

# **City of Garden City, Michigan**

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

# City of Garden City, Michigan

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# City of Garden City, Michigan

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## Independent Auditor's Report

To the City Council  
City of Garden City, 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 Garden City, Michigan (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Garden City, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain sufficient audit evidence supporting the recorded value of the Garden City Employees' Retirement System's alternative investment held at June 30, 2011, a real estate investment trust, of \$1,950,576.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient audit evidence supporting the above-mentioned investments at June 30, 2011, 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 Garden City, Michigan as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the City Council  
City of Garden City, Michigan

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

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, several funds that were previously classified as special revenue funds are now combined with the General Fund for financial statement purposes. The funds that were reclassified were the Special Assessment Bond Fund, Incinerator Improvements Fund, Building Department Fund, and Retiree Health Care Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

*Plante & Morse, PLLC*

December 13, 2011

# City of Garden City, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Garden City, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2011:

- Total net assets related to the City's governmental activities decreased by 21 percent, primarily due to the increasing unfunded liability associated with retiree healthcare.
- The City made unprecedented cuts at the end of 2010-2011 due to a projected 22 percent decrease in property tax revenue in 2011-2012. City leaders made the difficult decision to eliminate 10 professional and labor positions through layoffs, along with consolidating police dispatch services with the City of Wayne, to provide a balanced 2011-2012 budget following the defeat of a public safety millage increase ballot proposal.
- The City has continued to carefully monitor spending, increased productivity due to technology, and consolidated services. Following these policies for the last several years has strengthened our financial position.
- The City joined the Municipal Employees' Retirement System (MERS) in 2010-2011 for all bargaining units, reducing the employer retirement contribution to 18.7 percent of payroll.
- Two of the six bargaining groups have agreed to defer raises in 2011-2012 with one-half of the previously agreed-to raise to come due in 2012-2013 and one-half to come due in 2013-2014; or to extend contracts to June 2013 with wage freezes for extended years. The POAM dispatch bargaining group is pending elimination following the consolidation with the City of Wayne dispatch.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The financial statements for each fund present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Garden City, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and to monitor spending. Some funds are required to be separately maintained by state law. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for future spending. The governmental fund statements provide a detailed short-term view that highlights whether there are more or fewer financial resources available in the near future to finance the City's programs. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. The statement of revenue, expenditures, and changes in fund balances for the governmental funds provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, which are considered to be major funds. Data for the other 11 governmental funds is combined into a single, aggregated presentation. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all major governmental funds to demonstrate budgetary compliance.

- **Proprietary Funds** - Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information. The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal service funds accumulate and allocate costs internally among various functions. The City uses an internal service fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

# City of Garden City, Michigan

## Management's Discussion and Analysis (Continued)

- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources held in those funds are not available to finance the City's programs.

### Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplemental Information

The required supplemental information is in addition to the basic financial statements and accompanying notes. This section of the report highlights the City's progress in funding its obligations to provide pension and other postemployment benefits to its employees. In addition, this section includes the budgetary comparison statements for the General Fund and major special revenue fund.

### Other Financial and Supplemental Information

The combining fund statements referred to earlier, as well as the City's schedule of indebtedness, are presented immediately following the required supplemental information section of this report.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2011 and compared to the prior year (in millions of dollars):

|                              | Governmental Activities |                | Business-type Activities |                | Total          |                |
|------------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
|                              | 2010                    | 2011           | 2010                     | 2011           | 2010           | 2011           |
| <b>Assets</b>                |                         |                |                          |                |                |                |
| Current assets               | \$ 13.4                 | \$ 11.7        | \$ 6.6                   | \$ 8.7         | \$ 20.0        | \$ 20.4        |
| Capital assets               | 33.7                    | 30.0           | 35.1                     | 34.3           | 68.8           | 64.3           |
| Noncurrent assets            | -                       | -              | 0.2                      | 0.1            | 0.2            | 0.1            |
| Total assets                 | 47.1                    | 41.7           | 41.9                     | 43.1           | 89.0           | 84.8           |
| <b>Liabilities</b>           |                         |                |                          |                |                |                |
| Current liabilities          | 6.0                     | 3.6            | 1.8                      | 2.6            | 7.8            | 6.2            |
| Long-term liabilities        | 18.8                    | 20.5           | 8.7                      | 8.1            | 27.5           | 28.6           |
| Total liabilities            | 24.8                    | 24.1           | 10.5                     | 10.7           | 35.3           | 34.8           |
| <b>Net Assets</b>            |                         |                |                          |                |                |                |
| Invested in capital assets - |                         |                |                          |                |                |                |
| Net of related debt          | 28.3                    | 27.1           | 25.9                     | 26.2           | 54.2           | 53.3           |
| Restricted                   | 5.4                     | 5.6            | -                        | -              | 5.4            | 5.6            |
| Unrestricted                 | (11.4)                  | (15.1)         | 5.5                      | 6.2            | (5.9)          | (8.9)          |
| Total net assets             | <u>\$ 22.3</u>          | <u>\$ 17.6</u> | <u>\$ 31.4</u>           | <u>\$ 32.4</u> | <u>\$ 53.7</u> | <u>\$ 50.0</u> |



# City of Garden City, Michigan

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## Management's Discussion and Analysis (Continued)

The City's combined net assets decreased approximately 6.9 percent from a year ago - decreasing from \$53.7 million to \$50.0 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of 21.1 percent, or approximately \$4.7 million, during fiscal year 2011. In contrast, the business-type activities experienced a 3.2 percent, or \$1.0 million, increase in net assets during fiscal year 2011.

Governmental unrestricted net assets, the portion of net assets available to finance day-to-day operations and future growth, changed from a negative \$11.4 million at June 30, 2010 to a negative \$15.1 million at June 30, 2011, mainly because of the increase in the other postemployment benefits (retiree healthcare) liability.

In contrast, the business-type unrestricted net assets increased by \$0.7 million for the fiscal year ended June 30, 2011. The Water Fund continues to be strengthened by the City's planning policies. Rates continue to be evaluated and adjusted as necessary to plan for capital improvements and the financial health of the fund. The planned replacement of water meters has continued throughout the City. This has been coupled with the purchase of an automated data collection system that operates at three or four times the speed of the prior system. This allows us to increase productivity while still reducing labor costs. Positive results from prior replacements continue to be realized.

# City of Garden City, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) for the years ended June 30, 2011 and 2010:

|  | Governmental Activities |                 | Business-type Activities |               | Total           |                 |
|--|-------------------------|-----------------|--------------------------|---------------|-----------------|-----------------|
|  | 2010                    | 2011            | 2010                     | 2011          | 2010            | 2011            |
| <b>Revenue</b>                                   |                         |                 |                          |               |                 |                 |
| Program revenue:                                 |                         |                 |                          |               |                 |                 |
| Charges for services                             | \$ 3.1                  | \$ 3.1          | \$ 8.5                   | \$ 8.9        | \$ 11.6         | \$ 12.0         |
| Operating grants and contributions               | 2.4                     | 2.5             | -                        | -             | 2.4             | 2.5             |
| Capital grants and contributions                 | 0.1                     | 0.2             | -                        | -             | 0.1             | 0.2             |
| General revenue:                                 |                         |                 |                          |               |                 |                 |
| Property taxes                                   | 12.8                    | 11.8            | -                        | -             | 12.8            | 11.8            |
| State-shared revenue                             | 2.7                     | 2.8             | -                        | -             | 2.7             | 2.8             |
| Unrestricted investment earnings                 | 0.1                     | 0.1             | -                        | -             | 0.1             | 0.1             |
| Franchise fees                                   | 0.4                     | 0.4             | -                        | -             | 0.4             | 0.4             |
| Other  | (0.1)                   | -               | -                        | -             | (0.1)           | -               |
| Total revenue                                    | 21.5                    | 20.9            | 8.5                      | 8.9           | 30.0            | 29.8            |
| <b>Program Expenses</b>                          |                         |                 |                          |               |                 |                 |
| General government                               | 4.8                     | 4.7             | -                        | -             | 4.8             | 4.7             |
| Public safety                                    | 9.9                     | 11.3            | -                        | -             | 9.9             | 11.3            |
| Public works                                     | 5.1                     | 5.0             | -                        | -             | 5.1             | 5.0             |
| Community maintenance,<br>development, and other | 3.7                     | 1.0             | -                        | -             | 3.7             | 1.0             |
| Culture and recreation                           | 1.6                     | 1.8             | -                        | -             | 1.6             | 1.8             |
| District Court                                   | 0.7                     | 1.0             | -                        | -             | 0.7             | 1.0             |
| Interest expense                                 | 0.7                     | 0.7             | -                        | -             | 0.7             | 0.7             |
| Water and sewer                                  | -                       | -               | 6.8                      | 7.9           | 6.8             | 7.9             |
| Total program expenses                           | 26.5                    | 25.5            | 6.8                      | 7.9           | 33.3            | 33.4            |
| <b>Change in Net Assets</b>                      | <b>\$ (5.0)</b>         | <b>\$ (4.6)</b> | <b>\$ 1.7</b>            | <b>\$ 1.0</b> | <b>\$ (3.3)</b> | <b>\$ (3.6)</b> |

### Governmental Activities

The City's total governmental revenue and other items decreased by approximately \$0.6 million, mostly due to decreased property tax revenue and cuts in state revenue sharing.

Governmental expenses increased by approximately 4 percent, or \$1.0 million. The City continues to tighten controls on spending, pursue a continuing deficit reduction plan, and reduce capital expenditures from the General Fund. Inflationary factors have affected costs, especially in the areas of health care and required pension contributions, as have increases in contractual personnel obligations. Public safety expenditures increased by \$1.4 million in the current year as a result of increased other postemployment benefits expenses. Community maintenance, development, and other expenditures decreased \$2.7 million due to the fact that the prior year's expenditures included the refunding of approximately \$2.6 million of special assessments.

# City of Garden City, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewer services to residents from the DWSD. A positive cash flow for operational activities was again realized as a result of adherence to the five-year plan adopted by the City Council in 2002 and 2007, and updated annually thereafter.

### The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as the Major and Local Streets Funds. The City's major funds for the fiscal year ended June 30, 2011 included the General Fund and the Major Streets Fund in accordance with GASB requirements.

The General Fund pays for most of the City's governmental services. The most significant are personnel costs. Personnel costs, across all departments, account for approximately 66 percent of the General Fund budget. Public safety (police and fire) costs account for approximately 39 percent of the General Fund budget, approximately \$7.3 million, in the fiscal year ended June 30, 2011.

The Major Streets Fund is used by the City to account for capital outlay expenditures related to road construction and maintenance. State revenue sources and transfers from other funds support the activities recorded in this fund. Net assets in the Major Streets Fund increased, as completed road improvement projects were less than the Act 51 revenue from the State. Maplewood Road, Ford Road, and Inkster Road, major City thoroughfares, were the focus of this year's Major Streets Fund program and were partially paid for using both state and federal sources.

### General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The General Fund's fund balance, excluding funds that were blended with the General Fund as a result of implementing GASB Statement No. 54, decreased from \$3,176,838 a year ago to \$1,885,369 at June 30, 2011.

### Capital Asset and Debt Administration

The City's investment in capital assets was reduced significantly in response to the reduction in revenue. Investment was still made in the City's Management Information System (MIS) and public safety to maintain the strides made in the improvement of the City's infrastructure.

# **City of Garden City, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year will show the effects of significant expense reductions in staffing due to layoffs and consolidation. State-shared revenue is purported to maintain at its current level. However, although the State of Michigan has the option to change the funding level, there is no indication that it will. We expect property tax revenue to continue to decline, but at a lesser rate than recently experienced, due to property values continuing to fall.

The City has refunded two of its bonded debt issues in 2011/2012. It is estimated to provide the City with a net savings of almost \$400,000 in debt service over the life of the bonds.

Water rates have increased for the fiscal year ending June 30, 2012 to reflect increases received from the Detroit Water and Sewer Department and Wayne County, and in accordance with our five-year plan.

### **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 office of the treasurer/city clerk.

# City of Garden City, Michigan

## Statement of Net Assets June 30, 2011

|  | Primary Government         |                             |                      | Component<br>Unit - DDA |
|--|----------------------------|-----------------------------|----------------------|-------------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                |                         |
| <b>Assets</b>                                    |                            |                             |                      |                         |
| Cash and investments (Note 2)                    | \$ 6,862,485               | \$ 4,430,526                | \$ 11,293,011        | \$ 682,264              |
| Receivables (Note 4)                             | 1,555,717                  | 4,210,807                   | 5,766,524            | 364,196                 |
| Prepaid costs and other assets                   | 566,840                    | -                           | 566,840              | -                       |
| Investment in CWCSA (Note 12)                    | (1,247)                    | -                           | (1,247)              | -                       |
| Due from other governmental units                | 968,907                    | -                           | 968,907              | -                       |
| Capital assets (Note 5):                         |                            |                             |                      |                         |
| Assets not subject to depreciation               | 1,828,467                  | -                           | 1,828,467            | -                       |
| Assets subject to depreciation                   | 29,957,413                 | 34,260,532                  | 64,217,945           | 1,819,189               |
| Unamortized bond issuance costs                  | -                          | 145,375                     | 145,375              | -                       |
| <b>Total assets</b>                              | <b>41,738,582</b>          | <b>43,047,240</b>           | <b>84,785,822</b>    | <b>2,865,649</b>        |
| <b>Liabilities</b>                               |                            |                             |                      |                         |
| Accounts payable                                 | 815,176                    | 557,045                     | 1,372,221            | 123,483                 |
| Accrued and other liabilities                    | 656,316                    | 843,000                     | 1,499,316            | 18,930                  |
| Noncurrent liabilities:                          |                            |                             |                      |                         |
| Due within one year:                             |                            |                             |                      |                         |
| Compensated absences (Note 7)                    | 346,672                    | 74,158                      | 420,830              | -                       |
| Current portion of long-term debt                | 1,771,959                  | 1,094,477                   | 2,866,436            | 164,180                 |
| Due in more than one year:                       |                            |                             |                      |                         |
| Compensated absences                             | 492,778                    | -                           | 492,778              | -                       |
| Net OPEB obligation                              | 5,681,921                  | 1,095,590                   | 6,777,511            | -                       |
| Long-term debt                                   | 14,325,933                 | 6,987,574                   | 21,313,507           | 1,354,411               |
| <b>Total liabilities</b>                         | <b>24,090,755</b>          | <b>10,651,844</b>           | <b>34,742,599</b>    | <b>1,661,004</b>        |
| <b>Net Assets</b>                                |                            |                             |                      |                         |
| Invested in capital assets - Net of related debt | 27,146,913                 | 26,178,481                  | 53,325,394           | 300,598                 |
| Restricted for:                                  |                            |                             |                      |                         |
| Streets and highways                             | 4,406,984                  | -                           | 4,406,984            | -                       |
| Debt service                                     | 23,598                     | -                           | 23,598               | -                       |
| Capital projects                                 | 38,312                     | -                           | 38,312               | -                       |
| Police drug confiscation monies                  | 60,285                     | -                           | 60,285               | -                       |
| 911  | 141,867                    | -                           | 141,867              | -                       |
| Franchise PEG fees                               | 140,204                    | -                           | 140,204              | -                       |
| Refuse levy                                      | 726,083                    | -                           | 726,083              | -                       |
| Housing rehabilitation                           | 90                         | -                           | 90                   | -                       |
| Community development                            | 15,576                     | -                           | 15,576               | -                       |
| Unrestricted                                     | (15,052,085)               | 6,216,915                   | (8,835,170)          | 904,047                 |
| <b>Total net assets</b>                          | <b>\$ 17,647,827</b>       | <b>\$ 32,395,396</b>        | <b>\$ 50,043,223</b> | <b>\$ 1,204,645</b>     |

