ -	\$ 45,927	\$ 16,008	\$ 469,042
Accounts receivable	39,673	-	2,455	-	-	42,128
Due from other funds	56,704	-	65	50,000	-	106,769
Due from other governmental units	131,744	-	-	-	-	131,744
Total assets	<u>\$ 510,202</u>	<u>\$ 125,026</u>	<u>\$ 2,520</u>	<u>\$ 95,927</u>	<u>\$ 16,008</u>	<u>\$ 749,683</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 61,376	\$ 97	\$ -	\$ 591	\$ 550	\$ 62,614
Due to other funds	378,836	15,523	-	64,075	-	458,434
Deferred revenue	69,990	-	-	-	-	69,990
Total liabilities	510,202	15,620	-	64,666	550	591,038
Fund Balances - Unreserved	-	109,406	2,520	31,261	15,458	158,645
Total liabilities and fund balances	<u>\$ 510,202</u>	<u>\$ 125,026</u>	<u>\$ 2,520</u>	<u>\$ 95,927</u>	<u>\$ 16,008</u>	<u>\$ 749,683</u>

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Nonmajor Special Revenue Funds		Nonmajor Debt Service Fund - Building Authority	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
	Grants	Drug Law Enforcement		Capital Improvements	Sidewalk Revolving	
Revenue						
Property taxes	\$ -	\$ -	\$ 136,709	\$ -	\$ -	\$ 136,709
Federal grants	589,139	-	-	-	-	589,139
State grants	20,513	-	-	-	-	20,513
Interest income	-	3,623	-	728	97	4,448
Other	926	108,770	-	50,000	-	159,696
Total revenue	610,578	112,393	136,709	50,728	97	910,505
Expenditures						
Public safety	-	242,738	-	-	-	242,738
Grant expenditures	610,578	-	-	-	-	610,578
Debt service	-	-	134,254	-	-	134,254
Other	-	-	-	29,589	-	29,589
Total expenditures	610,578	242,738	134,254	29,589	-	1,017,159
Excess of Revenue Over (Under) Expenditures	-	(130,345)	2,455	21,139	97	(106,654)
Fund Balances - July 1, 2003	-	239,751	65	10,122	15,361	265,299
Fund Balances - June 30, 2004	\$ -	\$ 109,406	\$ 2,520	\$ 31,261	\$ 15,458	\$ 158,645

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2004

	Pension Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Total
Assets			
Cash	\$ -	\$ 10,297	\$ 10,297
Investments:			
Corporate bonds	-	2,407,778	2,407,778
U.S. government securities	-	1,512,893	1,512,893
U.S. government agency securities	-	5,841,740	5,841,740
Common and preferred stock	-	7,790,051	7,790,051
Pension equity mutual funds	-	7,283,364	7,283,364
Pension guarantee contract pooled fund	7,035,626	-	7,035,626
Bank investment pools and pooled investent fund	38,153	267,288	305,441
Receivables	31,639	207,371	239,010
Net Assets - Held in trust for employee pension benefits	<u>\$ 7,105,418</u>	<u>\$ 25,320,782</u>	<u>\$ 32,426,200</u>

City of Inkster, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	<u>Total</u>
Additions			
Investment income:			
Interest and dividends	\$ 324,526	\$ 503,047	\$ 827,573
Net increase (decrease) in fair value of investments	<u>(399,237)</u>	<u>2,280,555</u>	<u>1,881,318</u>
Net investment income (loss)	(74,711)	2,783,602	2,708,891
Contributions:			
Employer	309,185	451,695	760,880
Employee	<u>96,619</u>	<u>314,837</u>	<u>411,456</u>
Total additions	331,093	3,550,134	3,881,227
Deductions			
Benefit payments	516,014	1,560,416	2,076,430
Refunds of contributions	7,541	19,991	27,532
Administrative expenses	<u>30,661</u>	<u>86,574</u>	<u>117,235</u>
Total deductions	<u>554,216</u>	<u>1,666,981</u>	<u>2,221,197</u>
Net Increase (Decrease)	(223,123)	1,883,153	1,660,030
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>7,328,541</u>	<u>23,437,629</u>	<u>30,766,170</u>
End of year	<u>\$ 7,105,418</u>	<u>\$ 25,320,782</u>	<u>\$ 32,426,200</u>

November 5, 2004

Honorable Mayor and Members
of the City Council
City of Inkster
2121 Inkster Road
Inkster, Michigan 48141

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Inkster for the year ended June 30, 2004. As a result of our audit, we offer the following comments and recommendations:

STATE FUNDING OVERVIEW

State shared revenue accounts for approximately 28 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration might introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

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STATE FUNDING OVERVIEW (continued)

The table below details state shared revenue for the City over a five year period (based on the State's fiscal year) broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced (and estimated) by the City compared to the State's fiscal year 2001.