# City of Garden City, Michigan

| Functions/Programs                              | Program Revenue      |                      |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   | Expenses             | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government:                             |                      |                      |                                    |                                  |
| Governmental activities:                        |                      |                      |                                    |                                  |
| General government                              | \$ 4,654,865         | \$ 223,434           | \$ -                               | \$ -                             |
| 21st District Court                             | 959,148              | 865,698              | 45,724                             | -                                |
| Public safety                                   | 11,255,692           | 657,307              | 187,262                            | -                                |
| Public works                                    | 5,044,001            | 410,078              | 1,682,507                          | -                                |
| Community maintenance, development, and other   | 986,003              | 352,329              | 234,407                            | 182,731                          |
| Recreation and culture                          | 1,825,121            | 549,016              | 304,546                            | -                                |
| Debt service                                    | 655,060              | -                    | -                                  | -                                |
| Total governmental activities                   | 25,379,890           | 3,057,862            | 2,454,446                          | 182,731                          |
| Business-type activities - Water and Sewer Fund | 7,981,173            | 8,943,710            | -                                  | -                                |
| Total primary government                        | <u>\$ 33,361,063</u> | <u>\$ 12,001,572</u> | <u>\$ 2,454,446</u>                | <u>\$ 182,731</u>                |
| Component unit - Downtown Development Authority | <u>\$ 585,028</u>    | <u>\$ -</u>          | <u>\$ -</u>                        | <u>\$ -</u>                      |
| General revenue:                                |                      |                      |                                    |                                  |
| Property taxes                                  |                      |                      |                                    |                                  |
| State-shared revenue                            |                      |                      |                                    |                                  |
| Interest and other                              |                      |                      |                                    |                                  |
| Cable franchise fees                            |                      |                      |                                    |                                  |
| Loss on sale of capital assets                  |                      |                      |                                    |                                  |
| Total general revenue                           |                      |                      |                                    |                                  |
| <b>Change in Net Assets</b>                     |                      |                      |                                    |                                  |
| <b>Net Assets - Beginning of year</b>           |                      |                      |                                    |                                  |
| <b>Net Assets - End of year</b>                 |                      |                      |                                    |                                  |

**Statement of Activities  
Year Ended June 30, 2011**

| Primary Government         |                             |                      | Component<br>Unit -<br>Downtown<br>Development<br>Authority |
|----------------------------|-----------------------------|----------------------|---|
| Governmental<br>Activities | Business-type<br>Activities | Total                |   |
| \$ (4,431,431)             | \$ -                        | \$ (4,431,431)       | \$ -  |
| (47,726)                   | -                           | (47,726)             | -   |
| (10,411,123)               | -                           | (10,411,123)         | -   |
| (2,951,416)                | -                           | (2,951,416)          | -   |
| (216,536)                  | -                           | (216,536)            | -   |
| (971,559)                  | -                           | (971,559)            | -   |
| (655,060)                  | -                           | (655,060)            | -   |
| (19,684,851)               | -                           | (19,684,851)         | -   |
| -                          | 962,537                     | 962,537              | -   |
| (19,684,851)               | 962,537                     | (18,722,314)         | -   |
| -                          | -                           | -                    | (585,028)   |
| 11,780,537                 | -                           | 11,780,537           | 501,429   |
| 2,768,038                  | -                           | 2,768,038            | -   |
| 70,899                     | 16,233                      | 87,132               | 3,907   |
| 417,056                    | -                           | 417,056              | -   |
| (990)                      | -                           | (990)                | -   |
| 15,035,540                 | 16,233                      | 15,051,773           | 505,336   |
| (4,649,311)                | 978,770                     | (3,670,541)          | (79,692)  |
| 22,297,138                 | 31,416,626                  | 53,713,764           | 1,284,337   |
| <b>\$ 17,647,827</b>       | <b>\$ 32,395,396</b>        | <b>\$ 50,043,223</b> | <b>\$ 1,204,645</b>   |

# City of Garden City, Michigan

## Governmental Funds Balance Sheet June 30, 2011

|  | General Fund        | Major Streets<br>Fund | Nonmajor<br>Funds   | Total               |
|--|---------------------|-----------------------|---------------------|---------------------|
| <b>Assets</b>                              |                     |                       |                     |                     |
| Cash and investments                       | \$ 1,276,346        | \$ 3,124,058          | \$ 1,676,066        | \$ 6,076,470        |
| Receivables:                               |                     |                       |                     |                     |
| Property taxes receivable                  | 1,304,353           | -                     | 82,277              | 1,386,630           |
| Special assessments receivable             | 30,399              | -                     | 84,600              | 114,999             |
| Other receivables                          | -                   | -                     | 216,245             | 216,245             |
| Due from other funds                       | 259,041             | -                     | -                   | 259,041             |
| Prepaid costs and other assets             | 338,662             | -                     | -                   | 338,662             |
| Due from other governmental units          | 709,461             | 185,782               | 73,664              | 968,907             |
|  | <u>\$ 3,918,262</u> | <u>\$ 3,309,840</u>   | <u>\$ 2,132,852</u> | <u>\$ 9,360,954</u> |
| <b>Total assets</b>                        |                     |                       |                     |                     |
| <b>Liabilities and Fund Balances</b>       |                     |                       |                     |                     |
| <b>Liabilities</b>                         |                     |                       |                     |                     |
| Accounts payable                           | \$ 772,181          | \$ 28,497             | \$ 9,261            | \$ 809,939          |
| Due to other funds                         | -                   | -                     | 259,041             | 259,041             |
| Accrued and other liabilities              | 516,269             | -                     | -                   | 516,269             |
| Deferred revenue                           | 380,577             | -                     | 266,595             | 647,172             |
|  | <u>1,669,027</u>    | <u>28,497</u>         | <u>534,897</u>      | <u>2,232,421</u>    |
| <b>Fund Balances</b>                       |                     |                       |                     |                     |
| Nonspendable - Prepays                     | 338,662             | -                     | -                   | 338,662             |
| Restricted:                                |                     |                       |                     |                     |
| Roads                                      | -                   | 3,281,343             | 1,125,641           | 4,406,984           |
| Public safety                              | -                   | -                     | 202,152             | 202,152             |
| Debt service                               | -                   | -                     | 7,397               | 7,397               |
| Housing rehabilitation                     | -                   | -                     | 90                  | 90                  |
| Capital projects                           | -                   | -                     | 7,517               | 7,517               |
| PEG fees                                   | -                   | -                     | 140,204             | 140,204             |
| Refuse                                     | 726,083             | -                     | -                   | 726,083             |
| Assigned:                                  |                     |                       |                     |                     |
| Subsequent year's budget                   | 172,000             | -                     | -                   | 172,000             |
| Capital projects                           | -                   | -                     | 318,977             | 318,977             |
| Unassigned                                 | 1,012,490           | -                     | (204,023)           | 808,467             |
|  | <u>2,249,235</u>    | <u>3,281,343</u>      | <u>1,597,955</u>    | <u>7,128,533</u>    |
| <b>Total fund balances</b>                 | <u>2,249,235</u>    | <u>3,281,343</u>      | <u>1,597,955</u>    | <u>7,128,533</u>    |
| <b>Total liabilities and fund balances</b> | <u>\$ 3,918,262</u> | <u>\$ 3,309,840</u>   | <u>\$ 2,132,852</u> | <u>\$ 9,360,954</u> |



# City of Garden City, Michigan

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

|   |                             |
|---|-----------------------------|
| <b>Fund Balance Reported in Governmental Funds</b>  | \$ 7,128,533                |
| 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  | 31,785,880                  |
| Investments in joint ventures are not financial resources and are not reported in the funds   | (1,247)                     |
| Special assessment, grant receivables, and property tax are expected to be collected over several years and are not available   | 647,172                     |
| Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds   | (15,768,967)                |
| Accrued interest is not due and payable in the current period and is not reported in the funds  | (140,047)                   |
| Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | (839,450)                   |
| Net other postemployment benefits obligation  | (5,681,921)                 |
| Allowance for delinquent personal property taxes not reported in the funds  | (162,157)                   |
| Bond issuance costs   | 202,678                     |
| Internal service funds are included as part of governmental activities  | <u>477,353</u>              |
| <b>Net Assets of Governmental Activities</b>  | <b><u>\$ 17,647,827</u></b> |

# City of Garden City, Michigan

## Governmental Funds

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

|  | General Fund               | Major Streets<br>Fund      | Nonmajor<br>Funds          | Total                      |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>Revenue</b>   |                            |                            |                            |                            |
| Property taxes   | \$ 10,701,614              | \$ -                       | \$ 1,099,234               | \$ 11,800,848              |
| Licenses and permits   | 48,476                     | -                          | -                          | 48,476                     |
| Federal sources  | 281,513                    | -                          | 78,849                     | 360,362                    |
| State sources  | 4,223,925                  | 1,151,456                  | 456,555                    | 5,831,936                  |
| Charges for services   | 1,424,365                  | -                          | 75,073                     | 1,499,438                  |
| 21st District Court  | 816,651                    | -                          | -                          | 816,651                    |
| Interest and other   | 411,385                    | 14,481                     | 391,991                    | 817,857                    |
| Cable franchise fees   | 499,899                    | -                          | -                          | 499,899                    |
| Special assessments  | 1,775                      | -                          | 46,088                     | 47,863                     |
|  | <u>18,409,603</u>          | <u>1,165,937</u>           | <u>2,147,790</u>           | <u>21,723,330</u>          |
| Total revenue  |                            |                            |                            |                            |
| <b>Expenditures</b>  |                            |                            |                            |                            |
| General government   | 6,494,721                  | -                          | -                          | 6,494,721                  |
| 21st District Court  | 755,815                    | -                          | -                          | 755,815                    |
| Public safety  | 7,146,003                  | -                          | 130,000                    | 7,276,003                  |
| Public service   | 2,142,167                  | 653,283                    | -                          | 2,795,450                  |
| Community maintenance, development, and<br>other                     | 631,950                    | -                          | 932,391                    | 1,564,341                  |
| Recreation and culture   | 1,626,261                  | -                          | -                          | 1,626,261                  |
| Capital outlay   | -                          | -                          | 150,098                    | 150,098                    |
| Debt service   | 1,018,072                  | -                          | 1,256,425                  | 2,274,497                  |
|  | <u>19,814,989</u>          | <u>653,283</u>             | <u>2,468,914</u>           | <u>22,937,186</u>          |
| Total expenditures   |                            |                            |                            |                            |
| <b>Excess of Revenue (Under) Over<br/>Expenditures</b>               | (1,405,386)                | 512,654                    | (321,124)                  | (1,213,856)                |
| <b>Other Financing Sources (Uses)</b>                                |                            |                            |                            |                            |
| Face value of debt issue   | -                          | -                          | 99,450                     | 99,450                     |
| Transfers in   | -                          | -                          | 317,864                    | 317,864                    |
| Transfers out  | (30,000)                   | (287,864)                  | -                          | (317,864)                  |
|  | <u>(30,000)</u>            | <u>(287,864)</u>           | <u>417,314</u>             | <u>99,450</u>              |
| Total other financing (uses)<br>sources                              |                            |                            |                            |                            |
| <b>Net Change in Fund Balances</b>                                   | (1,435,386)                | 224,790                    | 96,190                     | (1,114,406)                |
| <b>Fund Balances - Beginning of year (as<br/>restated) (Note 16)</b> | <u>3,684,621</u>           | <u>3,056,553</u>           | <u>1,501,765</u>           | <u>8,242,939</u>           |
| <b>Fund Balances - End of year</b>                                   | <u><u>\$ 2,249,235</u></u> | <u><u>\$ 3,281,343</u></u> | <u><u>\$ 1,597,955</u></u> | <u><u>\$ 7,128,533</u></u> |

# City of Garden City, Michigan

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

|  |                              |
|--|------------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | \$ (1,114,406)               |
| Amounts reported for governmental activities in the statement of activities are different because:   |                              |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:   |                              |
| Capital outlay   | 748,478                      |
| Depreciation expense   | (2,631,909)                  |
| Special assessment, property tax, and grant revenue are recorded in the statement of activities when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end                                      | 91,958                       |
| Bond issuance costs are not reported as other financing uses on the statement of activities because they are capitalized and amortized over the term of the bond   | (34,905)                     |
| Change in interest in joint venture  | (55,301)                     |
| Change in personal property tax revenue  | (13,793)                     |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)  | 1,607,090                    |
| Change in accrued interest payable and other   | 12,348                       |
| Issuing debt provides financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets   | (99,450)                     |
| Change in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment | 95,384                       |
| Change in net other postemployment benefits liability is recorded when incurred in the statement of activities   | (3,353,076)                  |
| Internal service funds are included as part of governmental activities   | 98,271                       |
| <b>Change in Net Assets of Governmental Activities</b>   | <b><u>\$ (4,649,311)</u></b> |

# City of Garden City, Michigan

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

|  | Water and Sewer<br>Fund | Internal Service<br>Funds |
|--|-------------------------|---------------------------|
| <b>Assets</b>                                    |                         |                           |
| Current assets:                                  |                         |                           |
| Cash and investments                             | \$ 4,430,526            | \$ 786,015                |
| Receivables - Net (Note 4)                       | 4,210,807               | -                         |
| Prepaid costs and other assets                   | -                       | 25,500                    |
| Total current assets                             | 8,641,333               | 811,515                   |
| Noncurrent assets:                               |                         |                           |
| Capital assets                                   | 34,260,532              | -                         |
| Unamortized bond discount                        | 145,375                 | -                         |
| Total noncurrent assets                          | 34,405,907              | -                         |
| Total assets                                     | 43,047,240              | 811,515                   |
| <b>Liabilities</b>                               |                         |                           |
| Current liabilities:                             |                         |                           |
| Accounts payable                                 | 557,045                 | 5,237                     |
| Accrued and other liabilities                    | 843,000                 | -                         |
| Compensated absences - Current                   | 74,158                  | -                         |
| Current portion of long-term debt                | 1,094,477               | -                         |
| Total current liabilities                        | 2,568,680               | 5,237                     |
| Noncurrent liabilities:                          |                         |                           |
| Net other postemployment obligation              | 1,095,590               | -                         |
| Long-term debt                                   | 6,987,574               | 328,925                   |
| Total noncurrent liabilities                     | 8,083,164               | 328,925                   |
| Total liabilities                                | 10,651,844              | 334,162                   |
| <b>Net Assets</b>                                |                         |                           |
| Invested in capital assets - Net of related debt | 26,178,481              | -                         |
| Unrestricted                                     | 6,216,915               | 477,353                   |
| Total net assets                                 | \$ 32,395,396           | \$ 477,353                |

# City of Garden City, Michigan

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

|                                       | Water and Sewer<br>Fund | Internal Service<br>Funds |
|---------------------------------------|-------------------------|---------------------------|
| <b>Operating Revenue</b>              |                         |                           |
| Water and sewer services              | \$ 8,907,508            | \$ -                      |
| Interest and other                    | 36,202                  | -                         |
| Charges for services                  | -                       | 247,417                   |
| Total operating revenue               | 8,943,710               | 247,417                   |
| <b>Operating Expenses</b>             |                         |                           |
| Cost of water                         | 1,609,502               | -                         |
| Cost of sewage treatment              | 2,334,061               | -                         |
| Supplies                              | 176,913                 | -                         |
| Personnel services                    | 1,846,246               | -                         |
| Other services and charges            | 685,327                 | -                         |
| Claims expense                        | -                       | 152,515                   |
| Depreciation and amortization         | 978,237                 | -                         |
| Total operating expenses              | 7,630,286               | 152,515                   |
| <b>Operating Income</b>               | 1,313,424               | 94,902                    |
| <b>Nonoperating Revenue (Expense)</b> |                         |                           |
| Investment income                     | 16,233                  | 3,369                     |
| Interest expense                      | (350,887)               | -                         |
| Total nonoperating (expense) revenue  | (334,654)               | 3,369                     |
| <b>Change in Net Assets</b>           | 978,770                 | 98,271                    |
| <b>Net Assets - Beginning of year</b> | 31,416,626              | 379,082                   |
| <b>Net Assets - End of year</b>       | <b>\$ 32,395,396</b>    | <b>\$ 477,353</b>         |

# City of Garden City, Michigan

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

|   | Water and Sewer<br>Fund | Internal Service<br>Funds |
|---|-------------------------|---------------------------|
| <b>Cash Flows from Operating Activities</b>   |                         |                           |
| Receipts from customers   | \$ 8,445,389            | \$ 247,417                |
| Payments to suppliers   | (3,957,920)             | -                         |
| Payments to employees   | (1,366,177)             | -                         |
| Claims paid   | -                       | (101,168)                 |
|   | 3,121,292               | 146,249                   |
| <b>Cash Flows from Noncapital Financing Activities</b> - Operating transfer and interfund loans | (71,547)                | -                         |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                 |                         |                           |
| Proceeds from sales of capital assets   | 71,025                  | -                         |
| Purchase of capital assets  | (136,238)               | -                         |
| Principal and interest paid on capital debt   | (1,510,654)             | -                         |
|   | (1,575,867)             | -                         |
| <b>Cash Flows from Investing Activities</b> - Interest received on investments                  | 16,233                  | 3,369                     |
| <b>Net Increase in Cash and Cash Equivalents</b>  | 1,490,111               | 149,618                   |
| <b>Cash and Cash Equivalents</b> - Beginning of year  | 2,940,415               | 636,397                   |
| <b>Cash and Cash Equivalents</b> - End of year  | <b>\$ 4,430,526</b>     | <b>\$ 786,015</b>         |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b> - Cash and investments         | <b>\$ 4,430,526</b>     | <b>\$ 786,015</b>         |
| <b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>                 |                         |                           |
| Operating income  | \$ 1,313,424            | \$ 94,902                 |
| Adjustments to reconcile operating income to net cash from operating activities:                |                         |                           |
| Depreciation and amortization   | 978,237                 | -                         |
| Changes in assets and liabilities:  |                         |                           |
| Receivables   | (498,321)               | -                         |
| Prepaid and other assets  | (24,681)                | -                         |
| Accounts payable  | 112,564                 | -                         |
| Increase in OPEB liability  | 493,797                 | -                         |
| Accrued and other liabilities   | 746,272                 | 51,347                    |
|   | \$ 3,121,292            | \$ 146,249                |

During the year ended June 30, 2011, there were no significant noncash activities.

# City of Garden City, Michigan

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

|   | Pension Trust<br>Fund -<br>Employees'<br>Retirement<br>System | <u>Agency Funds</u>      |
|---|---|--------------------------|
| <b>Assets</b>   |   |                          |
| Cash and cash equivalents                                   | \$ -  | \$ 759,708               |
| Investments at fair value -<br>Real estate investment trust | <u>1,950,576</u>  | <u>-</u>                 |
| Total assets  | 1,950,576   | <u><b>\$ 759,708</b></u> |
| <b>Liabilities</b>  |   |                          |
| Other liabilities   | 1,950,576   | \$ 422,956               |
| Due to other governmental units                             | <u>-</u>  | <u>336,752</u>           |
| Total liabilities   | <u>1,950,576</u>  | <u><b>\$ 759,708</b></u> |
| <b>Net Assets</b> - Held in trust for pension benefits      | <u><b>\$ -</b></u>  |                          |

# City of Garden City, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets Pension Trust Fund - Employees' Retirement System Year Ended June 30, 2011

### Additions

|   |                  |
|---|------------------|
| Investment income:                        |                  |
| Interest and dividends                    | \$ 144,321       |
| Net increase in fair value of investments | 1,655,212        |
| Investment-related expenses               | <u>(149,707)</u> |
| Net investment income                     | 1,649,826        |
| Contributions:                            |                  |
| Employer                                  | 902,712          |
| Employee                                  | <u>282,224</u>   |
| Total contributions                       | <u>1,184,936</u> |
| Total additions                           | 2,834,762        |

### Deductions

|  |                    |
|--|--------------------|
| Benefit payments   | 1,782,274          |
| Refunds of contributions   | 106,304            |
| Transfer to MERS   | <u>50,131,118</u>  |
| Total deductions   | <u>52,019,696</u>  |
| <b>Net Decrease in Net Assets Held in Trust</b>                          | (49,184,934)       |
| <b>Net Assets Held in Trust for Pension Benefits - Beginning of year</b> | <u>49,184,934</u>  |
| <b>Net Assets Held in Trust for Pension Benefits - End of year</b>       | <u><u>\$ -</u></u> |



# City of Garden City, Michigan

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## Notes to Financial Statements June 30, 2011

### Note 1 - Nature of Business and Significant Accounting Policies

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

#### **Reporting Entity**

The City of Garden City, Michigan is governed by an elected seven-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. The 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.

**Blended Component Units** - The City of Garden City 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 public buildings.

The City of Garden City Employees' Retirement System (the "System") has also been blended into the City's financial statements. The System is governed by a five-member pension board that includes three individuals chosen by the City Council. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system. The System was closed and all assets were transferred to the Municipal Employees' Retirement System of Michigan (MERS) during the year, and the pension board was disbanded.

**Discretely Presented Component Units** - The City of Garden City Downtown Development Authority (DDA) is reported in the component unit column in the financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. 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 district. The DDA's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

**Jointly Governed Organization** - The City is a member of the Nankin Transit Commission, which provides transportation services to the residents of Garden City, Westland, Canton, Wayne, and Inkster. In addition, the City is a member of the Central Wayne County Sanitation Authority, which provides waste management services to the residents of Garden City, Inkster, Dearborn Heights, Wayne, and Westland. See Note 12 for additional information.

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

The City of Garden City Hospital Finance Authority's purpose is to construct, acquire, reconstruct, remodel, improve, add to, enlarge, repair, own, and lease hospital facilities for the use of any nonprofit hospital inside or outside the boundaries of the City. The City of Garden City Hospital Finance Authority holds no assets and had no financial activity during the year.

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

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

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

#### **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, fiduciary fund, and component unit 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.

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

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

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

**Internal Service Fund** - 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 primarily on a cost-reimbursement basis.

**Employees' Retirement System Fund** - The Employees' Retirement System Fund accounts for the activities of the employees' retirement system, which accumulates resources for pension benefit payments to qualified employees.

**General Agency Fund** - The General Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. The General Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

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.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its enterprise fund.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2010 taxable valuation of the City totaled \$647 million, on which ad valorem taxes levied consisted of 13.8403 mills for operating purposes, 2.6000 mills for refuse collection, and 1.7363 mills for judgment debt. The ad valorem taxes levied raised \$9.0 million for operation, \$1.7 million for refuse collection, and \$1.1 million for the judgment debt. A portion of the operating and refuse millage is captured for the Downtown Development Authority.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

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

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The City manages and accounts for cash and cash equivalents via an internal pool cash management technique whereby all cash and cash equivalents of the City are consolidated.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." 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.

**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.

**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 the 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                  | 9 to 30 years   |
| Water and sewer distribution systems | 50 to 100 years |
| Drain separation project             | 40 to 50 years  |
| Buildings and improvements           | 50 years        |
| Vehicles and equipment               | 3 to 5 years    |
| Meters                               | 20 years        |
| Office furnishings                   | 5 to 7 years    |
| Machinery and equipment              | 3 to 7 years    |

### **Note 1 - Nature of Business and 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 and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

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

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

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

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

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

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

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



### Note 2 - Deposits and Investments

The investment policy adopted by the City Council in accordance with Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes deposits and investments in bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2) of the state statute (depository of surplus funds belonging to the State or United States), commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase, United States government or federal agency obligation repurchase agreements, bankers' acceptances of United States banks, obligations of the State or any of its political subdivisions that rate as investment grade by not less than one standard rating service and purchased through an interlocal agreement under the Urban Cooperations Act of 1967, investment pools organized under the Local Government Investment Pool Act of 1985, and investment pools organized under the Surplus Funds Investment Pools Act of 1982.

The City's investment policy further restricts certificates of deposit, savings accounts, deposit accounts, or depository receipts by requiring these investments to be from a bank with a corporate headquarters or branches located in the state of Michigan. The City's policy restricts repurchase agreements to being negotiated only with dealers or financial institutions with whom the unit has negotiated a master repurchase agreement or with the City of Garden City, Michigan's primary bank. In addition, repurchase agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's model master repurchase agreement, and collateralization shall be required on all repurchase agreements at a level of 102 percent of market value of principal and accrued interest. The City's policy states that investments in commercial paper shall be no more than 50 percent of the entire portfolio and that commercial paper held in the portfolio which subsequently receives a reduced rating lower than the top two shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized. In addition, to the extent possible, the investing officer will attempt to match investments with anticipated cash flow requirements and unless matched to a specific cash flow requirement, the City of Garden City, Michigan will not directly invest in securities maturing more than five years from the date of purchase.

The City's policy further indicates that no more than 40 percent of the City's total investment portfolio as of June 30 of the preceding year shall be placed in securities maturing in more than three years and investments will be diversified by security type and institution. With the exception of U.S. Treasury securities and the City's primary bank, no more than 50 percent of the total investment portfolio will be invested in a single security type or 25 percent with a single financial institution.



# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 2 - Deposits and Investments (Continued)

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

The City has designated 14 banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for repurchase agreements and obligations of the State of Michigan or its political subdivisions. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial risk. At year end, the City had \$5,009,131 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity and, unless matched to a specific cash flow requirement, the City cannot directly invest in securities maturing more than five years from the date of purchase and no more than 40 percent of the City's total investment portfolio can be placed in securities maturing in more than three years. At year end, the average maturities of investments are as follows:

| Investment       | Fair Value   | Weighted Average Maturity |
|------------------|--------------|---------------------------|
| Commercial paper | \$ 4,098,286 | 57                        |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 2 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City requires two nationally recognized statistical rating organizations to have a rating of the commercial paper in the top two rating categories. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment       | Fair Value   | Rating | Rating<br>Organization |
|------------------|--------------|--------|------------------------|
| Money market     | \$ 2,391,270 | N/A    | N/A                    |
| Money market     | 311,264      | AAA    | Moody's                |
| Money market     | 506,919      | N/A    | N/A                    |
| Commercial paper | 3,098,574    | A1     | Moody's                |
| Commercial paper | 999,712      | P2     | Moody's                |

### Note 3 - 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. The cumulative shortfall as of June 30, 2011 is \$650,234.

|                                       |    |           |
|---------------------------------------|----|-----------|
| Shortfall at July 1, 2010             | \$ | (650,234) |
| Current year permit revenue           |    | 373,658   |
| Related expenses:                     |    |           |
| Direct costs                          | \$ | 534,021   |
| Estimated indirect costs              | -  | 534,021   |
| Current year shortfall                |    | (160,363) |
| Cumulative shortfall at June 30, 2011 | \$ | (810,597) |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major fund and the nonmajor funds are as follows:

|                                   | General<br>Fund           | Nonmajor<br>Funds         | Total                     | Business-<br>type         | Downtown<br>Development<br>Authority |
|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------------------|
| Receivables:                      |                           |                           |                           |                           |                                      |
| Property taxes receivable         | \$ 1,304,353              | \$ 82,277                 | \$ 1,386,630              | \$ -                      | \$ -                                 |
| Special assessments<br>receivable | 30,399                    | 84,600                    | 114,999                   | -                         | 364,196                              |
| Customers and other               | -                         | 216,245                   | 216,245                   | 4,210,807                 | -                                    |
|                                   | <u>                  </u> | <u>                  </u> | <u>                  </u> | <u>                  </u> | <u>                  </u>            |
| Net receivables                   | <u>\$ 1,334,752</u>       | <u>\$ 383,122</u>         | <u>\$ 1,717,874</u>       | <u>\$ 4,210,807</u>       | <u>\$ 364,196</u>                    |

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:

|  |  |
|--|--|
|  | Governmental<br>Funds -<br>Unavailable |
| Special assessments                                      | \$ 113,957                             |
| Property taxes not received within 60 days               | 294,479                                |
| Grant reimbursements not available in the current period | <u>238,736</u>                         |
| Total  | <u>\$ 647,172</u>                      |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets

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

|                                       | Balance<br>July 1, 2010 | Additions             | Disposals and<br>Adjustments | Balance<br>June 30, 2011 |
|---------------------------------------|-------------------------|-----------------------|------------------------------|--------------------------|
| <b>Governmental Activities</b>        |                         |                       |                              |                          |
| Capital assets not being depreciated: |                         |                       |                              |                          |
| Land and land improvements            | \$ 1,414,961            | \$ -                  | \$ -                         | \$ 1,414,961             |
| Construction in progress              | -                       | 413,506               | -                            | 413,506                  |
| Subtotal                              | 1,414,961               | 413,506               | -                            | 1,828,467                |
| Capital assets being depreciated:     |                         |                       |                              |                          |
| Roads and sidewalks                   | 93,356,464              | 54,215                | -                            | 93,410,679               |
| Buildings and improvements            | 6,536,224               | -                     | -                            | 6,536,224                |
| Vehicles and equipment                | 11,194,153              | 280,757               | (13,321)                     | 11,461,589               |
| Subtotal                              | 111,086,841             | 334,972               | (13,321)                     | 111,408,492              |
| Accumulated depreciation:             |                         |                       |                              |                          |
| Roads and sidewalks                   | 65,437,096              | 2,288,339             | -                            | 67,725,435               |
| Buildings and improvements            | 2,838,891               | 117,506               | -                            | 2,956,397                |
| Vehicles and equipment                | 10,556,504              | 226,064               | (13,321)                     | 10,769,247               |
| Subtotal                              | 78,832,491              | 2,631,909             | (13,321)                     | 81,451,079               |
| Net capital assets being depreciated  | 32,254,350              | (2,296,937)           | -                            | 29,957,413               |
| Net capital assets                    | <u>\$ 33,669,311</u>    | <u>\$ (1,883,431)</u> | <u>\$ -</u>                  | <u>\$ 31,785,880</u>     |
| <b>Business-type Activities</b>       |                         |                       |                              |                          |
| Capital assets being depreciated:     |                         |                       |                              |                          |
| Water and sewer distribution systems  | \$ 14,724,786           | \$ -                  | \$ (71,025)                  | \$ 14,653,761            |
| Drain separation project              | 28,122,982              | -                     | -                            | 28,122,982               |
| Vehicles                              | 1,159,656               | 15,980                | -                            | 1,175,636                |
| Meters                                | 2,809,364               | 72,687                | -                            | 2,882,051                |
| Office furnishings                    | 53,819                  | -                     | -                            | 53,819                   |
| Machinery and equipment               | 825,011                 | 47,571                | -                            | 872,582                  |
| Subtotal                              | 47,695,618              | 136,238               | (71,025)                     | 47,760,831               |
| Accumulated depreciation:             |                         |                       |                              |                          |
| Water and sewer distribution systems  | 4,006,131               | 148,846               | -                            | 4,154,977                |
| Drain separation project              | 6,187,057               | 562,460               | -                            | 6,749,517                |
| Vehicles                              | 951,108                 | 37,469                | -                            | 988,577                  |
| Meters                                | 719,151                 | 142,163               | -                            | 861,314                  |
| Office furnishings                    | 39,258                  | 2,846                 | -                            | 42,104                   |
| Machinery and equipment               | 661,823                 | 41,987                | -                            | 703,810                  |
| Subtotal                              | 12,564,528              | 935,771               | -                            | 13,500,299               |
| Net capital assets                    | <u>\$ 35,131,090</u>    | <u>\$ (799,533)</u>   | <u>\$ (71,025)</u>           | <u>\$ 34,260,532</u>     |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 5 - Capital Assets (Continued)

| Component Units                   | Balance<br>July 1, 2010 | Additions          | Disposals   | Balance<br>June 30, 2011 |
|-----------------------------------|-------------------------|--------------------|-------------|--------------------------|
| Capital assets being depreciated: |                         |                    |             |                          |
| Land improvements                 | \$ 2,512,400            | \$ -               | \$ -        | \$ 2,512,400             |
| Equipment                         | 97,271                  | -                  | -           | 97,271                   |
| Subtotal                          | 2,609,671               | -                  | -           | 2,609,671                |
| Accumulated depreciation:         |                         |                    |             |                          |
| Land improvements                 | 642,838                 | 52,222             | -           | 695,060                  |
| Equipment                         | 94,497                  | 925                | -           | 95,422                   |
| Subtotal                          | 737,335                 | 53,147             | -           | 790,482                  |
| Net capital assets                | <u>\$ 1,872,336</u>     | <u>\$ (53,147)</u> | <u>\$ -</u> | <u>\$ 1,819,189</u>      |