	Actual <u>FY 2001</u>	Actual <u>FY 2002</u>	Actual <u>FY 2003</u>	Estimated <u>FY 2004</u>	Estimated <u>FY 2005</u>
Constitutional	\$ 1,954,228	\$ 1,974,135	\$ 2,007,557	\$ 1,985,749	\$ 2,070,468
Statutory	<u>3,100,697</u>	<u>3,276,481</u>	<u>3,058,393</u>	<u>2,567,288</u>	<u>2,482,569</u>
Total payments	<u>\$ 5,054,925</u>	<u>\$ 5,250,616</u>	<u>\$ 5,065,950</u>	<u>\$ 4,553,037</u>	<u>\$ 4,553,037</u>
Dollar change		\$ 195,691	\$ (184,666)	\$ (512,913)	\$ -
Percentage change		3.87%	-3.52%	-10.12%	0.00%

We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that, over the next 10 years, approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven five-member regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced, which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

PROPERTY TAX MATTERS

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.

PROPERTY TAX MATTERS (continued)

- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

PROPERTY ASSESSMENT CAP

Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

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PROPERTY ASSESSMENT CAP (continued)

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was approximately 18.75 mills even though City Charter would allow the City to levy 20.00 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

RETIREE HEALTH CARE COSTS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize (record) the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

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ASSETS AT WAYNE COUNTY

We continue to have questions regarding the accounting by Wayne County for the CSO Basin project. In the confirmation that we received this year from Wayne County, the value of constructed assets decreased. Inquiry was made as to how this could happen. Wayne County explained that they had found an error in the past year in their records and that the asset balance previously reported to Inkster was overstated. However, there was no apparent corresponding deposit of cash into the City's construction account held by the County. We encourage management to continue to follow up with the County to determine what the nature of the error was and whether the correction of that error was a non-cash event. Additionally, there continues to be an unreconciled amount in the cash accounts held by the County. This year the amount was \$74,652. We encourage management to work with the County to resolve this issue.

PENSION SYSTEM

We understand that there is currently no trustee or board for the general employees pension plan. Given the responsibilities and exposures that plan sponsors have in the current business environment that we live in, we recommend that the City consider specifically assigning oversight responsibility to an individual or group of individuals to aid in fulfilling its fiduciary responsibilities.

We also understand that the City is reviewing potential alternatives to the current plan, including the Michigan Municipal Employees Retirement System (MMERS). We encourage the City to continue exploring alternatives to most economically meet its future obligations.

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2004) and is good for one year thereafter. The Michigan Department of Treasury has also indicated that a separate qualifying statement may be required for each component unit of the City (i.e. a separate qualifying statement for the Downtown Development Authority, etc.).

RECONCILIATION MATTERS

As we mentioned last year, monthly bank reconciliations were not regularly performed during the prior fiscal year. This condition extended into the first several months of the June 30, 2004 year; however the efforts of the staff to restore the reconciliation process on a current basis was successful and reconciliations once again are being regularly prepared.

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RECONCILIATION MATTERS (continued)

However, we noted that the due to and due from balances between funds were also not regularly reconciled for all periods during the year. This was due in part to the inter-relationship between cash allocations between funds and interfund due to and due from balances as well as some shortcomings in the system software that make it more difficult than it would be desired to ensure that the interfund balances do indeed balance. We understand that a procedure is currently in place to identify and resolve any differences in the interfund balances at the same time the bank reconciliations are being prepared, and that such procedure has been in place since the point in time that the bank reconciliation process was restored to a current basis. We believe that this procedure is an important control and we would recommend that the reconciliation be formally documented on a regular basis.

WATER AND SEWER FUND

We noted that the Water and Sewer Fund generated an operating loss in excess of \$500,000 during the year ended June 30, 2004. This compares to an operating profit of approximately \$100,000 in the prior year. Given the long term focus of the funds' responsibilities for service delivery, we wanted to encourage you to consider the long term plans for the funds' operation during the next consideration of rate modifications.