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

|                               |                     |
|-------------------------------|---------------------|
| Governmental activities:      |                     |
| General government            | \$ 65,607           |
| Public safety                 | 198,797             |
| Public works                  | 2,313,704           |
| Recreation and culture        | 53,801              |
| Total governmental activities | <u>\$ 2,631,909</u> |

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund                | Payable Fund                | Amount            |
|--------------------------------|-----------------------------|-------------------|
| <b>Due to/from Other Funds</b> |                             |                   |
| General Fund                   | Nonmajor governmental funds | <u>\$ 259,041</u> |

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

| <u>Fund Transferred From</u> | <u>Fund Transferred To</u>      | <u>Amount</u>     |
|------------------------------|---------------------------------|-------------------|
| General Fund                 | Nonmajor governmental funds (1) | \$ 30,000         |
| Major Streets Fund           | Local Streets Fund (2)          | <u>287,864</u>    |
|                              | Total                           | <u>\$ 317,864</u> |

(1) Transfer for capital asset projects

(2) Transfer of Act 51 money to fund Local Streets Fund projects

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

|                                   | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions  | Reductions   | Ending<br>Balance | Due Within<br>One Year |
|-----------------------------------|----------------------------|---------------------------------|----------------------|------------|--------------|-------------------|------------------------|
| <b>Governmental Activities</b>    |                            |                                 |                      |            |              |                   |                        |
| General Obligation - 2004 Limited |                            |                                 |                      |            |              |                   |                        |
| Tax Refunding Bonds:              |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$3,385,000      | 4.00% -                    | \$265,000 -                     |                      |            |              |                   |                        |
| Maturing through 2015             | 4.50%                      | \$310,000                       | \$ 1,445,000         | \$ -       | \$ 275,000   | \$ 1,170,000      | \$ 265,000             |
| 2001 Sewage Disposal System       |                            |                                 |                      |            |              |                   |                        |
| Refunding Bonds:                  |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$2,821,700      | 4.75% -                    | \$215,847 -                     |                      |            |              |                   |                        |
| Maturing through 2016             | 4.80%                      | \$263,979                       | 1,420,523            | -          | 263,979      | 1,156,544         | 221,684                |
| 2004 General Obligation Limited   |                            |                                 |                      |            |              |                   |                        |
| Tax Refunding Bonds:              |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$1,090,000      | 3.375% -                   | \$2,020 -                       |                      |            |              |                   |                        |
| Maturing through 2022             | 4.20%                      | \$116,150                       | 824,160              | -          | 88,880       | 735,280           | 97,970                 |
| 2005 General Obligation Limited   |                            |                                 |                      |            |              |                   |                        |
| Tax Refunding Bonds:              |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$2,305,000      | 3.75% -                    | \$160,000 -                     |                      |            |              |                   |                        |
| Maturing through 2018             | 5.00%                      | \$240,000                       | 1,620,000            | -          | 170,000      | 1,450,000         | 160,000                |
| 2005 General Obligation Limited   |                            |                                 |                      |            |              |                   |                        |
| Tax:                              |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$7,500,000      | 3.50% -                    | \$500,000 -                     |                      |            |              |                   |                        |
| Maturing through 2020             | 4.00%                      | \$800,000                       | 6,300,000            | -          | 400,000      | 5,900,000         | 500,000                |
| 2006 General Obligation Limited   |                            |                                 |                      |            |              |                   |                        |
| Tax:                              |                            |                                 |                      |            |              |                   |                        |
| Amount of issue: \$7,480,000      | 3.50% -                    | \$130,000 -                     |                      |            |              |                   |                        |
| Maturing through 2020             | 4.00%                      | \$800,000                       | 5,630,000            | -          | 400,000      | 5,230,000         | 500,000                |
| Installment note:                 |                            |                                 |                      |            |              |                   |                        |
| Amount of issue \$99,450          |                            | \$18,074 -                      |                      |            |              |                   |                        |
| Maturing through 2015             | 4.79%                      | \$21,793                        | -                    | 99,450     | -            | 99,450            | 18,074                 |
| Amount of issue: \$42,622         |                            |                                 |                      |            |              |                   |                        |
| Maturing through 2014             |                            | \$9,231                         | 36,924               | -          | 9,231        | 27,693            | 9,231                  |
| Total bonds and notes payable     |                            |                                 | 17,276,607           | 99,450     | 1,607,090    | 15,768,967        | 1,771,959              |
| Self-insurance claims             |                            |                                 | 282,373              | 46,552     | -            | 328,925           | -                      |
| Compensated absences              |                            |                                 | 934,834              | -          | 95,384       | 839,450           | 346,672                |
| Total governmental activities     |                            |                                 | \$18,493,814         | \$ 146,002 | \$ 1,702,474 | \$16,937,342      | \$ 2,118,631           |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 7 - Long-term Debt (Continued)

|  | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions       | Reductions          | Ending<br>Balance   | Due Within<br>One Year |
|--|----------------------------|---------------------------------|----------------------|-----------------|---------------------|---------------------|------------------------|
| <b>Business-type Activities</b>                          |                            |                                 |                      |                 |                     |                     |                        |
| 1998 Development Bonds (limited tax general obligation): |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$540,000                               | 4.60% -                    | \$35,820 -                      |                      |                 |                     |                     |                        |
| Maturing through 2019                                    | 5.00%                      | \$45,030                        | \$ 367,138           | \$ -            | \$ 35,820           | \$ 331,318          | \$ 35,820              |
| 2001 Sewage Disposal System Refunding Bonds:             |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$6,908,300                             | 4.50% -                    | \$524,153 -                     |                      |                 |                     |                     |                        |
| Maturing through 2016                                    | 4.80%                      | \$641,021                       | 3,449,477            | -               | 641,021             | 2,808,456           | 538,316                |
| State Revolving Fund Debt:                               |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$2,435,000                             | 2.00% -                    | \$101,000 -                     |                      |                 |                     |                     |                        |
| Maturing through 2016                                    | 2.25%                      | \$121,000                       | 628,933              | -               | 91,000              | 537,933             | 101,000                |
| 2004 General Obligation Limited Tax Refunding Bonds:     |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$4,295,000                             | 3.375% -                   | \$7,980 -                       |                      |                 |                     |                     |                        |
| Maturing through 2022                                    | 4.20%                      | \$458,850                       | 3,255,840            | -               | 351,120             | 2,904,720           | 387,030                |
| 2008 General Obligation Limited Tax:                     |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$1,610,000                             | 3.75% -                    | \$50,000 -                      |                      |                 |                     |                     |                        |
| Maturing through 2028                                    | 4.50%                      | \$125,000                       | 1,585,000            | -               | 50,000              | 1,535,000           | 50,000                 |
| Less deferred charges on refunding                       |                            |                                 | (53,064)             | -               | (17,688)            | (35,376)            | (17,689)               |
| Total bonds payable                                      |                            |                                 | 9,233,324            | -               | 1,151,273           | 8,082,051           | 1,094,477              |
| Compensated absences                                     |                            |                                 | 68,462               | 5,696           | -                   | 74,158              | 74,158                 |
| Total business-type activities                           |                            |                                 | <u>\$ 9,301,786</u>  | <u>\$ 5,696</u> | <u>\$ 1,151,273</u> | <u>\$ 8,156,209</u> | <u>\$ 1,168,635</u>    |
| <b>Component Unit Activities</b>                         |                            |                                 |                      |                 |                     |                     |                        |
| 1998 Development Bonds:                                  |                            |                                 |                      |                 |                     |                     |                        |
| Amount of issue: \$2,460,000                             | 4.60% -                    | \$164,180 -                     |                      |                 |                     |                     |                        |
| Maturing through 2019                                    | 5.00%                      | \$205,225                       | \$ 1,682,771         | \$ -            | \$ 164,180          | \$ 1,518,591        | \$ 164,180             |

Total interest related to governmental and business-type activities for the year approximated \$677,000 and \$351,000, respectively. Total interest incurred related to component units for the year approximated \$79,000.



# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| Years Ending<br>June 30 | Governmental Activities |              |               | Business-type Activities |              |              | Component Unit Activities |            |              |
|-------------------------|-------------------------|--------------|---------------|--------------------------|--------------|--------------|---------------------------|------------|--------------|
|                         | Principal               | Interest     | Total         | Principal                | Interest     | Total        | Principal                 | Interest   | Total        |
| 2012                    | \$ 1,771,959            | \$ 620,182   | \$ 2,392,141  | \$ 1,094,477             | \$ 311,054   | \$ 1,405,531 | \$ 164,180                | \$ 70,803  | \$ 234,983   |
| 2013                    | 1,892,056               | 550,937      | 2,442,993     | 1,165,249                | 264,068      | 1,429,317    | 164,180                   | 63,004     | 227,184      |
| 2014                    | 1,891,877               | 475,296      | 2,367,173     | 1,244,022                | 213,635      | 1,457,657    | 164,180                   | 55,082     | 219,262      |
| 2015                    | 2,046,225               | 398,605      | 2,444,830     | 1,215,348                | 162,902      | 1,378,250    | 205,225                   | 46,073     | 251,298      |
| 2016                    | 1,953,790               | 314,500      | 2,268,290     | 1,206,731                | 115,767      | 1,322,498    | 205,225                   | 35,914     | 241,139      |
| 2017-2021               | 6,163,570               | 571,758      | 6,735,328     | 1,185,755                | 354,401      | 1,540,156    | 615,601                   | 46,176     | 661,777      |
| 2022-2026               | 49,490                  | 1,039        | 50,529        | 718,305                  | 120,481      | 838,786      | -                         | -          | -            |
| 2027-2028               | -                       | -            | -             | 252,164                  | 11,250       | 263,414      | -                         | -          | -            |
| Total                   | \$ 15,768,967           | \$ 2,932,317 | \$ 18,701,284 | \$ 8,082,051             | \$ 1,553,558 | \$ 9,635,609 | \$ 1,518,591              | \$ 317,052 | \$ 1,835,643 |

### No Commitment Debt

Excluded from long-term debt are revenue bonds issued by the Garden City Hospital Financing Authority to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of the balance sheet date, there were two series of such bonds outstanding, with total principal outstanding of approximately \$53,910,000. Information regarding the status of the bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

### Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$4,375,000 of bonds outstanding are considered defeased.

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liabilities; the City is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 8 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

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

|   | General Liability |                   | Workers' Compensation |                   |
|---|-------------------|-------------------|-----------------------|-------------------|
|   | 2011              | 2010              | 2011                  | 2010              |
| Unpaid claims - Beginning of year                         | \$ 101,830        | \$ 247,472        | \$ 180,543            | \$ 210,848        |
| Estimated claims incurred, including changes in estimates | 106,933           | (145,642)         | 95,794                | 246,928           |
| Deposits at the Authority to fund claims                  | 55,258            | 167,075           | -                     | -                 |
| Claim payments  | (105,470)         | (167,075)         | (105,963)             | (277,233)         |
| Unpaid claims - End of year                               | <u>\$ 158,551</u> | <u>\$ 101,830</u> | <u>\$ 170,374</u>     | <u>\$ 180,543</u> |

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - During the first three-and-a-half months of the fiscal year, the City's Employees' Retirement System was a single-employer defined benefit pension plan that was administered by the City's Employees' Retirement System; this plan covered substantially all employees of the City. Beginning in November 2010, the City closed out the single-employer plan and transferred approximately \$46.9 million of assets to Michigan Municipal Employees' Retirement System (MERS or the "System"), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City. At June 30, 2011, a single asset valued at \$1,950,576 was still in possession of the City's System, but in the process of being transferred to the MERS. The new System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent for IAFF members and 6 percent of gross wages for all other members.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 9 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2011, the City's annual pension cost was equal to the City's required and actual contribution of \$902,712 to the single employer benefit plan and \$303,910 to the MERS plan, once the transfer of assets was made. The annual required contribution was determined as part of an initial valuation at June 30, 2010 to compute contributions related to the MERS plan. The City contributed to its trust for the first eight months based on the MERS valuation which totaled \$902,712. For the remaining four months, the City contributed to the MERS systems.

The MERS valuation uses the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 investment rate of return, and (b) projected salary increases of 4.5 to 12.9 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

The pension cost for the three most recent years is as follows:

#### Three-year trend information

|                               | Fiscal Year Ended June 30 |              |              |
|-------------------------------|---------------------------|--------------|--------------|
|                               | 2011                      | 2010         | 2009         |
| Annual pension cost (APC)     | \$ 1,206,622              | \$ 1,457,651 | \$ 1,405,731 |
| Percentage of APC contributed | 100.0 %                   | 100.0 %      | 100.0 %      |
| Net pension obligation        | \$ -                      | \$ -         | \$ -         |

  

|  | Valuation Date as of |                  |                  |
|--|----------------------|------------------|------------------|
|  | December 31,<br>2010 | June 30,<br>2009 | June 30,<br>2008 |
| Actuarial value of assets                        | \$ 56,048,316        | \$ 59,491,791    | \$ 60,371,083    |
| Actuarial accrued liability (AAL)<br>(entry age) | \$ 71,516,007        | \$ 67,719,464    | \$ 65,395,803    |
| Unfunded AAL (UAAL)                              | \$ 15,467,691        | \$ 8,227,673     | \$ 5,024,720     |
| Funded ratio                                     | 78.4 %               | 87.9 %           | 92.3 %           |
| Covered payroll                                  | \$ 6,035,482         | \$ 7,068,760     | \$ 6,767,719     |
| UAAL as a percentage of covered<br>payroll       | 256.3 %              | 116.4 %          | 74.2 %           |

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 10 - Defined Benefit Pension Plan - District Court Employees

**Plan Description** - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension system that covers 21st District Court employees of the City. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute and maintain the MERS for these employees was established by negotiation with the Court's competitive bargaining unit and requires no contribution from the employees.

**Annual Pension Cost** - The 21st District Court employees joined MERS effective January 1, 2007. For the year ended June 30, 2011, the City's annual pension cost of \$64,523 for the plan was equal to the City's required and actual contribution. The pension cost for the three most recent years is as follows:

#### Three-year trend information

|   | Fiscal Year Ended June 30             |              |              |
|---|---------------------------------------|--------------|--------------|
|   | 2011                                  | 2010         | 2009         |
| Annual pension cost (APC)               | \$ 64,523                             | \$ 42,222    | \$ 44,329    |
| Percentage of APC contributed           | 100.0 %                               | 100.0 %      | 100.0 %      |
| Net pension obligation                  | \$ -                                  | \$ -         | \$ -         |
|   | Actuarial Valuation as of December 31 |              |              |
|   | 2010                                  | 2009         | 2008         |
| Actuarial value of assets               | \$ 1,348,700                          | \$ 1,218,619 | \$ 1,096,712 |
| Actuarial accrued liability (AAL)       |                                       |              |              |
| (entry age)                             | \$ 1,526,933                          | \$ 1,513,720 | \$ 1,433,593 |
| Unfunded AAL (UAAL)                     | \$ 178,233                            | \$ 295,101   | \$ 336,881   |
| Funded ratio                            | 88.3 %                                | 80.5 %       | 76.5 %       |
| Covered payroll                         | \$ 312,919                            | \$ 327,865   | \$ 300,852   |
| UAAL as a percentage of covered payroll | 57.0 %                                | 90.0 %       | 112.0 %      |

### **Note 10 - Defined Benefit Pension Plan - District Court Employees (Continued)**

**Actuarial Methods and Assumptions** - In the December 31, 2010 actuarial valuation (the most recent actuarial valuation), the entry age normal cost method was used. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, and (b) projected salary increases of 4.5 percent to 12.90 percent per year. Both (a) and (b) include an inflation component of 4.5 percent. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

### **Note 11 - Other Postemployment Benefits**

**Plan Description** - The City provides retiree healthcare benefits to eligible employees and their spouses. Benefits are provided to public safety and general employees in accordance with labor contracts. Currently, the plan has 274 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

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

**Funding Policy** - The collective bargaining agreement requires no contribution by employees, but is funded solely by the City. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The costs of administering the plan are borne by the City's General Fund.

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 11 - Other Postemployment Benefits (Continued)

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

|   |                     |
|---|---------------------|
| Annual required contribution (recommended)          | \$ 6,470,740        |
| Interest on the prior year's net OPEB obligation    | 87,919              |
| Less adjustment to the annual required contribution | <u>(116,206)</u>    |
| Annual OPEB cost                                    | 6,442,453           |
| Amounts contributed - Payments of current premiums  | <u>(2,595,581)</u>  |
| Increase in net OPEB obligation                     | 3,846,872           |
| OPEB obligation - Beginning of year                 | <u>2,930,639</u>    |
| OPEB obligation - End of year                       | <u>\$ 6,777,511</u> |

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Annual OPEB Costs | Employer Contributions        |                                   | Net OPEB Obligation |
|-------------------|--------------------------|--------------------------------|-------------------|-------------------------------|-----------------------------------|---------------------|
|                   |                          |                                |                   | Percentage of ARC Contributed | Percentage OPEB Costs Contributed |                     |
| 6/30/09           | 6/30/09                  | \$ 3,409,322                   | \$ 3,409,322      | 54.0 %                        | 54.0 %                            | \$ 1,554,236        |
| 6/30/10           | 6/30/09                  | 3,409,322                      | 3,434,959         | 60.4 %                        | 59.9 %                            | 2,930,639           |
| 6/30/11           | 6/30/11                  | 6,470,740                      | 6,442,453         | 40.1 %                        | 40.3 %                            | 6,777,511.0         |

\* The required contribution is expressed to the City as a percentage of payroll.

The funding progress of the plan is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 6/30/09                  | \$ -                          | \$ 46,230,599                         | \$ 46,230,599             | -                            | \$ 6,806,393        | 679.2 %                                 |
| 6/30/11                  | -                             | 104,164,324                           | 104,164,324               | -                            | 5,290,442           | 1,968.9                                 |

### **Note 11 - Other Postemployment Benefits (Continued)**

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after seven years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 30 years.

### **Note 12 - 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, 2011. Complete financial statements for the Nankin Transit Commission can be obtained from the administrative offices at 37137 Marquette, Westland, Michigan 48185.

# City of Garden City, Michigan

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## Notes to Financial Statements June 30, 2011

### Note 12 - Joint Ventures (Continued)

The City is also a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture, including the postclosure costs, is being financed by operations and member millage. The postclosure liability will be funded over the next 29 years as the costs come due. During the current year, the Sanitation Authority's combined net assets decreased by approximately \$420,000. As a result, the Sanitation Authority has a net deficit of approximately \$9,000 as of June 30, 2011.

The City contributed \$174,951 for sanitation costs passed through the Sanitation Authority. In addition, the City recorded a liability related to the Sanitation Authority of \$1,247 in the government-wide statement of net assets. Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 28200 S. Huron Road, Flat Rock, MI 48134.

### Note 13 - Contingent Liabilities

The Michigan Department of Environmental Quality (MDEQ) is currently requiring the City to upgrade its sewer system in order to meet certain mandated federal requirements on water purity. Based on the parameters communicated by MDEQ, the City engineers have estimated the cost to the City for this upgrade to be approximately \$40 million. The County of Wayne is currently working on a regional approach for all Wayne County communities with similar requirements, which City management believes will significantly reduce the cost of the sewer system upgrade.

### Note 14 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.



### **Note 14 - Upcoming Accounting Pronouncements (Continued)**

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

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

# City of Garden City, Michigan

## Notes to Financial Statements June 30, 2011

### Note 15 - Subsequent Events

Subsequent to year end, the City issued \$11,190,000 in Unlimited Tax General Obligation Refunding Bonds with interest rates ranging from 2.00 percent to 4.00 percent. The proceeds of these bonds were used to advance refund \$5,900,000 of outstanding Series 2005 general obligation bonds and \$5,230,000 of outstanding Series 2006 general obligation bonds with interest rates ranging from 3.50 percent to 4.00 percent. The net proceeds of \$11,177,575 after payment of underwriting fees, insurance, and other issuance costs were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental long-term debt account group. The advance refunding reduced total debt service payments over the next nine years by approximately \$356,000, which represents an economic gain of approximately \$314,000.

Also, subsequent to year end, the City issued \$1,755,000 in Limited Tax General Obligation Refunding Bonds with interest rates ranging from 2.00 percent to 3.00 percent. The proceeds of these bonds were used to advance refund \$1,650,000 of outstanding general obligation bonds with interest rates ranging from 4.80 to 5.00 percent. The net proceeds of \$1,690,704 after payment of underwriting fees, insurance, and other issuance costs were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental long-term debt account group. The advance refunding reduced total debt service payments over the next seven years by approximately \$67,000, which represents an economic gain of approximately \$61,000.

### Note 16 - Accounting and Reporting Change

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balance was restated as follows:

|   | General Fund | 790 - Library | 282 -<br>Incinerator<br>Improvements | 249 - Building<br>Department | 736 - Retiree<br>Health Care | 896 - Special<br>Assessment<br>Bond Fund | Total        |
|---|--------------|---------------|--------------------------------------|------------------------------|------------------------------|--|--------------|
| Fund Balance - June 30,<br>2010 - as previously<br>reported | \$ 3,176,838 | \$ 49,721     | \$ 156,784                           | \$ (241,320)                 | \$ 322,500                   | \$ 220,098                               | \$ 3,684,621 |
| Reclassifications under<br>GASB 54                          | 507,783      | (49,721)      | (156,784)                            | 241,320                      | (322,500)                    | (220,098)                                | -            |
| Fund Balance - June 30,<br>2010 - as restated               | \$ 3,684,621 | \$ -          | \$ -                                 | \$ -                         | \$ -                         | \$ -                                     | \$ 3,684,621 |

## **Required Supplemental Information**

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# City of Garden City, Michigan

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

|  | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended<br>Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| <b>Revenue</b>                             |                     |                     |                     |                                    |
| Property taxes                             | \$ 10,977,245       | \$ 10,977,245       | \$ 10,708,954       | \$ (268,291)                       |
| Licenses and permits                       | 35,000              | 35,000              | 48,476              | 13,476                             |
| Federal sources                            | 185,000             | 366,644             | 281,513             | (85,131)                           |
| State sources                              | 3,989,450           | 3,993,506           | 4,209,329           | 215,823                            |
| Charges for services                       | 1,130,677           | 1,130,677           | 1,050,707           | (79,970)                           |
| 21st District Court                        | 681,000             | 681,000             | 816,651             | 135,651                            |
| Interest and other                         | 384,671             | 384,671             | 375,775             | (8,896)                            |
| Cable franchise fees                       | 500,000             | 500,000             | 499,899             | (101)                              |
| Special assessments                        | -                   | -                   | 166                 | 166                                |
| Total revenue                              | <u>17,883,043</u>   | <u>18,068,743</u>   | <u>17,991,470</u>   | <u>(77,273)</u>                    |
| <b>Expenditures - Current</b>              |                     |                     |                     |                                    |
| General government:                        |                     |                     |                     |                                    |
| Mayor and Council                          | 47,268              | 47,268              | 44,577              | 2,691                              |
| Boards and commissions                     | 87,500              | 103,664             | 108,527             | (4,863)                            |
| Clerk/Treasurer                            | 1,024,813           | 1,023,306           | 1,009,574           | 13,732                             |
| General government services                | 4,531,001           | 4,509,837           | 4,932,047           | (422,210)                          |
| City administration                        | 265,245             | 270,245             | 251,356             | 18,889                             |
| Total general government                   | <u>5,955,827</u>    | <u>5,954,320</u>    | <u>6,346,081</u>    | <u>(391,761)</u>                   |
| 21st District Court                        | 822,735             | 822,735             | 755,815             | 66,920                             |
| Public safety:                             |                     |                     |                     |                                    |
| Police department                          | 4,541,911           | 4,541,911           | 4,560,364           | (18,453)                           |
| Fire department                            | 2,232,682           | 2,299,094           | 2,585,639           | (286,545)                          |
| Total public safety                        | <u>6,774,593</u>    | <u>6,841,005</u>    | <u>7,146,003</u>    | <u>(304,998)</u>                   |
| Department of Public Service               | 2,118,911           | 2,193,143           | 2,142,167           | 50,976                             |
| Recreation and culture                     | 1,535,130           | 1,580,186           | 1,325,481           | 254,705                            |
| Debt service                               | 1,017,847           | 1,017,847           | 1,018,072           | (225)                              |
| Total expenditures                         | <u>18,225,043</u>   | <u>18,409,236</u>   | <u>18,733,619</u>   | <u>(324,383)</u>                   |
| <b>Excess of Expenditures Over Revenue</b> | <u>(342,000)</u>    | <u>(340,493)</u>    | <u>(742,149)</u>    | <u>(401,656)</u>                   |
| <b>Other Financing Uses -</b>              |                     |                     |                     |                                    |
| Transfers out                              | <u>(508,000)</u>    | <u>(749,320)</u>    | <u>(549,320)</u>    | <u>200,000</u>                     |
| <b>Net Change in Fund Balance</b>          | <u>(850,000)</u>    | <u>(1,089,813)</u>  | <u>(1,291,469)</u>  | <u>(201,656)</u>                   |
| <b>Fund Balance - Beginning of year</b>    | <u>3,176,838</u>    | <u>3,176,838</u>    | <u>3,176,838</u>    | <u>-</u>                           |
| <b>Fund Balance - End of year</b>          | <u>\$ 2,326,838</u> | <u>\$ 2,087,025</u> | <u>\$ 1,885,369</u> | <u>\$ (201,656)</u>                |

# City of Garden City, Michigan

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

|  | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended<br>Budget |
|--|---------------------|---------------------|---------------------|------------------------------------|
| <b>Revenue</b>                                 |                     |                     |                     |                                    |
| State sources                                  | \$ 1,100,000        | \$ 1,100,000        | \$ 1,151,456        | \$ 51,456                          |
| Interest and other                             | 15,000              | 15,000              | 14,481              | (519)                              |
| Total revenue                                  | 1,115,000           | 1,115,000           | 1,165,937           | 50,937                             |
| <b>Expenditures - Current - Public service</b> | 585,000             | 689,165             | 653,283             | 35,882                             |
| <b>Excess of Revenue Over Expenditures</b>     | 530,000             | 425,835             | 512,654             | 86,819                             |
| <b>Other Financing Uses -</b>                  |                     |                     |                     |                                    |
| Transfers out                                  | (300,000)           | (300,000)           | (287,864)           | 12,136                             |
| <b>Net Change in Fund Balance</b>              | 230,000             | 125,835             | 224,790             | 98,955                             |
| <b>Fund Balance - Beginning of year</b>        | 3,056,553           | 3,056,553           | 3,056,553           | -                                  |
| <b>Fund Balance - End of year</b>              | <b>\$ 3,286,553</b> | <b>\$ 3,182,388</b> | <b>\$ 3,281,343</b> | <b>\$ 98,955</b>                   |

# City of Garden City, Michigan

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## Note to Required Supplemental Information Year Ended June 30, 2011

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, with the following exceptions:

- Some operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- Financing obtained to purchase fixed asset additions have been treated as a reduction of expenditures, rather than proceeds from debt issuance.

The budget statements are presented on the same basis of accounting used in preparing the adopted budget. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before the first day of April, the city manager must submit a budget for the ensuing fiscal year to the City Council at a regular council meeting.
- Public hearings are conducted to obtain citizen comment.
- The budget must be adopted by ordinance on or before the twentieth day of May of the fiscal year currently ending.

For most funds, including the General Fund, the budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The budgets for other funds are adopted at the fund level. A comparison of actual results of operations to the General Fund budget and major special revenue fund budget as adopted by the City Council is included in the required supplemental information. This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the nonmajor special revenue funds' budgets as adopted by the City Council is available at the clerk's office for inspection.

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is shown below. This reconciliation illustrates the effects of GASB Statement No. 54 on the General Fund as funds that were previously considered to be special revenue funds are now included in the General Fund on the fund-based statements.

# City of Garden City, Michigan

## Note to Required Supplemental Information (Continued)

|                                 | <u>Total Revenue</u> | <u>Total Expenditures</u> | <u>Other Financing Sources (Uses)</u> |
|---------------------------------|----------------------|---------------------------|---------------------------------------|
| General Fund:                   |                      |                           |                                       |
| Amounts per operating statement | \$ 18,409,603        | \$ 19,814,989             | \$ 100,000                            |
| 790 - Library                   | (44,239)             | (300,780)                 | (228,000)                             |
| 282 - Incinerator improvement   | 6,699                | (148,640)                 | -                                     |
| 249 - Building department       | (373,658)            | (534,021)                 | (241,320)                             |
| 736 - Retiree health care       | (1,585)              | -                         | (50,000)                              |
| 896 - Special assessment bond   | (5,350)              | (97,929)                  | -                                     |
| Amounts per budget statement    | <u>\$ 17,991,470</u> | <u>\$ 18,733,619</u>      | <u>\$ (419,320)</u>                   |

**Excess of Expenditures over Appropriations in Budgeted Funds** - During the year, the City of Garden City, Michigan incurred the following expenditures that were in excess of the amounts budgeted in the General Fund:

|                                 | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------------------|---------------|---------------|-----------------|
| Boards and commissions (1)      | \$ 103,664    | \$ 108,527    | \$ (4,863)      |
| General government services (2) | 4,509,837     | 4,932,047     | (422,210)       |
| Police department (3)           | 4,541,911     | 4,560,364     | (18,453)        |
| Fire department (3)             | 2,299,094     | 2,585,639     | (286,545)       |
| Debt service (4)                | 1,017,847     | 1,018,072     | (225)           |

Amounts were in excess of the amounts budgeted for the following reasons:

- (1) Recycling charges exceeded budgeted amounts
- (2) Garbage collection expenditures exceeded budget amounts, and severance payouts were budgeted in the 2012 fiscal year as opposed to the 2011 fiscal year.
- (3) Overtime exceeded budgeted amount
- (4) Agent fees were included in actual expenditures but were not budgeted for

**Fund Deficits** - The City has a deficit in the Maplewood II Fund at June 30, 2011 due to revenue that will not be received within 60 days of year end. The receivable for these monies was recorded along with the corresponding deferred revenue at June 30, 2011. The receivable in these funds will be collected over several years as part of a special assessment.

The City also has a deficit in the Community Development Block Grant Fund (CDBG Fund) due to revenue that will not be received within 60 days of year end. The receivable will be collected during the current fiscal year.