ACCOUNTING MATTERS

The significant number of new City projects and initiatives compound the difficulties of maintaining certain accounting procedures on as current a basis as might be desirable. Given the need for accurate financial information in these difficult economic times, we urge the City to continue its efforts to maintain its accounting information flow and system controls, and offer the following for your consideration.

Reconciliation procedures to agree to the General Ledger balance to supporting details are not performed on a regularly basis. We believe that regular reconciliations would improve internal controls and potentially cash flow.

An important aspect of internal control is that items be prepared and reviewed and that the preparation and review be documented. The review of these items should be noted, in particular, for significant items like bank reconciliations and journal entry preparation, including the work done by the City Treasurer. This review would assure improvement in internal controls.

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ACCOUNTING MATTERS (continued)

The City has made significant investments in technology over the past few years. However, many of the processes that exist in the City do not appear to be fully benefiting from the available technology. Consideration of available remote utility reading systems and expanded use of personal computers are examples of areas where future investments may generate cost effective benefits. We would recommend further consideration of the potential benefits of technological enhancements to the City's operations.

We also have communicated some additional comments on accounting procedures and policies to the City's administration in a separate memorandum.

ACCOUNTING POLICIES

As a result of our testing and discussions with City staff, we noted the following:

We understand that the City does not have a formal written policy related to wire transfers for either regular wire transfers or ACH deposits. It is important for the City to establish a policy and procedure to ensure that only proper transfers are being made, and to comply with State requirements.

We understand that the City does not have a formal written credit card policy even though credit cards are in use. Again, it is important for the City to establish a policy for credit card usage to help ensure that appropriate internal controls are in place and to comply with State requirements.

We would be pleased to supply you with applicable draft policy language for your consideration.

GRANTS

The City is anticipating increases in the amount of grant activity, in part as a result of the Carver Homes project. In our testing of the various grant programs, we noted the following items which are discussed in greater detail in the Single Audit, and which we believe deserve additional attention.

1. Primary compliance responsibilities for some of the City's grant activities have been subcontracted to third parties. However, the City still maintains the ultimate responsibility for grant compliance matters. It appears that the City is not using a formal oversight procedure developed where these situations exist. Additionally, grant agreements and reimbursement requests were not available at the City in circumstances where subcontractors were being employed. While it is believed that the City has previously documented its procedures for these situations, a copy of the procedures could not be located. If the documented policies cannot be found, the City should develop a procedure to ensure that they are reviewing the work of the subcontractors to assure themselves that the grant compliance requirements are being adhered to and that appropriate documentation is being maintained.

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GRANTS (continued)

2. In one grant situation, the Davis-Bacon monitoring documentation which was to be performed by a subcontractor of the City was not available for review. Subsequently, the subcontractor provided the City with some documentation of the required program monitoring and is in the process of documenting the balance of the compliance work related to this matter.
3. The City apparently does not have a procedure in place to verify that contractors utilized in the grants are not disbarred from participating in federally-funded projects. Grant requirements call for documented verification that each contractor is qualified to participate.
4. Competitive procurement procedures are required in most situations where Federal grant funds are to be used. We noted an instance where documentation related to one of two proposals for processional services, which were partially funded by grant monies, was not available for review. This situation appears to be due principally to the turnover in a significant number of staff positions and an unfamiliarity with some file locations and contents. City staff has found certain supporting information and is continuing their efforts to obtain additional documents. However, we were unable, currently, to determine that the City had complied fully with the State's procurement requirements.
5. We noted that certain grant activities record the receipt of grant monies as a reduction of project costs rather than as a grant revenue. This makes it difficult to identify the grants that the City has obtained and note their activity on a current basis. It is also more difficult to ensure that the appropriate monitoring steps are put in place on a timely basis. We would recommend that all grant receipts be reported as revenue.

REPORTABLE CONDITIONS

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the City of Inkster for the year ended June 30, 2004, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under the "Reconciliations" section and items 1 and 3 of the "Grants" section of this letter to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

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We consider it a privilege to be of service to the City. If you wish to discuss any of the items included in this report, we would be happy to do so.

Yours truly,

PLANTE & MORAN, PLLC



Mark E. Chmielewski



Christopher S. Jones