## **Other Supplemental Information**

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# City of Garden City, Michigan

|  | Special Revenue Funds  |                   |   |                                      |                                       |                                |
|--|------------------------|-------------------|---|--------------------------------------|---------------------------------------|--------------------------------|
|  | 248 -                  |                   |   |                                      |                                       |                                |
|  | 203 - Local<br>Streets | 233 - 911         | Community<br>Development<br>Block Grant | 296 -<br>Rehabilitation<br>Revolving | 264 - Police<br>Drug<br>Confiscations | 235 -<br>Franchise<br>Peg Fees |
| <b>Assets</b>                              |                        |                   |   |                                      |                                       |                                |
| Cash and investments                       | \$ 1,056,367           | \$ 110,186        | \$ -                                    | \$ -                                 | \$ 60,285                             | \$ 122,734                     |
| Receivables                                | -                      | 31,681            | 165,794                                 | 1,300                                | -                                     | 17,470                         |
| Due from other governmental units          | 73,664                 | -                 | -                                       | -                                    | -                                     | -                              |
| <b>Total assets</b>                        | <b>\$ 1,130,031</b>    | <b>\$ 141,867</b> | <b>\$ 165,794</b>                       | <b>\$ 1,300</b>                      | <b>\$ 60,285</b>                      | <b>\$ 140,204</b>              |
| <b>Liabilities and Fund Balances</b>       |                        |                   |   |                                      |                                       |                                |
| <b>Liabilities</b>                         |                        |                   |   |                                      |                                       |                                |
| Accounts payable                           | \$ 4,390               | \$ -              | \$ 4,871                                | \$ -                                 | \$ -                                  | \$ -                           |
| Due to other funds                         | -                      | -                 | 145,347                                 | 1,210                                | -                                     | -                              |
| Deferred revenue                           | -                      | -                 | 165,794                                 | -                                    | -                                     | -                              |
| <b>Total liabilities</b>                   | <b>4,390</b>           | <b>-</b>          | <b>316,012</b>                          | <b>1,210</b>                         | <b>-</b>                              | <b>-</b>                       |
| <b>Fund Balances</b>                       |                        |                   |   |                                      |                                       |                                |
| Restricted:                                |                        |                   |   |                                      |                                       |                                |
| Roads                                      | 1,125,641              | -                 | -                                       | -                                    | -                                     | -                              |
| Public Safety                              | -                      | 141,867           | -                                       | -                                    | 60,285                                | -                              |
| Debt service                               | -                      | -                 | -                                       | -                                    | -                                     | -                              |
| Grants                                     | -                      | -                 | -                                       | 90                                   | -                                     | -                              |
| Capital projects                           | -                      | -                 | -                                       | -                                    | -                                     | -                              |
| PEG fees                                   | -                      | -                 | -                                       | -                                    | -                                     | 140,204                        |
| Assigned - Capital projects                | -                      | -                 | -                                       | -                                    | -                                     | -                              |
| Unassigned                                 | -                      | -                 | (150,218)                               | -                                    | -                                     | -                              |
| <b>Total fund balances</b>                 | <b>1,125,641</b>       | <b>141,867</b>    | <b>(150,218)</b>                        | <b>90</b>                            | <b>60,285</b>                         | <b>140,204</b>                 |
| <b>Total liabilities and fund balances</b> | <b>\$ 1,130,031</b>    | <b>\$ 141,867</b> | <b>\$ 165,794</b>                       | <b>\$ 1,300</b>                      | <b>\$ 60,285</b>                      | <b>\$ 140,204</b>              |

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

| Debt Service<br>Funds    | Capital Projects Funds    |   |                            |                          | Total                             |
|--------------------------|---------------------------|---|----------------------------|--------------------------|-----------------------------------|
| 301 - Debt<br>Retirement | 401 - Capital<br>Projects | 436 - District<br>Court<br>Building<br>Fund | 852 -<br>Maplewood<br>Road | 853 -<br>Maplewood<br>II | Nonmajor<br>Governmental<br>Funds |
| \$ -                     | \$ 98,812                 | \$ 220,165                                  | \$ 7,517                   | \$ -                     | \$ 1,676,066                      |
| 82,277                   | -                         | -   | 19,706                     | 64,894                   | 383,122                           |
| -                        | -                         | -   | -                          | -                        | 73,664                            |
| <b><u>\$ 82,277</u></b>  | <b><u>\$ 98,812</u></b>   | <b><u>\$ 220,165</u></b>                    | <b><u>\$ 27,223</u></b>    | <b><u>\$ 64,894</u></b>  | <b><u>\$ 2,132,852</u></b>        |
| \$ -                     | \$ -                      | \$ -  | \$ -                       | \$ -                     | \$ 9,261                          |
| 58,679                   | -                         | -   | -                          | 53,805                   | 259,041                           |
| 16,201                   | -                         | -   | 19,706                     | 64,894                   | 266,595                           |
| 74,880                   | -                         | -   | 19,706                     | 118,699                  | 534,897                           |
| -                        | -                         | -   | -                          | -                        | 1,125,641                         |
| -                        | -                         | -   | -                          | -                        | 202,152                           |
| 7,397                    | -                         | -   | -                          | -                        | 7,397                             |
| -                        | -                         | -   | -                          | -                        | 90                                |
| -                        | -                         | -   | 7,517                      | -                        | 7,517                             |
| -                        | -                         | -   | -                          | -                        | 140,204                           |
| -                        | 98,812                    | 220,165                                     | -                          | -                        | 318,977                           |
| -                        | -                         | -   | -                          | (53,805)                 | (204,023)                         |
| 7,397                    | 98,812                    | 220,165                                     | 7,517                      | (53,805)                 | 1,597,955                         |
| <b><u>\$ 82,277</u></b>  | <b><u>\$ 98,812</u></b>   | <b><u>\$ 220,165</u></b>                    | <b><u>\$ 27,223</u></b>    | <b><u>\$ 64,894</u></b>  | <b><u>\$ 2,132,852</u></b>        |

# City of Garden City, Michigan

|  | Special Revenue Funds  |                   |   |                                      |                                       |                             | Debt Service             |
|--|------------------------|-------------------|---|--------------------------------------|---------------------------------------|-----------------------------|--------------------------|
|  | 248 -                  |                   |   |                                      |                                       |                             | Funds                    |
|  | 203 - Local<br>Streets | 233 - 911         | Community<br>Development<br>Block Grant | 296 -<br>Rehabilitation<br>Revolving | 264 - Police<br>Drug<br>Confiscations | 235 - Franchise<br>Peg Fees | 301 - Debt<br>Retirement |
| <b>Revenue</b>   |                        |                   |   |                                      |                                       |                             |                          |
| Property taxes   | \$ -                   | \$ -              | \$ -                                    | \$ -                                 | \$ -                                  | \$ -                        | \$ 1,099,234             |
| Federal sources  | -                      | -                 | 75,904                                  | 2,945                                | -                                     | -                           | -                        |
| State sources  | 456,555                | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| Charges for services                                   | 75,073                 | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| Interest and other                                     | 4,713                  | 243,612           | -                                       | -                                    | 10,262                                | 80,927                      | 2,370                    |
| Special assessments                                    | -                      | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| <b>Total revenue</b>                                   | <b>536,341</b>         | <b>243,612</b>    | <b>75,904</b>                           | <b>2,945</b>                         | <b>10,262</b>                         | <b>80,927</b>               | <b>1,101,604</b>         |
| <b>Expenditures</b>                                    |                        |                   |   |                                      |                                       |                             |                          |
| Current:   |                        |                   |   |                                      |                                       |                             |                          |
| Public safety  | -                      | 130,000           | -                                       | -                                    | -                                     | -                           | -                        |
| Community maintenance,<br>development, and<br>other    | 825,453                | -                 | 72,945                                  | 3,303                                | 1,630                                 | 29,060                      | -                        |
| Capital outlay   | -                      | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| Debt service   | -                      | -                 | -                                       | -                                    | -                                     | -                           | 1,256,425                |
| <b>Total expenditures</b>                              | <b>825,453</b>         | <b>130,000</b>    | <b>72,945</b>                           | <b>3,303</b>                         | <b>1,630</b>                          | <b>29,060</b>               | <b>1,256,425</b>         |
| <b>Excess of Revenue (Under)<br/>Over Expenditures</b> | <b>(289,112)</b>       | <b>113,612</b>    | <b>2,959</b>                            | <b>(358)</b>                         | <b>8,632</b>                          | <b>51,867</b>               | <b>(154,821)</b>         |
| <b>Other Financing Sources</b>                         |                        |                   |   |                                      |                                       |                             |                          |
| Face value of debt issue                               | -                      | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| Transfers in   | 287,864                | -                 | -                                       | -                                    | -                                     | -                           | -                        |
| <b>Total other financing<br/>sources</b>               | <b>287,864</b>         | <b>-</b>          | <b>-</b>                                | <b>-</b>                             | <b>-</b>                              | <b>-</b>                    | <b>-</b>                 |
| <b>Net Change in Fund Balances</b>                     | <b>(1,248)</b>         | <b>113,612</b>    | <b>2,959</b>                            | <b>(358)</b>                         | <b>8,632</b>                          | <b>51,867</b>               | <b>(154,821)</b>         |
| <b>Fund Balances (Deficit) -<br/>Beginning of year</b> | <b>1,126,889</b>       | <b>28,255</b>     | <b>(153,177)</b>                        | <b>448</b>                           | <b>51,653</b>                         | <b>88,337</b>               | <b>162,218</b>           |
| <b>Fund Balances (Deficit) - End<br/>of year</b>       | <b>\$ 1,125,641</b>    | <b>\$ 141,867</b> | <b>\$ (150,218)</b>                     | <b>\$ 90</b>                         | <b>\$ 60,285</b>                      | <b>\$ 140,204</b>           | <b>\$ 7,397</b>          |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances (Deficit)**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

| Capital Projects Funds    |  |                            |                           |   |
|---------------------------|--|----------------------------|---------------------------|---|
| 401 - Capital<br>Projects | 436 - District<br>Court Building<br>Fund | 852 -<br>Maplewood<br>Road | 853 -<br>Maplewood<br>II  | Total Nonmajor<br>Governmental<br>Funds |
| \$ -                      | \$ -                                     | \$ -                       | \$ -                      | \$ 1,099,234                            |
| -                         | -  | -                          | -                         | 78,849                                  |
| -                         | -  | -                          | -                         | 456,555                                 |
| -                         | -  | -                          | -                         | 75,073                                  |
| 558                       | 49,410                                   | 139                        | -                         | 391,991                                 |
| -                         | -  | 19,159                     | 26,929                    | 46,088                                  |
| <u>558</u>                | <u>49,410</u>                            | <u>19,298</u>              | <u>26,929</u>             | <u>2,147,790</u>                        |
| -                         | -  | -                          | -                         | 130,000                                 |
| -                         | -  | -                          | -                         | 932,391                                 |
| 150,098                   | -  | -                          | -                         | 150,098                                 |
| -                         | -  | -                          | -                         | 1,256,425                               |
| <u>150,098</u>            | <u>-</u>                                 | <u>-</u>                   | <u>-</u>                  | <u>2,468,914</u>                        |
| (149,540)                 | 49,410                                   | 19,298                     | 26,929                    | (321,124)                               |
| 99,450                    | -  | -                          | -                         | 99,450                                  |
| 30,000                    | -  | -                          | -                         | 317,864                                 |
| <u>129,450</u>            | <u>-</u>                                 | <u>-</u>                   | <u>-</u>                  | <u>417,314</u>                          |
| (20,090)                  | 49,410                                   | 19,298                     | 26,929                    | 96,190                                  |
| <u>118,902</u>            | <u>170,755</u>                           | <u>(11,781)</u>            | <u>(80,734)</u>           | <u>1,501,765</u>                        |
| <b><u>\$ 98,812</u></b>   | <b><u>\$ 220,165</u></b>                 | <b><u>\$ 7,517</u></b>     | <b><u>\$ (53,805)</u></b> | <b><u>\$ 1,597,955</u></b>              |

# City of Garden City, Michigan

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## Other Supplemental Information Balance Sheet Modified Accrual Basis Downtown Development Authority June 30, 2011

| <b>Assets</b>                             |                            |
|---|----------------------------|
| Cash and investments                      | \$ 682,264                 |
| Receivables - Net                         | <u>364,196</u>             |
| Total assets                              | <u><u>\$ 1,046,460</u></u> |
| <b>Liabilities and Equity</b>             |                            |
| <b>Liabilities</b>                        |                            |
| Accounts payable                          | \$ 123,483                 |
| Accrued and other liabilities             | 265                        |
| Deferred revenue                          | <u>346,615</u>             |
| Total liabilities                         | 470,363                    |
| <b>Equity</b> - Fund balance - Unassigned | <u>576,097</u>             |
| Total liabilities and fund balance        | <u><u>\$ 1,046,460</u></u> |

# City of Garden City, Michigan

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## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis Downtown Development Authority Year Ended June 30, 2011

|   |                          |
|---|--------------------------|
| <b>Revenue</b>                                |                          |
| Property taxes                                | \$ 484,628               |
| Interest and other                            | 50,399                   |
| Total revenue                                 | <u>535,027</u>           |
| <b>Expenditures - Current</b>                 |                          |
| Community maintenance, development, and other | 458,446                  |
| Debt service                                  | 242,904                  |
| Total expenditures                            | <u>701,350</u>           |
| <b>Excess of Expenditures Over Revenue</b>    | (166,323)                |
| <b>Fund Balance - Beginning of year</b>       | <u>742,420</u>           |
| <b>Fund Balance - End of year</b>             | <u><u>\$ 576,097</u></u> |

# City of Garden City, Michigan

## Schedule of Indebtedness Governmental Activities Limited Tax Bonds Year Ended June 30, 2011

Purpose: 2004 General Obligation Limited Tax Refunding Bonds  
 Date of issue: June 2, 2004  
 Amount of issue: \$3,385,000  
 Payee: Cede & Co.  
 Funds paid from: 101 - General Fund

| Fiscal Year | Maturity<br>Amount        | Interest          |                          | Total                     |
|-------------|---------------------------|-------------------|--------------------------|---------------------------|
|             |                           | Rate<br>(Percent) | Amount                   |                           |
| 2011/2012   | \$ 265,000                | 4.00              | \$ 50,085                | \$ 315,085                |
| 2012/2013   | 310,000                   | 4.10              | 39,485                   | 349,485                   |
| 2013/2014   | 300,000                   | 4.50              | 26,775                   | 326,775                   |
| 2014/2015   | <u>295,000</u>            | 4.50              | <u>13,275</u>            | <u>308,275</u>            |
| Total       | <u><b>\$1,170,000</b></u> |                   | <u><b>\$ 129,620</b></u> | <u><b>\$1,299,620</b></u> |

# City of Garden City, Michigan

## Schedule of Indebtedness Governmental Activities Limited Tax Bonds (Continued) Year Ended June 30, 2011

Purpose: 2005 General Obligation Limited Tax Refunding Bonds  
 Date of issue: August 24, 2005  
 Amount of issue: \$2,305,000  
 Payee: JPMorgan Chase  
 Funds paid from: 101 - General Fund

| Fiscal Year | Maturity<br>Amount         | Interest          |                          | Total                      |
|-------------|----------------------------|-------------------|--------------------------|----------------------------|
|             |                            | Rate<br>(Percent) | Amount                   |                            |
| 2011/2012   | \$ 160,000                 | 3.750             | \$ 62,750                | \$ 222,750                 |
| 2012/2013   | 210,000                    | 5.000             | 54,500                   | 264,500                    |
| 2013/2014   | 205,000                    | 5.000             | 44,125                   | 249,125                    |
| 2014/2015   | 200,000                    | 5.000             | 34,000                   | 234,000                    |
| 2015/2016   | 200,000                    | 5.000             | 24,000                   | 224,000                    |
| 2016/2017   | 240,000                    | 4.000             | 14,200                   | 254,200                    |
| 2017/2018   | 235,000                    | 4.000             | 4,700                    | 239,700                    |
| Total       | <b><u>\$ 1,450,000</u></b> |                   | <b><u>\$ 238,275</u></b> | <b><u>\$ 1,688,275</u></b> |



# City of Garden City, Michigan

## Schedule of Indebtedness Governmental Activities Limited Tax Bonds (Continued) Year Ended June 30, 2011

Purpose: 2005 General Obligation Limited Tax  
 Date of issue: December 1, 2005  
 Amount of issue: \$7,500,000  
 Payee: JPMorgan Chase  
 Funds paid from: 301 - Debt Retirement Fund

| Fiscal Year  | Maturity<br>Amount        | Interest          |                           | Total                      |
|--------------|---------------------------|-------------------|---------------------------|----------------------------|
|              |                           | Rate<br>(Percent) | Amount                    |                            |
| 2011/2012    | \$ 500,000                | 3.500             | \$ 228,925                | \$ 728,925                 |
| 2012/2013    | 500,000                   | 3.625             | 211,425                   | 711,425                    |
| 2013/2014    | 500,000                   | 3.700             | 193,300                   | 693,300                    |
| 2014/2015    | 600,000                   | 3.800             | 174,800                   | 774,800                    |
| 2015/2016    | 700,000                   | 4.000             | 152,000                   | 852,000                    |
| 2016/2017    | 700,000                   | 4.000             | 124,000                   | 824,000                    |
| 2017/2018    | 800,000                   | 4.000             | 96,000                    | 896,000                    |
| 2018/2019    | 800,000                   | 4.000             | 64,000                    | 864,000                    |
| 2019/2020    | 800,000                   | 4.000             | 32,000                    | 832,000                    |
| <b>Total</b> | <b><u>\$5,900,000</u></b> |                   | <b><u>\$1,276,450</u></b> | <b><u>\$ 7,176,450</u></b> |

# City of Garden City, Michigan

## Schedule of Indebtedness Governmental Activities Limited Tax Bonds (Continued) Year Ended June 30, 2011

Purpose: 2006 General Obligation Limited Tax  
 Date of issue: January 13, 2006  
 Amount of issue: \$7,480,000  
 Payee: Bank of New York  
 Funds paid from: 301 - Debt Retirement Fund

| Fiscal Year | Maturity<br>Amount         | Interest          |                            | Total                      |
|-------------|----------------------------|-------------------|----------------------------|----------------------------|
|             |                            | Rate<br>(Percent) | Amount                     |                            |
| 2011/2012   | \$ 500,000                 | 3.500             | \$ 199,250                 | \$ 699,250                 |
| 2012/2013   | 500,000                    | 3.600             | 181,750                    | 681,750                    |
| 2013/2014   | 500,000                    | 3.700             | 163,750                    | 663,750                    |
| 2014/2015   | 600,000                    | 3.750             | 145,250                    | 745,250                    |
| 2015/2016   | 700,000                    | 3.800             | 122,750                    | 822,750                    |
| 2016/2017   | 700,000                    | 3.850             | 96,150                     | 796,150                    |
| 2017/2018   | 800,000                    | 4.000             | 69,200                     | 869,200                    |
| 2018/2019   | 800,000                    | 4.000             | 37,200                     | 837,200                    |
| 2019/2020   | 130,000                    | 4.000             | 5,200                      | 135,200                    |
| Total       | <b><u>\$ 5,230,000</u></b> |                   | <b><u>\$ 1,020,500</u></b> | <b><u>\$ 6,250,500</u></b> |

# City of Garden City, Michigan

## Schedule of Indebtedness Business Activities Obligation Bonds Year Ended June 30, 2011

Purpose: 2008 General Obligation Limited Tax  
 Date of issue: January 28, 2008  
 Amount of issue: \$1,610,000  
 Payee: Bank of New York  
 Funds paid from: 592 - Water and Sewer Fund

| Fiscal Year | Maturity<br>Amount        | Interest<br>Rate<br>(Percent) | Interest<br>Expense      | Total                      |
|-------------|---------------------------|-------------------------------|--------------------------|----------------------------|
| 2011/2012   | \$ 50,000                 | 3.750                         | \$ 64,281                | \$ 114,281                 |
| 2012/2013   | 60,000                    | 3.750                         | 62,219                   | 122,219                    |
| 2013/2014   | 75,000                    | 4.000                         | 59,594                   | 134,594                    |
| 2014/2015   | 75,000                    | 4.000                         | 56,594                   | 131,594                    |
| 2015/2016   | 75,000                    | 4.000                         | 53,594                   | 128,594                    |
| 2016/2017   | 75,000                    | 4.500                         | 50,406                   | 125,406                    |
| 2017/2018   | 75,000                    | 4.500                         | 47,031                   | 122,031                    |
| 2018/2019   | 75,000                    | 4.125                         | 43,797                   | 118,797                    |
| 2019/2020   | 100,000                   | 4.125                         | 40,188                   | 140,188                    |
| 2020/2021   | 100,000                   | 4.125                         | 36,063                   | 136,063                    |
| 2021/2022   | 100,000                   | 4.125                         | 31,938                   | 131,938                    |
| 2022/2023   | 100,000                   | 4.250                         | 27,750                   | 127,750                    |
| 2023/2024   | 100,000                   | 4.250                         | 23,500                   | 123,500                    |
| 2024/2025   | 100,000                   | 4.500                         | 19,125                   | 119,125                    |
| 2025/2026   | 125,000                   | 4.500                         | 14,063                   | 139,063                    |
| 2026/2027   | 125,000                   | 4.500                         | 8,438                    | 133,438                    |
| 2027/2028   | 125,000                   | 4.500                         | 2,813                    | 127,813                    |
| Total       | <b><u>\$1,535,000</u></b> |                               | <b><u>\$ 641,394</u></b> | <b><u>\$ 2,176,394</u></b> |

# City of Garden City, Michigan

## Schedule of Indebtedness Business Activities Obligation Bonds Year Ended June 30, 2011

Purpose: 2001 Sewage Disposal System Refunding Bonds  
 Date of issue: June 7, 2001  
 Amount of issue: \$9,730,000  
 Payee: Chase Bank, Detroit, MI  
 Funds paid from: 101 - General Fund and 592 - Water and Sewer F

| Fiscal Year  | Total Maturity<br>Amount | Maturity Allocation |                     | Interest<br>Rate<br>(Percent) | Total Interest<br>Expense | Interest Allocation |                    | Total Principal<br>and Interest |
|--------------|--------------------------|---------------------|---------------------|-------------------------------|---------------------------|---------------------|--------------------|---------------------------------|
|              |                          | General<br>Fund     | Enterprise<br>Fund  |                               |                           | General<br>Fund     | Enterprise<br>Fund |                                 |
| 2011/2012    | \$ 760,000               | \$ 221,684          | \$ 538,316          | 4.750                         | \$ 170,285                | \$ 49,670           | \$ 120,615         | \$ 930,285                      |
| 2012/2013    | 850,000                  | 247,936             | 602,064             | 4.750                         | 132,047                   | 38,517              | 93,530             | 982,047                         |
| 2013/2014    | 870,000                  | 253,769             | 616,231             | 4.750                         | 91,198                    | 26,601              | 64,597             | 961,198                         |
| 2014/2015    | 745,000                  | 217,308             | 527,692             | 4.700                         | 53,027                    | 15,467              | 37,560             | 798,027                         |
| 2015/2016    | 740,000                  | 215,847             | 524,153             | 4.800                         | 17,760                    | 5,180               | 12,580             | 757,760                         |
| <b>Total</b> | <b>\$ 3,965,000</b>      | <b>\$ 1,156,544</b> | <b>\$ 2,808,456</b> |                               | <b>\$ 464,317</b>         | <b>\$ 135,435</b>   | <b>\$ 328,882</b>  | <b>\$ 4,429,317</b>             |

# City of Garden City, Michigan

## Schedule of Indebtedness Business-type and Component Unit Development Bonds Year Ended June 30, 2011

Purpose: 2004 General Obligation Limited Tax Refunding Bonds  
 Date of issue: November 4, 2004  
 Amount of issue: \$5,385,000  
 Funds paid from: 101 - General Fund and 592 - Water and Sewer Fund

| Fiscal Year  | Total Maturity<br>Amount | Maturity Allocation |                     | Interest<br>Rate<br>(Percent) | Total Interest<br>Expense | Interest Allocation |                    | Total Principal<br>and Interest |
|--------------|--------------------------|---------------------|---------------------|-------------------------------|---------------------------|---------------------|--------------------|---------------------------------|
|              |                          | General<br>Fund     | Enterprise<br>Fund  |                               |                           | General<br>Fund     | Enterprise<br>Fund |                                 |
| 2011/2012    | \$ 485,000               | \$ 97,970           | \$ 387,030          | 3.375                         | \$ 126,743                | \$ 25,602           | \$ 101,141         | \$ 611,743                      |
| 2012/2013    | 475,000                  | 95,950              | 379,050             | 3.500                         | 110,247                   | 22,270              | 87,977             | 585,247                         |
| 2013/2014    | 515,000                  | 104,030             | 410,970             | 3.625                         | 92,599                    | 18,705              | 73,894             | 607,599                         |
| 2014/2015    | 560,000                  | 113,120             | 446,880             | 3.625                         | 73,115                    | 14,769              | 58,346             | 633,115                         |
| 2015/2016    | 575,000                  | 116,150             | 458,850             | 3.700                         | 52,327                    | 10,570              | 41,757             | 627,327                         |
| 2016/2017    | 10,000                   | 2,020               | 7,980               | 4.000                         | 41,490                    | 8,381               | 33,109             | 51,490                          |
| 2017/2018    | 10,000                   | 2,020               | 7,980               | 4.000                         | 41,090                    | 8,300               | 32,790             | 51,090                          |
| 2018/2019    | 260,000                  | 52,520              | 207,480             | 4.000                         | 35,690                    | 7,209               | 28,481             | 295,690                         |
| 2019/2020    | 255,000                  | 51,510              | 203,490             | 4.000                         | 25,390                    | 5,129               | 20,261             | 280,390                         |
| 2020/2021    | 250,000                  | 50,500              | 199,500             | 4.000                         | 15,290                    | 3,089               | 12,201             | 265,290                         |
| 2021/2022    | 245,000                  | 49,490              | 195,510             | 4.200                         | 5,145                     | 1,039               | 4,106              | 250,145                         |
| <b>Total</b> | <b>\$ 3,640,000</b>      | <b>\$ 735,280</b>   | <b>\$ 2,904,720</b> |                               | <b>\$ 619,126</b>         | <b>\$ 125,063</b>   | <b>\$ 494,063</b>  | <b>\$ 4,259,126</b>             |

# City of Garden City, Michigan

## Schedule of Indebtedness Business-type and Component Unit Development Bonds (Continued) Year Ended June 30, 2011

Purpose: 1998 Development Bonds  
 Date of issue: June 1, 1998  
 Amount of issue: \$3,000,000  
 Payee: Chase Bank, Detroit, MI  
 Funds paid from: 592 - Water and Sewer Fund and 729 - Downtown Development Authority

| Fiscal Year                | Maturity Allocation   |                      |                   | Interest Rate (Percent) | Interest Allocation    |                      |                  | Total               |
|----------------------------|-----------------------|----------------------|-------------------|-------------------------|------------------------|----------------------|------------------|---------------------|
|                            | Total Maturity Amount | Component Unit (DDA) | Enterprise Fund   |                         | Total Interest Expense | Component Unit (DDA) | Enterprise Fund  |                     |
| 2011/2012                  | \$ 200,000            | \$ 164,180           | \$ 35,820         | 4.70                    | \$ 86,250              | \$ 70,803            | \$ 15,447        | \$ 286,250          |
| 2012/2013                  | 200,000               | 164,180              | 35,820            | 4.80                    | 76,750                 | 63,004               | 13,746           | 276,750             |
| 2013/2014                  | 200,000               | 164,180              | 35,820            | 4.85                    | 67,100                 | 55,082               | 12,018           | 267,100             |
| 2014/2015                  | 250,000               | 205,225              | 44,775            | 5.00                    | 56,125                 | 46,073               | 10,052           | 306,125             |
| 2015/2016                  | 250,000               | 205,225              | 44,775            | 5.00                    | 43,750                 | 35,914               | 7,836            | 293,750             |
| 2016/2017                  | 250,000               | 205,225              | 44,775            | 5.00                    | 31,250                 | 25,653               | 5,597            | 281,250             |
| 2017/2018                  | 250,000               | 205,225              | 44,775            | 5.00                    | 18,750                 | 15,392               | 3,358            | 268,750             |
| 2018/2019                  | 249,909               | 205,151              | 44,758            | 5.00                    | 6,250                  | 5,131                | 1,119            | 256,159             |
| <b>Total</b>               | <b>\$ 1,849,909</b>   | <b>\$ 1,518,591</b>  | <b>\$ 331,318</b> |                         | <b>\$ 386,225</b>      | <b>\$ 317,052</b>    | <b>\$ 69,173</b> | <b>\$ 2,236,134</b> |
| State Revolving Fund Debt* |                       |                      |                   |                         | <b>\$ 537,933</b>      |                      |                  |                     |

\* This represents the remaining amount due to the Michigan Municipal Bond Authority with interest charged at 2 percent.

# **City of Garden City, Michigan**

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**Report to the City Council  
June 30, 2011**

December 13, 2011

To the City Council  
City of Garden City, Michigan

Dear Council Members,

We have audited the financial statements of the City of Garden City, Michigan (the "City") as of and for the year ended June 30, 2011 and have issued our report thereon dated December 13, 2011. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II - Communications Required Under SAS 114

Section III - Other Recommendations

Section IV - Legislative and Informational Items

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the City Council of the City of Garden City, Michigan.

Section III presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section IV contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.



To the City Council  
City of Garden City, Michigan

December 13, 2011

This report is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "David Helisek". The signature is fluid and cursive.

David H. Helisek

A handwritten signature in black ink, appearing to read "Brian J. Camiller". The signature is fluid and cursive.

Brian J. Camiller

### **Section I - Communications Required Under SAS 115**

In planning and performing our audit of the financial statements of the City of Garden City, Michigan as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the government's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiencies in the City's internal control to be material weaknesses:

- At the beginning of the audit, the City's year-end adjustments to the accounting records were not yet complete. The City provided many necessary journal entries to close the year during the course of the audit; however, there were instances when the auditors proposed necessary journal entries to ensure the financial statement presentation was in conformity with generally accepted accounting principles.
- The City had difficulty in obtaining sufficient evidence to value the remaining alternative investment in the Garden City Employees' Retirement System consistent with generally accepted accounting principles. Due to the nature of the investment, audited financial statements for this investment as of June 30, 2011 were unavailable. We recommend the City develop a procedure for valuing these type of investments when held by the City. For this investment, the audit team was not able to verify the stated value.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

- The City's purchasing policy requires obtaining sealed bids for purchases of \$8,000 or more. During the audit, our sample of transactions selected for testing included a purchase over \$8,000 for which the City only obtained quotes.
- During our testing of the underlying support for the City's recorded prepaid asset balance, the City staff was unable to provide the invoice related to the July health insurance payment. The City is required to maintain such records and support. We were able to corroborate the actual disbursement by utilizing the June bank statement.

## **Section II - Communications Required Under SAS 114**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 13, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City of Garden City, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and report does not extend beyond the financial information identified in the management's discussion and analysis. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 27, 2011, except as it pertains to the real estate investment trust recorded in the Garden City Employees' Retirement System. We were unable to obtain sufficient audit evidence in support of the recorded value for that particular asset. As a result, our opinion letter was modified to exclude that particular investment.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Garden City, Michigan are described in Note 1 to the financial statements.

As described in Note 1, the City changed accounting and reporting policies related to governmental fund definitions and fund balance classifications pursuant to the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. This change did not result in the restatement of any prior periods presented.

We noted no transactions entered into by the government during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were incurred but not reported claims of the Workers' Compensation and General Liability Funds, the assumptions used by the actuaries to calculate the required contributions for pension and postemployment health care, the valuation of the remaining investment asset of the City's pension system, and the historical cost of the City's infrastructure (roads and buildings).

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

The actuarial valuation for other postemployment benefits (OPEB), an integral component of the City's financial statements, was required to be updated as of July 1, 2010, but had not yet been commissioned by the City prior to the beginning of the audit. The valuation was commissioned by the City following the start of the audit and the valuation was completed in November 2011, a month after the majority of the audit work was complete.

In addition, the City's retirement system held one investment, a real estate investment trust at year end. We were unable to obtain sufficient audit evidence in support of the recorded value for that particular asset. As a result, our opinion letter was modified to exclude that particular investment.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements and estimate adjustments of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 13, 2011.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

### **Section III - Other Recommendations**

In addition to the preceding report, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

In the current year, the City implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The new statement replaced the old classifications of fund balance (designated, reserved, and unreserved) with five new components (nonspendable, restricted, committed, assigned, and unassigned). The City Council should consider the implications of the new classifications and review the City's fund balance. This would also be a good opportunity for the City Council to consider adopting a fund balance policy.

In addition, GASB No. 54 dictated the City change the financial statement presentation of several funds - Library, Incinerator Improvements, Building Department, Retiree Health Care, and Special Assessment Bond Funds. For the purposes of the financial statements, these funds have been consolidated with the General Fund as if the activity has always been recorded there. The City may still continue budgeting the activity of these funds separately, but these will no longer appear in the audited financial statements.

### **Financial Results**

For the year ended June 30, 2011, the City's original General Fund (Fund 101) fund balance decreased by nearly \$1,300,000. Revenue decreased by \$961,000, or 5 percent. This decrease is primarily due to lower property tax revenue as a result of decreasing home values. Cost containment efforts across the City resulted in expenditures decreasing \$358,000, or 2 percent. In addition, approximately \$469,000 was transferred to the Building Fund and the Library Fund to subsidize their operations.

While the City Council, as well as City management, department heads, and staff, continue to enact proactive methods of cost cutting and revenue seeking, we believe it would be helpful to keep the following financial considerations in mind as the City Council continues to monitor financial position:

- As we have discussed for the past few years and continue to do so in the following pages, there continues to be a severe strain on property tax values which will drive down the City's property tax revenue for the foreseeable future. Because of the limits on taxable value imposed by Proposal A, taxable values will not immediately return to the levels of past years even if the local housing market dramatically improves. Since hitting a peak in 2009, the General Fund property tax revenue has fallen below 2006 levels. The City's 2011-2012 budget estimates General Fund tax revenue will incur further declines. It is very possible the City will not receive as much as it did in 2009 for at least another decade or more.

- As is noted in Section IV of this document, the General Fund's second largest source of revenue, Michigan state-shared revenue, has further declined due to the City's loss of population as documented in the 2010 census and reduction in available money for statutory revenue sharing (now known as EVIP). The EVIP money available to the City in 2011-2012 is 37 percent less than what the City received in 2010-2011 from statutory revenue sharing.

We strongly encourage the City to continue developing multi-year operational and capital plans in order to ensure continued financial viability over the long run in this uncertain municipal environment.

### **Other Items Noted During the Audit**

#### **Outstanding Checks**

During the testing of bank reconciliations, it had come to our attention that the City has checks that are several years old on the outstanding checks list. We recommend that the City review the outstanding check listings and evaluate whether any of the outstanding checks should be reissued or escheated.

#### **Capital Asset System**

The City currently uses a series of spreadsheets to maintain its capital asset records and calculate depreciation expense. While this system works, it is cumbersome and susceptible to error. We recommend the City consider using a more sophisticated program which would help increase the efficiency and accuracy of capital asset calculations. We also recommend performing a physical inventory of assets to ensure the recorded asset balances are complete and correct.

#### **Fund Deficits**

The City currently has fund deficits in the Community Development Block Grant (CDBG) Fund and the Maplewood II Fund. The deficits in the Maplewood II Fund will be corrected with the collection of special assessments. The Community Development Block Grant Fund deficit will be corrected with the collection of available federal grant funding.



## Section IV - Legislative and Informational Items

### Property Tax Developments

The unprecedented decline in property tax values continues to be the most significant challenge faced by local governments in many years. Many communities have seen two years of declines in overall taxable value and it is still very uncertain how long the declines will continue and how severe they will be. The impact on each community and over what period of time will vary. The one constant, however, is that all communities affected will need to evaluate how their current expenditure structure can be altered to address the revenue that has been lost.

One important factor to consider is that the impact of changes in value (both the declines and eventual recovery) is not immediately felt by the City due to the length of time that elapses between the assessment of property values and when the taxes are available for appropriation. The following table illustrates the time lag related to property tax valuations:

| <b>Assessment date</b> | <b>12/31/08</b> | <b>12/31/09</b> | <b>12/31/10</b> | <b>12/31/11</b> |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Levy date              | 7/1/09          | 7/1/10          | 7/1/11          | 7/1/12          |
| Budget year            | 6/30/10         | 6/30/11         | 6/30/12         | 6/30/13         |

More importantly, though, is the fact that when the recovery of property tax revenue begins, it will be very slow due to the impact of Headlee and Proposal A, which limit the growth in property taxes to the lower of inflation or 5 percent, unless the millages are increased. In essence, we are experiencing a permanent downward adjustment in the resources available to fund government services (of between 20 and 35 percent, depending on location).

In response, many communities are considering steps to adjust their expenditures commensurate to the new levels of property tax revenue, including:

- Five-year financial forecasts
- Consolidation or contracting of services
- Establishment of authorities and joint ventures
- Multi-year budgets
- “Worst-case scenario” financial modeling
- Analysis of current user fees

We commend the City for efforts already made to address this situation by offering early retirement incentives and changing retirement plans, as well as evaluating current expenditures and staffing levels. It is clear that there is not a singular approach that will fit all communities - each municipality will need to find a balance between cost-cutting and revenue-generating ideas that will best suit its residents' needs. We are happy to offer our assistance with this process in whatever capacity is most beneficial to the City as you move forward.

**Property Assessment Cap**

As you recall, 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 as follows:

|      |        |
|------|--------|
| 2011 | 1.7%   |
| 2010 | (.03)% |
| 2009 | 4.4%   |
| 2008 | 2.3%   |
| 2007 | 3.7%   |
| 2006 | 3.3%   |
| 2005 | 2.3%   |
| 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%   |

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, 2011, the City's Headlee maximum property tax rate for its operating levy was 13.8403 mills even though the City Charter would allow the City to levy 18.0000 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 in several published studies and reports, 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) will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value.

### **Impact of Census Results on State-shared Revenue**

The 2010 census data was released on March 22, 2011. Census results indicated an overall decline in population for the state of Michigan of 0.6 percent; however, the City's population declined from 30,047 in 2000 to 27,692 in 2010, or 7.8 percent. For the City of Garden City, the impact of this population decline was a retroactive reduction of \$97,046 to revenue sharing in June 2011. Going forward, the City's constitutional revenue sharing should increase or decrease following the fluctuation in sales tax collections.

### **State Initiatives Impacting Local Units of Government**

Governor Snyder has begun his tenure with several significant initiatives, and he is moving his agenda forward at a quick pace. One of these initiatives is to improve the transparency and efficiency of local units - cities, townships, villages, and counties. More specifically, his current local government initiatives include:

- Replace "statutory revenue sharing" with a newly named "Economic Vitality Incentive Program" (EVIP) that will be reduced by approximately 1/3 and require local units to compete for the remaining \$200 million by demonstrating best practices in the following areas:
  - Transparency - Provide more accessible financial information to citizens
  - Service sharing - Consolidation or collaboration with other units of government
  - Employee benefits - Slimmed-down pension and healthcare benefits
- Significantly strengthening the powers of emergency managers
- Changes to Act 312, police and fire arbitration
- Potential changes to the Urban Cooperation Act
- Potential elimination of personal property taxes

Each of these initiatives could have an impact on the City of Garden City, Michigan and will be discussed in more detail below.

### **Accountability and Transparency**

In order to “earn” the first 1/3 of the EVIP funding, each qualified local unit was required to produce a “citizen’s guide” to its finances and a performance “dashboard” by October 1, 2011. The citizen’s guide can be thought of as a simplified view of financial data, much like a Popular Annual Financial Report (PAFR). The performance dashboard shows comparisons of key metrics within your community over time.

We are happy to report that the City of Garden City, Michigan prepared and submitted its transparency tools before the October 1 deadline. These documents are available to view on the City’s website.

### **Service-sharing and Consolidation**

In order to “earn” the second 1/3 of the EVIP funding, the State is requiring local units to submit a report that identifies the existing cost sharing or consolidation arrangements in which the city is currently participating, with an estimate of the annual savings realized from these arrangements, as well as a plan for increasing the sharing of services with other governments, or consolidation of services, in the future. This report is due to the State by January 1, 2012. At this time, communities are required to certify that they have plans that they intend to implement, but actual new sharing agreements do not need to be in place by January 1, 2012.

### **Employee Compensation Best Practices**

In order to “earn” the third and final 1/3 of the EVIP funding, the State is requiring local units to submit a written plan for adjusting employee compensation for new, modified, or extended employee contracts entered into after May 1, 2012. Such contracts would be subject to the following criteria:

- a) Placing all new hires in a defined contribution plan or a hybrid retirement plan that caps annual employer contributions at 10 percent of base salary
- b) Where applicable, a 1.5 percent multiplier should be used to determine employee pensions. A 2 percent multiplier should be used for employees who are not eligible for Social Security benefits.
- c) Implementing controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels
- d) If health care is offered, all new hires must be on an 80/20 employer-to-employee healthcare premium split.

The local unit must certify it has this plan in place by May 1, 2012.

## **Other Legislative Developments**

### **Employee Healthcare Contributions - Public Act 152**

PA 152 of 2011, the "Publicly Funded Health Insurance Contribution Act", was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward healthcare with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for the local unit to opt out entirely.

PA 152 would limit annual costs for medical benefit plans to the following:

- \$5,500 for single coverage
- \$11,000 for individual and spousal coverage
- \$15,000 for family coverage

These limits would apply once contracts expire or by January 1, 2012 if there is no contract.

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans they offer or contributed to for their employees and elected public officials. This option would require that publicly elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision. It would allow communities to opt out of these provisions entirely with a 2/3 vote of the governing body.

Failure to comply with the provisions in this act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

The law, which applies to all public employers, will take effect on January 1, 2012. However, any collective bargaining agreement or other contract executed on or after September 15, 2011 would also have to comply.

### **Emergency Managers - Public Act 4**

On March 16, 2011, PA 4, *Local Government and School District Fiscal Accountability Act*, was signed into law. This act repeals Public Act 72 of 1990, the previous *Local Government Fiscal Responsibility Act*. Under the new act, the state treasurer can conduct a preliminary review to determine the existence of a local government financial problem if one or more of 18 different "triggering events" occur. Some of these events are truly a sign of financial stress, such as incurring payless paydays or defaulting on a bond or note payment. Others are more subjective, including a blanket statement that the existence of "other facts or circumstances...as determined by the state treasurer" is sufficient to start the process.

If a finding of probable financial stress is made, the governor shall appoint a review team. The team would conduct its review and report back to the governor and state treasurer within 60 days of its appointment. Depending on the severity of the findings during the review, the actions then taken could range from none to a declaration of a financial emergency, the local unit would be placed in receivership, and an emergency manager (EM) appointed in place of the existing governing body and chief administrative officer.

For communities that have some of the triggers but seem to have a plan to address them, there is an in-between step whereby a consent agreement is entered into and monitored.

Clearly, this legislation is causing great anxiety in terms of both the uncertainty as to how aggressive the State will be in implementing the legislation as well the broadness of the powers granted to an EM. Any new EMs would have the authority to reject, modify, or terminate the terms of an existing contract or collective bargaining agreement.

This legislation may ultimately change the tenor of future union negotiations, in that it gives the collective bargaining representatives a strong incentive to work with the local unit to avoid receivership by an EM.

#### **Retro-pay Prohibition - Public Act 54 of 2011**

Public Act 54 of 2011, which was signed by the governor on June 7, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits. This act was ordered to take effect immediately.

#### **Senate Bill 34 - Elimination of the Personal Property Tax**

On January 19, 2011, SB 34 was introduced. Very simply, this bill, if it becomes law, will amend PA 206 of 1893 and exempt all personal property from the collection of taxes. Altogether, this would reduce revenue for communities across the state by approximately \$770 million. Including the school districts, the lost revenue would be over \$1 billion. This bill does not provide any source of revenue to replace that which is lost.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. The elimination of the personal property tax was not included in the State's 2012 budget; however, since that time, the topic has received much focus by the legislature. The City of Garden City, Michigan's personal property tax currently brings in approximately \$430,000.

### **Changes to Act 312, Police and Fire Arbitration**

Public Act 312 prohibited public police and fire department employees from the right to strike. Whenever contracts are not resolved, the employees or employer may initiate binding arbitration in lieu of striking. The arbitrator's decision is final and binding upon the parties involved.

The governor called for reforming Act 312 of 1969, the Police and Fire Arbitration Act. In July 2011, Public Act 116 of 2011 was signed into law and contains the following provisions:

- A stronger consideration of a community's ability to pay
- Internal salary and benefit comparisons
- Reducing the timeframe of the process to no more than 180 days

### **Proposed Amendments to the Urban Cooperation Act and Related Statutes**

Various House and Senate bills intend to amend the numerous statutes that govern local unit service sharing. These bills eliminate certain guarantees and provisions of collectively bargained agreements. The problem in trying to form new collaborative ventures is that the existing act includes a clause that prevents the immediate negotiation of new contracts. This stands in the way of even the consideration of mergers by many local units because the new entity is hampered by a multi-layer set of work rules, wages, and benefits which effectively eliminate the economic efficiencies that are the very reason to consolidate. Under the amended act, management and employees should be allowed to immediately begin the collective bargaining process for the new entity and complete this within an appropriate timeframe.

The bills are still a work in progress; however, passage is expected.

Client: **City of Garden City, Michigan**  
 Opinion Unit: **All**  
 Y/E: **6/30/2011**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

| Ref. #                       | Description of Misstatement  | Fund/Group   | Current           |                     |                     |
|------------------------------|--|--|-------------------|---------------------|---------------------|
|                              |  |  | Liabilities       | Revenue             | Income              |
| <b>KNOWN MISSTATEMENTS:</b>  |  |  |                   |                     |                     |
| A1                           | None   |  |                   |                     |                     |
| A2                           |  |  |                   |                     |                     |
| <b>ESTIMATE ADJUSTMENTS:</b> |  |  |                   |                     |                     |
| B1                           | Estimate of potential chargebacks for 2009 and 2010 property taxes |  |                   |                     |                     |
|                              |  | Government activities                                | \$ 167,488        | \$ (167,488)        | \$ (167,488)        |
|                              |  | Business-type  | 36,179            | (36,179)            | (36,179)            |
|                              |  | General Fund (also reflected in total above)         | 151,195           | (151,195)           | (151,195)           |
|                              |  | Water and Sewer Fund (also reflected in total above) | 36,179            | (36,179)            | (36,179)            |
|                              |  | Nonmajor funds (also reflected in total above)       | 16,293            | (16,293)            | (16,293)            |
| <b>IMPLIED ADJUSTMENTS:</b>  |  |  |                   |                     |                     |
| C1                           | None   |  |                   |                     |                     |
| C2                           |  |  |                   |                     |                     |
|                              |  |  | -                 | -                   | -                   |
|                              | Total  |  | <b>\$ 407,334</b> | <b>\$ (407,334)</b> | <b>\$ (407,334)</b> |